The Determinants of Entry Strategies of Chinese Multinational Companies into South Africa

A Research Report

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Abstract

Since 1978 when China, undergoing change in political leadership, decided to open its economy to the world, it has been growing in status as an international provider of investment funds. Although traditionally focused on developed economies, the focus shifted over time to be centred on emerging markets. Africa, with its abundance of natural resources, has been one of the focus areas of this investment, as China seeks to secure resources for its planned expansion.

South Africa presents a different case to much of Africa as it has transitioned into a developed economy since the move to democracy in 1994. The ANC government recognised the importance of foreign investment to spur the development of the country, and introduced legislation, based on traditional drivers of FDI, aimed at securing this investment. In looking at the trends of Chinese investment it can be seen that although cognisance of these traditional drivers may occur, they are not the primary determinants of investment. Trends that emerge as being of greater importance are factors such as political alliances; resource security and brand acquisition. Given that the strategy being followed by the South African government in attracting investment may not adhere to the needs of Chinese companies, South Africa’s status as a launching pad into Africa may not be secure.

This investigation seeks to highlight the key differences between Chinese and traditional investment, as well as highlighting areas on which South Africa may need to focus if it is to be considered as the gateway to Africa.

KEYWORDS: CHINESE MULTI-NATIONAL COMPANIES; FOREIGN DIRECT INVESTMENT; SOUTH AFRICA; DRIVERS; POLICY OBJECTIVES
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LIST OF ABBREVIATIONS

- BEE - Black Economic Empowerment
- CNOOC – China National Offshore Oil Corporation
- DBSA - Development Bank of Southern African
- DTI - Department of Trade and Industry (South Africa)
- ECIC - Export Credit Insurance Corporation
- FDI –Foreign Direct Investment
- GDP – Gross Domestic Product
- ICBC - Industrial and Commercial Bank of China Limited
- IDC - Industrial Development Corporation
- IMF – International Monetary Fund
- JVs – Joint Ventures
- M&A – Mergers and Acquisitions
- MNCs – Multinational Companies
- ONGC - Oil and Natural Gas Corporation
- SACU - South African Customs Union
- SADC – Southern African Development Community
- SSA - Sub-Saharan Africa
- UNCTAD - United Nations Conference on Trade and Development
- US – United States
- USS - United States Dollars
- WIR – World Investment Reports
CHAPTER 1: INTRODUCTION

1.1 DEFINITION OF THE PROBLEM

Over the past decade the Chinese government and companies have contributed in ever increasing amounts to global investment. According to the World Bank (1997), by the mid-1990s China had become the eighth largest supplier of outward investment, despite itself being a developing country. The patterns of this investment have shifted over time, from being centred in developed countries, to being focused on developing regions (Deng, 2004). Media attention of this trend has been high, owing to fears concerning the implications of Chinese involvement in other developing regions, especially in Africa.

Much of the concern that has been raised about Chinese investment in Africa, and the trade partnership that has developed, has been caused by the rapid increase in the value of relations between these two economies. In 2004 the value of China’s trade with Africa was US$30 billion, which by 2007 had risen to US$74 billion (Merwe, 2008), this being in stark contrast with trade volumes with America and the European Union which have remained relatively stable.

One major criticism that has been levelled against China is that although the size of trade and investment has increased dramatically, this has been centred on oil, and other commodities, and so will not lead to the overall development of Africa. Although there is some truth to this, in that the 2006 export figures from Africa to China show 63% being fuel, and a further 13% other crude products (Wang, 2008), relations with America have been no better, in fact they have become worse with 85% of exports being crude products (Wang, 2008).

Although South Africa has progressed to become a developed economy faster, and more successfully, than most other African countries, many of the above issues will remain pertinent when looking at investment in the country. In order to ensure that the optimal leverage of investment is gained, it is vital to gain an understanding of the relationship between both parties to the investment. It is also imperative to develop an understanding of the drivers behind investment, as this can assist countries with ensuring that they present the best option as a recipient.
1.2 CENTRAL HYPOTHESES

The central hypothesis of this study is that Chinese multinational companies (MNCs) entering the South African market seeks to acquire companies that have already begun expanding north into Africa. This is intended to provide Chinese companies with a brand that can be used to facilitate further growth. In addition, this method of acquisition may provide these companies with political and community ties in various markets on the continent. Since many business deals in Africa rely on companies being sufficiently connected politically, the acquisition of existing firms may alleviate many start-up delays.

Given that the magnitude of the effect of Chinese MNCs presence in the market place is a recent occurrence, research into their strategies is limited. In addition, much of the research that has been conducted into entry strategies of MNCs has focused on the developed world (London & Hart, 2004; Buckley & Casson, 1998; Cumberland, 2006). The combination of China’s need for resources and Africa’s resource abundance is changing this focus however.

From the research conducted thus far, there are certain characteristics that can be identified concerning Chinese companies. These relate to both the industries on which they focus, as well as the business deals they prefer. Under the literature review section it is noted that many current Chinese MNCs have developed as state-owned enterprises (SOEs). These have a traditional focus on energy and resources, as well as construction and mining. It would thus seem reasonable that it is in these industries that Chinese companies will currently be focusing their growth, at least for the next few years before diversification can occur.

In order to facilitate resource related commercial deals in many African countries; China has offered to assist in the building of major infrastructure projects. It is estimated that despite the present high demand that China already has for oil, this demand would increase 156% between 2001 and 2025 (Van de Looy, 2006). Angola presents a clear case in point for how China is securing deals for resources. In March 2004 China extended Angola a loan of US$2 billion to be used for re-structuring projects in the country following thirty years of civil war. One condition for this loan
was that China be allowed to import 10,000 barrels of oil per day from Angola (Van de Looy, 2006).

Given that South Africa already has an established commodities market and economic infrastructure, China may have to follow a different entry strategy here. One option (Accenture, 2005) being that they will focus on brand acquisition. Alves (2006) also notes the intent of Chinese MNCs to build their global image. He uses the example presented by the acquisition of IBM’s personal computer division by Lenovo, China’s biggest computer company. Given that growing recognition is a driver of expansion, South Africa may provide a key strength in its choice as a host country to Chinese MNCs. The reasoning behind this being that many South African firms have already expanded north into Africa, and so possess brand names that are known on the continent. In addition, given its geographic location, and advanced infrastructure, South Africa presents an ideal launching pad for new companies wishing to expand into Africa.

Some commentators (Accenture 2005; Knowledge@Wharton, 2006; Engardio, 2007) claim that Chinese MNCs are leaving China with significant financial backing. This gives them the ability to fund their expansion through the purchase of new firms, even though this may present a more expensive proposition than greenfield investments. Many Chinese MNCs still maintain strong political ties in China, even though they may no longer be state-owned. This may lead to them being unwilling to enter into joint venture agreements as this may dilute governmental control leading to their choice of acquisitions as an entry strategy. Luedi (2008) noted that at present many Chinese MNCs still have a 70% to 80% equity stake owned by government. They estimate however that by 2012 this will have reduced to almost nothing as government sells their private company holdings. Although initially this would seem to indicate that business strategy will change at that time, this will probably not be the case, as although government presently has such large stakes in these firms, they claim to be run as corporate entities.

In order to determine the validity of the various aspects noted above, a full literature review will be given, highlighting key points from various interviews and research already conducted. The views of various South African research institutes
were sought to confirm the finding of this research, and their views will be presented in this report.

This primary focus of this research was to determine what drives Chinese investment, and how South Africa can position itself so as to gain a significant portion of these funds. Given the high levels of investment that currently flows from China, gaining a considerable share of the funds could assist South Africa to meet its development goals.

This research has been guided by a number of research questions, listed below.

- Do Chinese companies possess the same attributes as traditional Western firms? If not, what key factors differentiate them?
- What differentiates Chinese investment from tradition global investment?
- In what industries are Chinese companies focusing their investment?
- Through what method do Chinese companies generally enter a country?
- Does South Africa offer Chinese companies the optimal base for their African operations?
- What key factors will South Africa need to focus on to ensure that it attracts Chinese investment?

1.3 RESEARCH METHODOLOGY

Various options are available when embarking on a research project to ensure optimal collection and analysis of data. The approach that is finally chosen is one that meets both the needs of the researcher, and the topic under discussion.

The most common starting point for research is a literature review. This is often needed to assist the researcher to hone their particular topic of interest, and formulate their specific research problem. Generally this type of literature review is focused on secondary literature sources. Secondary data refers to any data that the researcher was not directly responsible for collecting (Sourcebook, 2003). Crawford (1997) notes that secondary sources can often provide more accurate data for projects, as they are often based on larger sample sizes. He also notes that secondary sources are often cheaper
and less time consuming to use as the basis for research, but notes that source bias must be avoided. Since many reports that are written have particular outcome purposes, these should be understood before the secondary source is used, in order to ensure that the particular bias of any report is understood.

This bias became particularly evident when the research began, as many of the articles written about Chinese involvement in Africa were clearly for or against the involvement, and articles were written in such a way as to emphasise this point of view. This was especially true of articles written for newspapers and magazines. When sources obtained from government agencies and trade organisations were used, the bias was less, and data was based more on statistical research than on points of view. For this reason, where possible this type of literature was used more extensively than newspapers, as a basis for findings. In order to minimise bias in source information, data from the World Investment Reports (WIR) were used where possible, as these provided factual and statistical analysis of information.

In this case the topic started with a broad interest in Chinese involvement in Africa. This came about owing to the extensive number of newspaper articles that have been written recently on this very controversial topic. Through a review of literature the topic was defined further to focus on Chinese companies’ involvement on the continent. The reason for this definition is that there are three broad categories of Chinese involvement, namely: government involvement; major company involvement; and minor company or personal involvement – such as that involving the establishment of small shops and cafes.

Once this differentiation had been made, the involvement of Chinese companies in many African countries was investigated. It was found that this involvement was generally centred in the resources sector, and thus the question arose as to what South Africa would have to offer, already having an established resource sector. The final research topic of Chinese companies’ involvement in South Africa as a specific case was thus decided upon.

Once this differentiation had been made, further secondary sources focused on this narrow topic were investigated. Since the specific topic had not been investigated before, a review of general Chinese investment trends was examined, as well as
traditional Western investment. From this specific investigation trends and themes were identified. Using these, the specific case of South Africa was then investigated to determine whether these same trends could be found.

In order to substantiate the finding, and gain greater insight into additional trends, interviews were arranged with specific government and research personnel. It was decided that semi-structured face-to-face interviews would be conducted. This was necessary as the specific area of expertise of each interviewee would be different, making a set questionnaire impossible. Additionally, Leedy and Omrod (2005) note that interviews conducted on this basis have the highest response rate, and offer the optimal alternative for the semi-structured interview type needed for this research. Brown et al (2003) note that the response rate for this type of research is higher as researchers are able to explain the need for the research, and so gain co-operation of participants.

There were four primary people who whose input was sought on the topic. The first was Sanusha Naidu. Naidu has been involved in investigating African trade relations, with particular emphasis in recent years on Chinese involvement on the continent. Next to be contacted was Dr. Chris Alden. Dr Alden is a lecturer in the London School of Economics and Political Science. He has published numerous papers and books concerning African development, and China’s role on the continent. The South African Institute of International Affairs was also contacted for their input on this topic. This is a South African based think-tank, with a focus on government and development; globalisation; new paradigms of security and aspects and challenges of modern democracy. A meeting was held with one of their senior analysts, Neuma Grobbelaar, who discussed the trends that had been observed in South Africa. The South African Department of Trade and Industry was also contacted their insight into the Chinese investment. The Centre for Chinese studies was also contacted at numerous times during the research process for their guidance on areas of focus.

The insight gained from the interviews was at times used as a basis for further secondary source data investigation to occur, and for opinions to be verified or disproved. The interviews were also used to substantiate the various trends that had
emerged from the literature research that had been conducted, so that conclusions could be drawn.

1.4 STRUCTURE OF REPORT

Chapter Two of the report provides a brief history of China, which is pertinent if current company structures and strategies are to be understood. In addition, an overview of the relationship between China and Africa is given.

In Chapter Three global foreign direct investment (FDI) trends are discussed. The various methods of entry are presented, as well as their particular advantages and disadvantages. Particular focus is given to the case of China, with their developing investment strategy being discussed. The case of Africa, and in particular South Africa, is also to be examined.

Chapter Four is used to build on the discussion concerning South Africa. Particulars of the current economic situation are highlighted, and a discussion into the benefits of foreign involvement included.

Finally in Chapter Five the various trends found are discussed, with conclusion being reached. In addition, suggestions for future research are provided.
2 CHAPTER 2: HISTORICAL REVIEW

2.1 BRIEF HISTORY OF CHINA’S ECONOMIC DEVELOPMENT

The history of China is markedly different from that of many other countries. These differences have led to key variances in the companies that emerge. In 1949 the Chinese communist government imposed isolation on the country as it rejected Western ideals. This isolation led to a lack of competition in China, as many companies were state-owned (Alden & Davies 2006). The Chinese government focused the investment of these companies in resources and heavy industries, such as energy; mining and construction (Alden & Davies, 2006; Business Week, 2005).

In 1978, Deng Xiaoping became the new leader of China and changed the political structure of the country as he focused on economic growth and outward expansion, with the introduction of free market reforms. Since 1978, China’s gross domestic product (GDP) has grown on average 9.9 percent annually (See figure 1). Global Economics Research (2008) reports that China “is the second largest economy in the world with a GDP of $10.8 trillion (2007) when measured on a purchasing power parity basis. In 2007, China accounted for 11% of the gross world product, according to the International Monetary Fund”. In 2001 China joined the World Trade Organisation and started its rapid expansion programme signalling its intention to further liberate its economy.
One method followed by Chinese governments in their growth strategy was to identify certain Chinese companies that would be optimally placed to expand internationally. These companies were mostly state-owned, but independently run. In order to facilitate their success the government made available a range of benefits including tax concessions and low interest loans. There was also a pool of capital made available to these companies from which they could draw in making international acquisitions (Accenture, 2005). As these companies grew through international expansion they became true multinational organisations.

An example of a deal which highlighted this state involvement in funding of acquisitions was the failed attempt by China National Offshore Oil Company (CNOOC) to buy American Unocal. Of the US$18.5 billion offered by CNOOC, US$7 billion was provided by its parent company. US$2.5 billion was interest free and the remaining amount payable over thirty years at 3.5%. (Knowledge@Wharton, 2006). This ability to gain such a large percentage of the needed finance through low interest sources assisted the company with making its bid.
Although many former government organisations have been privatised, they remain centred in the industries in which the previous government invested. As Chinese companies are looking to expand their operations one method of doing so is to integrate their operations upstream and downstream in these same industries (Alden & Davies, 2006). As well as focusing on their existing core competencies, a recent study (Accenture, 2005) found that an additional factor in many deals involving Chinese companies has been the access to brands. Given that to date much Chinese production has been focused on reproducing existing international brands, these companies now feel the drive to develop their own brands (Accenture, 2005).

An example of this was the 2005 acquisition of IBM personal-computer division by Chinese company Lenovo. The deal, worth $1.2 billion (Orr; Xing, 2007), was the first major deal of its kind, signalling a transition from purely commodity based acquisitions, to those involving major global brands. Since then numerous other high value acquisitions have occurred whereby Chinese companies have bought international companies possessing the global awareness and brand strength desired.

### 2.2 SINO-AFRICAN POLITICAL RELATIONSHIP

In the early 1950s China started to cultivate a relationship with Africa as part of its policy objective to secure international allies. In 1955 the Bandung Conference was held, and attended by 29 Asian and African states (Kanza, 1975). The goal of the conference was to establish cultural and economic ties between Asian and African continents, with a view to strengthening their recent independence from former colonial powers. The vision of the conference was to ensure co-operation between these regions, through the transfer of knowledge, respect for each nation’s independence and individual rule of law and the promotion of mutual interest and co-operation (Kanza, 1975).

Despite the goals of mutual co-operation, the Chinese Cultural Revolution ensured that the Chinese government’s focus was directed inward during the 1960s. Once stability was restored internally, China once again sought to establish ties with Africa. A great deal of Chinese involvement in this period was characterised by major aid projects and political support of African countries wishing to free themselves of colonial powers.
Relations changed once again in the post-Maoist era as China focused on trade development, and began to rely on Western powers for technical and commercial links (Taylor, 2001). This involvement with the West resulted in a policy of non-involvement in African disputes.

The Cold War in the 1980s brought about another change in relations. The Chinese Premier Zhao Ziyang outlined four principles of cooperation with Africa: equality and mutual benefit; an emphasis on practical results; diversity in form; and economic development (van de Looy, 2006). Chinese companies, once given this mandate to invest in Africa, started to increase the level of involvement with many African states, with trade between China and Africa increasing 700% during the 1990s (Servant, 2005). China is currently Africa’s third largest trading partner, topped only by the United States (US) and France, a former colonial power.

South Africa was China’s first African trading partner, and confirmed its support for China by breaking off relations with Taiwan in 1997. Trade between the two countries has flourished, with increases of between 20% and 30% annually since 1998 (Era Associates, 2008). Despite this growth, trade currently significantly favours China, with South African exports to China totalling US$2.2 billion, while Chinese imports to South Africa valued significantly more at US$7 billion at the end of 2007 (Era Associates, 2008). Moeletsi Mbeki, Deputy Chairman of the South African Institute of International Affairs, was quoted as saying “We sell them raw materials and they sell us manufactured goods with a predictable result - an unfavourable trade balance against South Africa” (Servant, 2005).

2.3 SUMMARY

China’s history has led to key differentials in the firms that have emerged as compared to traditional Western companies. Initially, Chinese isolation led to many industries being dominated by SOEs. With the change in governance and policy which resulted in the opening of the country, these SOEs developed into private firms, although in many cases the government still holds the majority of the stock. The continued government influence in these companies has ensured that they remain primarily focused on those industries of political importance such as energy, mining and construction.
As these companies have grown, they have started to seek global growth possibilities, which include integration of upstream and downstream activities in these industries. Additional factors are also now being considered, such as the desire to develop global brands and awareness and this is becoming a more prominent factor in the acquisition of international firms. Awareness of the history and goals of these firms is necessary as they highlight the distinctive traits these firms possess over traditional western ones.

Since Africa possesses many of the resources desired by China for its development, Africa has been a primary focus in this expansion. South Africa was the first major trade partner, despite its lack of resources. However, over time this relationship has developed in a primarily one sided relationship, as trade flows to South Africa far outweigh those to China from South Africa. In order to ensure that this partnership becomes more balanced, an understanding of South Africa’s strengths is needed, so that strategic alliances based on these strengths can be formed.
3 CHAPTER 3: FOREIGN DIRECT INVESTMENT TRENDS – HISTORICAL CONTEXT

3.1 METHOD OF MARKET ENTRY

Although the principles that are followed by Chinese companies have been laid out by the Chinese state in their four principles approach, there still remains the option of how these companies chose to enter their markets of choice. Companies wishing to expand their operations away from their home base have the option to do so through non-equity or foreign direct investment methods.

Non-equity methods include distribution of goods or services produced in the base country of operations. Methods encompassed under FDI include greenfield investment, mergers or acquisitions and joint ventures (JVs) (Eden et al, 2005). Greenfield investment refers to investment in an industry in which there is no existing structure in place. The choice of entry is based upon such considerations as product-market factors; firm-foreign specific factors; host market factors; cultural factors; home-market factors; global industry structure; global strategic motivations and global corporate objectives among others (Sakar, Cavusgil; 1996).

Joint ventures have often been the entry method of choice into new countries as they allow companies to share information, resources, markets and risks; as well as providing the opportunity to build economies of scale through the combination of companies (Gomes-Casseres; 1987). There are also downsides to following the JV method of entry, which include issues such as loss of control; diffusion of propriety information and disagreements between partner companies. Gomes-Casseres (1987) found that the rate of instability of JVs was approximately twice that of wholly-owned subsidiaries.

Although much of the historical research is based on the experiences of Western companies (Casseres, 1987; Casson 2007), Chinese MNCs have faced many of the same problems. Recent studies have shown that one third of Chinese enterprises’ international investments have lost money. In addition, 65% of JVs entered into by these organisations have failed. (Beijing Review, 2005). Investigation into the reasons for these poor results has been carried out by the Chinese government in an attempt to
ensure future success. Chen Jinhua, Chairman of the Chinese Federation of Enterprises, was quoted as saying after one such review “China’s top 500 are greatly inferior to their world’s counterparts in terms of scale, productivity, profit-making capacity, managing capacity and competitiveness” (Accenture, 2005).

Given their recent isolation, Chinese companies have struggled to come to terms with vastly different management styles, cultures and mindsets in the countries into which they are expanding (Accenture, 2005). The Chinese Ministry of Commerce has also commented on the lack of international management experience in many Chinese organisations, and noted that nearly fifteen times as many managers possessing international experience will be needed within the next five years if they are to be globally competitive (Accenture, 2005). The historical government protection enjoyed by many Chinese companies has resulted in their becoming less efficient than their global counterparts. In addition, with their move to becoming more globally accepted, firms have had to change management processes to conform to international standards.

As well providing a source of managers with local experience, JVs also provide political and community connections which may facilitate easier business operations. Given China’s chequered relationship with Africa, political ties between African governments and China are often not strong. Using JVs as an entry strategy helps to overcome this problem (Alden, Davies 2006). Bhaumik and Gelb (2003) found in a recent study that this method of entry also assists incoming MNCs as they have ready built business relationships with other local companies, as well as gaining access to information on local markets and institutions. Broadman (2007) notes the lack of quality information regarding cross-border commercial ventures, and adds that the formation of networks is often relied upon to compensate for lack of formal knowledge.

As noted earlier, there are also many downsides to choosing JV as a method of entry; which is the preferred one for Chinese companies. The major downside to this strategy for Chinese companies is the need to cede control to outside parties. This becomes problematic as these companies are still predominantly state owned. In these cases acquisitions of local firms may present a viable alternative. Through acquisitions firms are able to reduce the costs and delays of having to pull together
resources as the acquired company is already endowed with relationships (Bhaumik & Gelb, 2003). Eden et al (2005) found that a factor in the choice of acquisition of local firms may be for the incoming MNC to insulate itself from government intervention, and possibly avail itself of opportunities of corruption presented through political connections, as many companies, particularly those in Africa, may already have strong government connections.

One problem presented by acquisitions is the need to find an alignment between the founding company and its new subsidiaries. London & Haart (2004) note the need for MNCs to overcome differences amongst a diverse range of stakeholders with many non-traditional companies, and the problems this can produce. If alignment cannot be found between parent companies and subsidiaries loss of productivity and profit may occur.

As discussed above, both mergers and acquisitions of companies can lead to problems for the incoming organisation. As such, many diverse forms of acquisition or merger activity has developed over time, as companies seek the ideal method to follow to protect their interests. A list of the various techniques used, as well as the value of these different deals between 1987 and 2007 was investigated by the United National Centre for Trade and Investment in order to create a greater understanding of the various options available to firms.

Companies that wish to avoid the loss of control also have the option of taking the route of greenfield investments. The start-up costs for this type of venture may be higher, as companies need to source and develop resources from scratch. In addition, relationships with local organisations and government bodies have to be formed. The advantage for firms choosing this route is that they maintain control of their organisation, and well as ensuring there is no loss of their technology to external firms. Eden et al (2005) note that firms choose FDI entry methods, such as greenfield investment, when they are willing to accept the financial risks associated with maintaining sole control of their companies, in order to maintain firm-specific advantage.

IBM business consulting services (2005) identify three key areas which companies may use to decide on the optimal entry strategy: degree of risk and
complexity; potential financial impact and management talent and resources required. The table below rates the various entry strategies against these three criteria from low to high, and shows how each method can be applied, depending on the specific set of conditions under consideration. Since many Chinese companies have readily available credit, the issue of ‘potential financial impact’ may not be one on which these companies will have to focus. Given this, it can be seen that companies possessing strong management skills and capable of undertaking risk will be able to JVs or mergers and acquisitions. Although these are more risky than straight export or alliance deals, the rewards offered are often higher, and so when possible, these routes will be taken.

**Figure 2: Weighing the Trade Off of Various Business Models**

![Figure 2: Weighing the Trade Off of Various Business Models](source: IBM, 2006)

### 3.2 GLOBAL FDI DISTRIBUTION

The World Investment Reports (WIRs) is a series of reports that investigates global trends of growth and investment. In 1995 the WIR noted that 60% of FDI was going to developed countries, rather than being channelled to developing countries where they were needed to boost growth (World Investment Report, 1995). By 2007 this trend had worsened with almost 70% of global FDI being routed to developed economies. The graph following has been adapted from the FDI data included in the 2008 WIR, and shows the FDI trends between 1970 and 2007.
3.3 DETERMINANTS OF FDI

Given that such a small percentage of global FDI is being directed towards developing countries, roughly 30%, and Africa in particular - only on average 12% of that going to developing countries since 1970 (WIR, 2007), the need arises to understand the determinants of FDI so that countries can ensure they maximise their potential of gaining FDI.

Much research has been conducted into FDI trends to attempt to determine what the key factors influencing its attraction are. When looking at traditional FDI the following factors have been found to impact levels and geography of investment.
3.3.1 **Market Size**

Companies looking for external expansion opportunities will look for markets in which they can achieve economies of scale. Lim (2001) noted that the larger the market size, the lower the fixed costs, thus benefiting the profitability potential of the company.

Other research has however shown that this factor is less vital (Loots 2000), as it has a much larger impact in traditional market investment as opposed to emerging markets.

3.3.2 **Exchange Rate**

Correlation between exchange rate and attractiveness of FDI is difficult to determine as movements in exchange rate can have both a positive and negative impact on the profitability of companies. Strengthening exchange rates can lead to higher profits being reported in the country of origin of companies, conversely, lowering exchange rates can also lead to lower production costs, and thus higher profit margins. Ahmed et al (2005) have shown that exchange rate volatility is the chief deterrent of investment, as companies will seek to avoid countries in which they will achieve unpredictable rates of return.

3.3.3 **Inflation**

The reason for inflationary increases is important to determine in order to assess its effect on FDI. If inflation is caused through poor monetary policy, foreign investment is unlikely. However, if inflation is caused through economic growth as a country enters a boom phase, investment is more likely. Onyeiwu and Shrestha (2004) note however that higher inflation can adversely affect cost of capital of firms looking to invest and would thus have a negative effect on investment. This will obviously affect companies obtaining finance in the country of expansion rather than those receiving funds from their country of origin.

3.3.4 **Trade Policies**

As a country makes trade easier through signing trade agreements and drafting legislation that enables ease of business so foreign investment is encouraged. This is caused by the increasing growth potential for companies wishing to expand.
3.3.5 **LOCAL FISCAL POLICIES**

Various fiscal policy options are available that encourage investment. These can be in the form of export and import policies and partnerships with other regions to develop free trade zones. Taxation policies are also a major area of fiscal policy which may impact investment.

Higher taxation policies would have detrimental effects on company profitability. From this Onyeiwu and Shrestha (2004) found that high taxation levels will discourage investment, with the converse also being true. Conversely, Narula and Dunning (2000) determined that taxation was not generally a deciding factor in which countries MNCs looked to invest in, especially when considering recent emerging market activity. From this we can conclude that although taxation policies may be looked at by incoming companies, they may not be a deciding factor in the actual investment.

3.3.6 **RESOURCES**

Given that access to resources is one of the main drivers of foreign investment, availability of resources is a key determinant. This can be seen to be particularly true in Africa where those countries rich in natural resources have attracted the majority of the investment. Examples of this include Sudan, Nigeria and Equatorial Guinea.

3.3.7 **STAFF AND LABOUR**

As firms look to expand internationally, they look to increase efficiency of operations. Lim (2001) suggested that firms analyse labour costs in considering relocating production facilities as they seek this greater efficiency. Availability of suitable management staff may also be a deciding factor, as this reduces the need for companies to relocate their existing personnel. Nunnkamp (2002) showed that availability of highly skilled personnel has become increasingly vital as a driver of FDI, as many companies struggle to attract and retain key personnel.
3.3.8 Finance

Ease of obtaining access to finance in local countries, enabling companies to meet expansion and working capital needs can also be a deciding factor in determining recipients of investment (Ahmed et al 2005). Thus, the more advanced the financial and banking system in a country, the more likely it will be to attract traditional investment.

3.3.9 Infrastructure

It is expected that the higher the level of infrastructure in a country the more likely it would be to attract investment, as this eases the process of doing business. Onyeiwu and Shrestha (2004) define infrastructure as a network of roads, airports, sea ports, supply of water and electricity as well as internet and phone access.

3.3.10 Business Environment

The friendlier an environment is to businesses intending to operate there, the more likely firms may be to establish operations in the region. Lim (2003) noted that factors that can affect the business environment include labour regulations, judicial hurdles and property rights.

3.3.11 Political Stability

A stable environment is more likely to attract investment as investors need not fear the security of their investments. Onyeiwu and Shrestha (2004) note that investors fear change of governments as they are unsure of the impact these changes will have on their investments.

3.4 Chinese FDI Trends

FDI originating in developing countries was a trend that started to develop in the 1970s. By the early 1990s FDI from developing countries had grown dramatically, with China being a key driver of this. Despite being a major contributor to global FDI flows, China’s FDI has been largely un-researched as much of the information needed for this investigation, including exact figures of investment, was unavailable from the Chinese government. However, since many of these funds are invested in private
enterprises in other countries, various organisations have tried to determine their value through examining these sources. The United Nations Conference on Trade and Development (UNCTAD, 2007) estimates that China is currently the seventh largest foreign investor among developing countries.

This investment was initially focused on developed countries, but has shifted in recent years (see table 1). As can be seen in the table below, Africa has moved from being ranked sixth in terms of value of FDI flows in the period of 1979-1991, to second in the period 1997-2001, and finally dropping back to fourth place between 2003 and 2005.

**Table 1: Largest Recipients of Chinese FDI 1979 - 2005**

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Region</th>
<th>1979-1991 Value (%)</th>
<th>Region</th>
<th>Value (%)</th>
<th>Region</th>
<th>Value (%)</th>
<th>Region</th>
<th>Value (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>North America</td>
<td>656 (47.3)</td>
<td>Asia</td>
<td>267 (35.6)</td>
<td>Asia</td>
<td>889 (38.9)</td>
<td>Asia</td>
<td>4879 (38.4)</td>
</tr>
<tr>
<td>2</td>
<td>Oceania</td>
<td>326 (23.5)</td>
<td>Latin America</td>
<td>148 (19.7)</td>
<td>Africa</td>
<td>552 (24.1)</td>
<td>Latin America</td>
<td>4112 (32.2)</td>
</tr>
<tr>
<td>3</td>
<td>Asia</td>
<td>218 (15.7)</td>
<td>Africa</td>
<td>122 (16.3)</td>
<td>Latin America</td>
<td>360 (15.7)</td>
<td>Europe</td>
<td>1935 (15.2)</td>
</tr>
<tr>
<td>4</td>
<td>Europe</td>
<td>82 (5.9)</td>
<td>Oceania</td>
<td>71 (9.5)</td>
<td>North America</td>
<td>228 (10.0)</td>
<td>Africa</td>
<td>882 (6.9)</td>
</tr>
<tr>
<td>5</td>
<td>Latin America</td>
<td>62 (4.5)</td>
<td>North America</td>
<td>67 (8.9)</td>
<td>Europe</td>
<td>188 (8.2)</td>
<td>North America</td>
<td>552 (4.3)</td>
</tr>
<tr>
<td>6</td>
<td>Africa</td>
<td>43 (3.1)</td>
<td>Europe</td>
<td>15 (2.0)</td>
<td>Oceania</td>
<td>70 (3.1)</td>
<td>Oceania</td>
<td>353 (2.8)</td>
</tr>
</tbody>
</table>

Many of this finance has come from commercial investments, made by Chinese companies following the “go global” principle. By 2001, Chinese companies had grown to such an extent that they had more than 3000 non-trade subsidiaries globally (Deng, 2004). As noted, these companies have many options of how to implement their growth strategies. However Deng (2004) notes that “Chinese MNCs have a preference for joint ventures with local firms, rather than wholly owned subsidiaries. Equity shares of 40-70 percent are the most popular choice, particularly in the manufacturing and resource processing sectors for banking and trade-supporting investments, almost all Chinese ventures are 100 percent owned” (p10).

An exception to the above comments of Chinese banking interests being 100% owned occurred when the International Commerce Bank of China (ICBC) bought a 20% stake in Standard Bank, South Africa, a deal driven primarily by the Chinese goal of obtaining a well known brand name. Similar global acquisitions by Chinese firms include the purchase of RCA brand by TCL, and Lenovo’s purchase of IBM. It is
advantageous to look at the major Chinese companies that have successfully expanded internationally as these may provide some insight into what factors are important other such companies.

When looking at the largest 20 companies in China, as per the Forbes list 2008, it can be seen that the main areas of focus are raw materials, banking and telecommunication. It is foreseeable that it will be in these industries that China will continue to focus their FDI. This links in with what was discussed in Chapter 1, when the focus of Chinese firms was identified as resources and heavy industries, such as energy; mining and construction, with the addition of banking.

**Table 2: Twenty Largest Chinese MNCs**

<table>
<thead>
<tr>
<th>China Rank</th>
<th>Global Rank</th>
<th>Company</th>
<th>Country</th>
<th>Industry</th>
<th>Sales ($B)</th>
<th>Profits ($B)</th>
<th>Assets ($B)</th>
<th>Market Value ($B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>30</td>
<td>PetroChina</td>
<td>China</td>
<td>Oil &amp; Gas Operations</td>
<td>83.24</td>
<td>18.21</td>
<td>111.7</td>
<td>546.14</td>
</tr>
<tr>
<td>2</td>
<td>42</td>
<td>ICBC</td>
<td>China</td>
<td>Banking</td>
<td>37.48</td>
<td>6.31</td>
<td>96.65</td>
<td>299.57</td>
</tr>
<tr>
<td>3</td>
<td>52</td>
<td>Sinopec China Petroleum</td>
<td>China</td>
<td>Oil &amp; Gas Operations</td>
<td>133.79</td>
<td>6.9</td>
<td>77.44</td>
<td>486.36</td>
</tr>
<tr>
<td>4</td>
<td>56</td>
<td>Bank of China</td>
<td>China</td>
<td>Banking</td>
<td>31.13</td>
<td>5.49</td>
<td>678.57</td>
<td>171.45</td>
</tr>
<tr>
<td>5</td>
<td>62</td>
<td>CCB, China Construction Bank</td>
<td>China</td>
<td>Banking</td>
<td>20.16</td>
<td>5.93</td>
<td>697.46</td>
<td>126.55</td>
</tr>
<tr>
<td>6</td>
<td>78</td>
<td>China Mobile</td>
<td>Hong Kong/China</td>
<td>Telecommunications Services</td>
<td>37.06</td>
<td>8.29</td>
<td>62.44</td>
<td>308.59</td>
</tr>
<tr>
<td>7</td>
<td>54</td>
<td>China Life Insurance</td>
<td>Hong Kong/China</td>
<td>Insurance</td>
<td>188.86</td>
<td>2.58</td>
<td>97.49</td>
<td>144.45</td>
</tr>
<tr>
<td>8</td>
<td>168</td>
<td>China Telecom</td>
<td>China</td>
<td>Telecommunications Services</td>
<td>22.42</td>
<td>3.48</td>
<td>51.63</td>
<td>61.89</td>
</tr>
<tr>
<td>9</td>
<td>174</td>
<td>Hutchison Whampoa</td>
<td>Hong Kong/China</td>
<td>Conglomerates</td>
<td>23.63</td>
<td>2.57</td>
<td>84.88</td>
<td>40.66</td>
</tr>
<tr>
<td>10</td>
<td>245</td>
<td>Bank of Communications</td>
<td>China</td>
<td>Banking</td>
<td>8.82</td>
<td>1.57</td>
<td>216.76</td>
<td>71.24</td>
</tr>
<tr>
<td>11</td>
<td>293</td>
<td>Ping An Insurance Group</td>
<td>China</td>
<td>Insurance</td>
<td>11.28</td>
<td>1</td>
<td>63.25</td>
<td>67.93</td>
</tr>
<tr>
<td>12</td>
<td>296</td>
<td>Cireco</td>
<td>Hong Kong/China</td>
<td>Oil &amp; Gas Operations</td>
<td>11.16</td>
<td>3.88</td>
<td>19.89</td>
<td>76.06</td>
</tr>
<tr>
<td>13</td>
<td>306</td>
<td>Baoshan Iron &amp; Steel</td>
<td>China</td>
<td>Materials</td>
<td>20.15</td>
<td>1.67</td>
<td>19.26</td>
<td>42.16</td>
</tr>
<tr>
<td>14</td>
<td>325</td>
<td>BOC Hong Kong</td>
<td>Hong Kong/China</td>
<td>Banking</td>
<td>6.9</td>
<td>1.8</td>
<td>118.39</td>
<td>26.5</td>
</tr>
<tr>
<td>15</td>
<td>336</td>
<td>China Shenhua Energy</td>
<td>China</td>
<td>Materials</td>
<td>8.23</td>
<td>2.24</td>
<td>20.69</td>
<td>134.73</td>
</tr>
<tr>
<td>16</td>
<td>357</td>
<td>China Telecom Group</td>
<td>Hong Kong/China</td>
<td>Telecommunications Services</td>
<td>10.94</td>
<td>1.63</td>
<td>25.66</td>
<td>21.09</td>
</tr>
<tr>
<td>17</td>
<td>397</td>
<td>Jardine Matheson</td>
<td>Hong Kong/China</td>
<td>Food Markets</td>
<td>16.26</td>
<td>1.35</td>
<td>20.26</td>
<td>17.29</td>
</tr>
<tr>
<td>18</td>
<td>427</td>
<td>China Merchant Bank</td>
<td>China</td>
<td>Banking</td>
<td>4.84</td>
<td>0.87</td>
<td>119.34</td>
<td>63.65</td>
</tr>
<tr>
<td>19</td>
<td>472</td>
<td>Sin Hing Koi Properties</td>
<td>Hong Kong/China</td>
<td>Diversified Financials</td>
<td>3.96</td>
<td>2.71</td>
<td>32.91</td>
<td>45.82</td>
</tr>
<tr>
<td>20</td>
<td>536</td>
<td>Aluminium Corp of China</td>
<td>China</td>
<td>Materials</td>
<td>7.93</td>
<td>1.5</td>
<td>9.84</td>
<td>51.08</td>
</tr>
</tbody>
</table>

*Adapted from Forbes, 2008*
A focus in Chinese corporate expansion is that in the telecoms arena, driven by ZTE. At present ZTE remains a hardware supplier, having signed an agreement with Mundo Startel, the Angolan fixed line telecommunications utility, for US$69 million worth of equipment. ZTE have also pledged to invest US$400 million in Angola in the telecoms sector, and have looked to expand their operations through bidding for telecoms operations tenders in Nigeria, Niger and Zambia.

However, simply looking at business orientated goals when looking at Chinese FDI would be too simplistic, as many of these companies are still largely state owned, meaning that additional political factors may play a role in which countries receive FDI. These may include issues such as gaining partners with international standing to support China on the global stage.

This consideration becomes particularly evident when looking at the profitability of Chinese firms in Africa. Most continue to lose money (Accenture, 2005), but despite this, follow the same pattern of signing resource deals. This trend seems to support the government objective of securing resources needed for its expansion programmes, as opposed to fulfilling the goals of shareholders of organisations. Traditional shareholder goals would be topped by the need to report profitability, as wealth creation is generally the primary focus of investment. Since China’s firms have not changed their approach, despite not achieving this goal, it can be concluded that their focus is not this traditional one.

This government involvement has also has over time led to failure of a company’s expansion bids, owing to international fear of growing Chinese control. A prime example of this is Sichuan Changhong Electric Co. The United States (US) government imposed penalties of 25% on this company, citing anti-dumping laws. These laws became applicable not because of merchandise being sold below cost, but owing to the line of cheap credit made available to the company which gave it an unfair advantage over competitors (Engardio, 2007).

The US block of CNOOC bid for American Unocal is another such example. In 2005 CNOOC offered US$18.5 billion for the Unocal Oil Company, but later withdrew the bid citing political pressures as being the main motivation for this withdrawal. When the details of this bid were presented to Congress there was an
overwhelming, 398 against 15 vote decision to have government review the bid. The major concern cited was that of the transfer of military technology to China if the deal were to go through.

Meyer, a Wharton management professor is quoted as saying "In this case, the purchaser, CNOOC, is a company in a pillar industry in China. CNOOC is ultimately government-owned and in some respects can choose to use government powers if it wants to. It's not clear it is an arm's-length transaction when an entity that is wearing two hats -- the hat of a business enterprise and the hat of the government, and has access to unlimited credit -- proposes to purchase a large company with potentially strategic significance to the United States. That's the issue: Who is party to the transaction?” (Knowledge@Wharton, 2005).

Following this, CNOOC has focused its operations on attaining African assets, as these are less likely to be subject to the type of government intervention and regulations found in the US. One of the main such deals was the purchase of a 45% stake in Nigeria’s Akpo field from South Atlantic Petroleum Ltd, a privately owned Nigerian firm, for US$2.27 billion. Initially an Indian company, Oil and Natural Gas Corporation (ONGC) was interested in securing the rights to this region, and believed they were to be successful in their bid to do so. However, Chinese government intervention helped to ensure that CNOOC were eventually given these rights. This intervention included a US$2 billion loan to the Angolan government by the Chinese, enabling the Angolan government freedom from reliance on International Monetary Fund (IMF) funding. These activities highlight one driver of the increased Chinese investment in Africa, while also raising questions about the transparency of these deals.

Another key driver which has been mentioned is the drive by Chinese companies to acquire global brands. Since China is traditionally a developing country, such deals would signal its transition to an industrial economy. The first major deal of this kind was the one in which Lenovo bought IBM’s personal computer division in 1995. The deal led to the acquisition of IBM’s global desktop and laptop computer research and development, as well as manufacturing business. The price paid was US$650 million, as well as US$600 million worth of Lenovo stocks (People’s Daily Online, 2005). Additional aspects of the deal included a strategic alliance, with IBM selling Lenovo
products to their global customers and IBM support for Lenovo globally. IBM (2006) noted that the deal “provided Lenovo with the additional technologies and capabilities required to transform itself into a global player in the PC industry – including global management talent, a valuable brand, access to global channels and customers, a well established global management system and a global operations footprint”.

In an interview with Mary Ma, senior vice-president of Lenovo, she noted that there were three key drivers behind their choice to acquire IBM (Orr; Zing, 2007). The first of these was that computers are a “volume game”, and as such they decided that a major acquisition was necessary in order to provide the capabilities to meet this volume. The second key reason noted was that of acquiring a well known brand. Ma noted that all PCs are essentially the same, and as such a means of differentiation was needed, and IBM provided this. Lastly, she added that the high management skills available in Lenovo were better suited to a major acquisition than a small one. The combination of these factors led to the choice of IBM as a strategic partner.

One of the main difficulties that Ma highlighted in the interview was the difficulty of integrating two companies post merger. She added that in the case of Chinese firms looking to take over Western ones, not only does one have to consider the integration of company cultures, but also the clash of Eastern and Western cultures. She went on to say that it is vital for companies looking to expand internationally to have a strong home base. Without a critical mass at home, Ma notes that companies will lack the strategic thinking required to manage a global organisation.

What emerges is that the Chinese investment strategy is changing over time. Although a large proportion of this is still centred in the resources sector, predominantly driven by governments wish to secure resources for their expansion schemes, later investment includes a drive to gain brands and global recognition. As government ownership of companies reduces over time, companies may focus more on their own development goals, but at present, given high government ownership, country goals still remain a primary driver of investment.
3.5 AFRICAN FDI TRENDS

Africa’s percentage of the FDI distributed to developing economies has dropped from a figure of 32% in 1970, to just over 10% in 2007 (World Investment Report, 2008). Although the net amount being distributed has increased over time, leading to an increase in overall funds, the lowering percentage of funds going to those countries most needing development is concerning. When we look further into the funds being sent to Africa, it can be seen that those going to Nigeria far exceed what any other country has received. This highlights the importance of resources in a country as an attractor of FDI. Other countries receiving high percentage of FDI flows include Angola, Equatorial Guinea, Sudan and Egypt, all countries rich in natural resources. Besada & Grobbelaar (2008) report that investors in Africa typically focus their activities on energy and mining, ensuring few linkages into the broader economy.

In looking at FDI flow trends towards Africa it is interesting to note how the traditional factors found to affect FDI have affected them in Africa, and in particular in Sub-Saharan Africa (SSA). One trend found by Ahmed et al (2005) was that previous FDI has a significant impact on current flows; this has become known as the agglomeration effect. In another study, conducted by Loots (2000) into the determinants of FDI in the top ten developing countries receiving FDI, it was found that fiscal stability; competitive tax structures and low political risks are not necessarily determinants of FDI in developing countries. Nunnekamp (2002) found that one factor that has become a significant pull factor is that of skills availability in a country. In a study conducted to determine the specific factors relevant in SSA it was found that government policies towards business have a significant effect on willingness to invest (Obwona, 2001).

One aspect that has caused the difference in FDI trends in Africa to the rest of the world has been the Chinese willingness to invest. Alden and Davies (2006) report that Chinese companies have rushed to invest in Africa as they see this as a major source of resources needed for China’s continued expansion. They note that there are various key features of Chinese strategy towards Africa. The first of these listed is the willingness of China to work with any state, regardless of international perception of that country’s domestic policies. Their policy involves one of non-involvement in these politics, as focus is maintained on business. This outlook has given Chinese
companies a key advantage in competing with Western companies in Africa. He Jun, a Beijing based energy consultant is quoted as saying: “China does not have a competitive edge over its Western counterparts in an open market. But in a closed market like Africa’s, Chinese companies are able to gain from government influence” (Energy Compass, 2006). This comment confirms the conclusions drawn earlier, that the ease of political negotiations with African countries is one driver of the growing investment of Chinese firms in Africa.

An additional advantage given by Alden and Davies (2006) is the comparative economic advantage of these firms. Not only do they have access to low cost financing, but through lower skilled and managerial costs they are able to produce a low cost bidding strategy. This enables them to under-cost western counterparts thus ensuring successful bidding on projects. This is far more likely to be successful in countries where issues such as quality may not be a prime focus when choosing successful bidders.

### 3.5.1 SOUTH AFRICA

South Africa presents a markedly different case to the rest of Africa owing to its advanced development compared to other African states. For this reason it is necessary to examine South Africa as an individual case in order to understand the main drivers of FDI to the region.

When the African National Congress (ANC) took over the government of South Africa in 1994 it decided that attracting foreign investments would be necessary if South African development goals were to be met. Their goals were outlined in the 1996 GEAR policy, which also detailed steps that would be taken to ensure a favourable investment climate was created. These included trade liberalisation, deficit reduction and relaxation of exchange controls.

Another key policy measure introduced was the formation of Industrial Development Zones. These zones implemented measures such as tax incentives and duty free status for the import of raw materials. It was hoped that these zones would encourage the establishment of manufacturing in South Africa.
In order to attract mining operations to the country, the 1998 Green Paper on Mineral Policy outlined various tax breaks which would lower costs of exploration, the hope being that this would encourage mining activity.

In order to determine the success or failure of these various measures it is necessary to look at the FDI flows into South Africa.

*Figure 4: FDI Flows into South Africa 1970 - 2007*

South Africa has been a prime receiver of FDI, despite at times having an annual nett outflow owing to its investments in other African countries. Gelb and Black (2004) investigated the trends of FDI into South Africa, and found that during the 1970’s 40% of FDI into South Africa was in manufacturing, 25% in the financial or business sectors, and only 15% in mining (p177). Until 1994 South Africa received very little investment, as economic sanctions were imposed on the country owing to its principles of apartheid. With the move to democracy in 1994, investment surged,
particularly in 1997 when privatisation of state enterprises presented positive investment opportunities.

Another markedly positive year was 2001. This is attributable to two events which occurred that year – the sale of a stake in Telkom to the Thintama consortium for $1.2 billion (BusinessMap foundation 2005, p3) and the unbundling of De Beers. 2005 saw another surge in investment with the sale of ABSA (SA) to Barclays (UK). In 2007 the largest foreign investment in South African history was recorded when the Industrial and Commercial Bank of China Limited (ICBC) purchased a 20% stake in Standard Bank for US$5.5 billion.

As of 30th June 2008, Standard Bank was the largest South African banking group, with market capitalisation of US$15 billion. The group has operations in over 18 African countries, as well as 20 further emerging market countries outside Africa (Standard Bank, 2008). This demonstrates the vast extent of this group’s reach, as well as the market equity, and brand knowledge that they have established since founding 1862. It is this brand awareness that was a major attraction for ICBC.

The ICBC Chairman Jiang Jianqing was quoted as saying: "From a strategic perspective, ICBC has been seeking opportunities to expand its international business, in particular in Africa, given strong trade linkages and the close and long standing friendship between China and South Africa. As many of our large clients seek investments in Africa, the demand for cross border financial services is accelerating. Standard Bank with its market leading position in South Africa and a true pan–African footprint, represents the best organisation with which ICBC can partner" (Standard Bank Media Release, 2007).

An interesting fact that emerges from the above is that the very positive investment years in South Africa were caused by the acquisition of South African firms, as opposed to greenfield investment. Greenfields type investment would be the expected trend in most developing countries, and what the various new legislations introduced looked to attract. This would seem to indicate that it is the presence of existing established firms in the region, rather than other factors, which has been the main driver of increased investment.
The table below has been extracted from the 2008 WIR (p43) and shows the distribution across industries of M&As in Africa over the last three years. What is positive to note from this table is the high percentage of mergers that are attributable to the services industry, as opposed to the primary sector, the traditional focus of companies in Africa. Much of this has been led by the finance sector, which accounts for 36% of M&A purchases in 2007.

Table 3: Cross Border M&As in Africa by Sector

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>11,259</td>
<td>19,806</td>
<td>10,217</td>
<td>18,496</td>
<td>24,295</td>
<td>5,501</td>
</tr>
<tr>
<td>Primary</td>
<td>1,060</td>
<td>3,515</td>
<td>4,638</td>
<td>67</td>
<td>2,176</td>
<td>1,368</td>
</tr>
<tr>
<td>Mining, Quarrying and Petroleum</td>
<td>1,060</td>
<td>3,515</td>
<td>4,638</td>
<td>67</td>
<td>2,176</td>
<td>1,368</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1,479</td>
<td>839</td>
<td>2,848</td>
<td>551</td>
<td>365</td>
<td>1,179</td>
</tr>
<tr>
<td>Food, Beverages and Tabacco</td>
<td>0</td>
<td>661</td>
<td>0</td>
<td>18</td>
<td>191</td>
<td>0</td>
</tr>
<tr>
<td>Wood and wood products</td>
<td>158</td>
<td>0</td>
<td>0</td>
<td>164</td>
<td>0</td>
<td>585</td>
</tr>
<tr>
<td>Chemicals and chemical products</td>
<td>9</td>
<td>3</td>
<td>1,715</td>
<td>186</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Non-metallic mineral products</td>
<td>967</td>
<td>0</td>
<td>878</td>
<td>54</td>
<td>119</td>
<td>513</td>
</tr>
<tr>
<td>Services</td>
<td>8,720</td>
<td>15,453</td>
<td>2,722</td>
<td>17,878</td>
<td>21,754</td>
<td>2,955</td>
</tr>
<tr>
<td>Trade</td>
<td>913</td>
<td>1,001</td>
<td>283</td>
<td>1,590</td>
<td>89</td>
<td>166</td>
</tr>
<tr>
<td>Transport, storage and commun</td>
<td>1,876</td>
<td>9,686</td>
<td>738</td>
<td>1,395</td>
<td>5,886</td>
<td>318</td>
</tr>
<tr>
<td>Finance</td>
<td>5,895</td>
<td>3,509</td>
<td>1,378</td>
<td>14,831</td>
<td>12,170</td>
<td>1,967</td>
</tr>
<tr>
<td>Business Activities</td>
<td>4</td>
<td>1,038</td>
<td>91</td>
<td>40</td>
<td>187</td>
<td>120</td>
</tr>
</tbody>
</table>


As well as being a receiver of FDI, South Africa is also a prime investor in Africa. The United Nations Conference on Trade and Development (UNCTAD) reported in 2004 that South Africa was one of the top five investors in Africa. What differentiates this investment from other global investors is that South African firms as well as investing in resources, also invest in a wider range of sectors such as services; agriculture; retailing and manufacturing (Besada; Grobbelaar, 2008). Although this investment was initially focused on the SADC region, it has recently expanded from this region. This involvement in various African regions has been one factor that may have made the acquisition of South African firms so favourable to global investors.
3.6 SUMMARY

Companies wishing to invest in other countries have various entry strategies to choose from, depending on the particular circumstances of both the company and the country being invested in. Each method has various advantages or disadvantages that must be taken into account when considering which method to use. In looking at the characteristics of Chinese firms, it would seem most likely that these firms will look to invest in Africa through JVs. The need for political alignment, as well as the degree of funds available to Chinese firms, makes JVs the optimal choice in most cases.

Much of the investigation into FDI trends tends to focus on the traditional drivers, as the Western countries still dominate most investment flows. Various key factors have been identified that impact on these flows including: market size; exchange rate; inflation; trade policies; local fiscal policies; resources; staff and labour; finance; infrastructure; business environment and political stability.

When investigating Chinese investment strategies, some difference from these traditional patterns can be found. As an example, political stability has been shown not to influence Chinese companies choice to invest, as seen by their continued involvement in Zimbabwe despite global condemnation of the country. Additionally,
access to local finance is not a key issue, as many companies expanding out from China do so with financial backing from the state, and as such do not require these funds. Resources however have remained a key driver of investment, as resources are needed by the Chinese government for their expansion programmes. Chinese government involvement in companies has meant that the needs of the country, as well as the company, are taken into consideration when looking at expansion possibilities. Another emerging driver of investment is that of the acquisition of brands. Although many Chinese companies have grown within China, they are not known on the global stage, and companies may seek to rectify this through the acquisition of established brands in these industries. What this highlights is although some traditional FDI drivers may be considered by Chinese companies when making investments, their investment is primarily influence by different factors. As such, using only primary drivers as a forecast of their investment strategies will lead to incorrect results.

South Africa has experienced very positive FDI flows, especially in the last decade. Much of this has been driven by foreign acquisition of South African firms, rather than from greenfield investment. Many South African firms focused their post-apartheid expansion into Africa, and now hold brands that are well known across the continent. Their established operations and market knowledge make them ideal acquisitions for firms seeking to expand their operations into Africa.

The ICBC – Standard Bank deal was introduced when discussing South African investment trends. This deal highlights a possible strategy that will be followed by Chinese companies, as it encompasses many of the trends discussed. The deal was driven primarily by the brand acquisition of the well known Standard Bank brand. Although there are many large Chinese banks that could forseeably establish independent operations on the African continent, the choice was instead made to enter into a JV. This deal was brokered as it provided access to established operations bases in many African countries, as well as association with the well known name of Standard Bank.

Chinese multinational companies are currently focused on a few key industries, these being resources; telecommunications and finance. South African investment in Africa has also tended to focus on these industries, making their African footprint
coincide with that being looked for by various Chinese companies. This leads to the conclusion that deals similar to the ICBC – Standard Bank deal may be occur, as many other South African companies, in a range of industries, may offer the same benefits as those offered by Standard Bank.
CHAPTER 4: SOUTH AFRICA SPECIFIC REVIEW

4.1 BENEFITS OF SOUTH AFRICA AS A HOST COUNTRY

In examining this topic it is necessary to investigate which countries will offer the optimum base of operations for companies wishing to enter the African markets. Since host countries derive benefits from these incoming companies in terms of skills improvement and tax increases, many countries seek to understand their strengths and weakness in this regard. In addition, Anderson & Gatignon (1986) note the effect of country specific factors such as investment risk; industry structure and culture on the entry method of choice of the MNC.

Given the future importance of resources to its development, China has encouraged the growth of Chinese companies into Africa. In 2000, the Forum for China Africa Co-operations was formed, to ease transactions between the regions. In 2005 China and the United Nations Development Programme together established the China-Africa Business Council to promote private Chinese businesses in Cameroon, Ghana, Mozambique, Nigeria, South Africa and Tanzania (IMF, 2007).

Alves (2006) notes that much of the attraction offered by South Africa may stem from its being a sophisticated market in its own right, as well as providing a useful base of operations into Africa. According to Mr Liks Ramusha from the Department of Trade and Industry (DTI), in an interview held with him in November, firms wishing to expand into Africa often chose South Africa as it makes economic sense given the level of development of the country. He noted that the recent change in Black Economic Empowerment (BEE) legislation to reclassify Chinese nationals born in South Africa before the end of Apartheid as “previously disadvantaged” may also provide motivation to Chinese firms looking to invest in South Africa. He noted that this new law ensures that Chinese companies can enter into joint venture agreements with people who may have a greater understanding of their culture, and that this was proving favourable in terms of joint venture activity.

Many companies when looking to invest in Africa take into account long term growth potential. One way of ensuring the ease of further expansion is to ensure that operations are based in countries that are signatory to numerous trade agreements.
Much of Africa is segmented by trade agreements, designed to facilitate easier trade in the regions involved (See below figure 7). As such, starting a base of operations in signatory countries of any of these agreements may provide easier channels for expansion into secondary regions. Companies based outside the signatory countries may struggle to enter these regions, as they will not be party to the political links and preferential trade agreements on offer.

**Figure 6: African Trade Treaty Agreements Signatories**

South Africa is signatory to both South African Customs Union (SACU) and South African Development Community (SADC) agreements, thereby providing expansion channels into more than ten other African markets. These preferential trade channels may provide South Africa with a key advantage as a host country to foreign MNCs as they may look to future expansion possibilities as well as present structural factors. As well as being signatory to these agreements, the growth in South African influence in Africa can be confirmed by the fact that South African FDI in the SADC region is greater than that of the United States and United Kingdom combined (Alves, 2006), promoting its strength as a base for future expansion projects for MNCs.
As well as being signatory to these formal agreements, the South African government is also heavily involved in the rest of Africa. The growing involvement of the Industrial Development Corporation (IDC) as well as the Development Bank of Southern African (DBSA) and the Export Credit Insurance Corporation (ECIC) has confirmed the South African government’s dedication to the development of Africa. The IDC and DBSA were given mandates to support development projects in South Africa. These mandates were then extended to include first SACU in 1998 and then the rest of the continent in 2002. The IDC presently has operations in over 34 African countries, as it seeks to ensure the development potential of the continent. The government will even become involved in cases it deems necessary to ensure the success of South African firms. An example of this is the government’s involvement in ensuring Sasol gained control over natural gas fields in northern Mozambique.

In an interview with Sanusha Naidu, a key researcher in the field of Chinese involvement in Africa, she noted that although this involvement may have assisted companies with their expansion in the past, this political involvement may also have a negative impact on current South African firms’ expansion. She noted that many countries fear that South African MNCs may have a sub-imperialist agenda that they wish to impose on to the countries in which they operate. Similarly, the view of South African as being the heavy-weight of the SADC, leading to its involvement in dispute resolution in the region, has led to negative ramifications for South African firms attempting to operate in these regions (Besada; Grobbelaar, 2008). Naidu went on to note that the memory of apartheid is still strong in Africa, and South Africa’s smooth and successful transition into democracy has actually highlighted its difference from the rest of Africa, as opposed to unifying the continent. This may deter investors from looking to base operations in South Africa, as although it is vastly more developed, the psychological factors associated with it may lead to problems in relations with other countries. The full impact of these negative perceptions towards any individual firm will need to be fully understood before external firms are willing to enter into joint ventures with them.

One attraction that South Africa may offer Chinese MNCs is the high education level in the country, resulting in the possibility of employing top level South African executives. A 2005 McKinsey Global Institute Study found that many Chinese
managers were considered unsuitable for work in foreign companies, and thus also unsuitable for top level positions with multi-national companies. In addition, Melvin (2007) notes that many Chinese companies now struggle to retain top talent. This may mean that companies will seek to establish base operations in countries that offer a solution to this pressing problem. As well as having a sound education system, the years of experience offered by many South African managers in African business, will be attractive to companies seeking to ensure the continent. A key issue against this however is the extreme skills shortage currently being experienced in South Africa. With many South African firms themselves not being able to fill key posts, the question arises as to whether Chinese firms will be more successful.

4.2 CHINA-SOUTH AFRICA SPECIFIC RELATIONS

There are various factors that need to be considered when looking into why companies choose the entry strategy they do. In order to understand what methods may be followed in future Chinese-South African deals it is necessary to understand both these markets more fully.

The World Investment Report (2008) notes that the most common reason cited by companies for international expansion is market liberalisation of their home countries. This liberalisation leads to greater competition and thus falling margins, driving the need for companies to look elsewhere for business opportunities. Although the Chinese market still offers many potential opportunities, the liberalisation of this market has led to greater competition for Chinese firms, previously protected by government prevention of international intervention.

This report notes that host country factors are cited more often as drivers of investment and that these include issues such as: liberalisation and deregulation leading to business opportunities; tenders from government; strategic acquisition opportunities; need to follow clients; regional growth opportunities; creation of synergies and gaining of experience (WIR, 2008). Many of these can be seen as being applicable to the recent activity in the South African market.

The first democratic elections of 1994 opened the door for international investment in the country, and the subsequent 14 years of stability have further encouraged this investment. South African firms’ existing presence in African
markets presents an opportunity for strategic acquisitions with could lead to major growth opportunities for Chinese companies. In addition, the experience gained by these South African firms during the past decade of African involvement present vitally needed experience to the Chinese managers.

This is particularly true in the case of infrastructure development, a focus area for many Chinese industries. This is caused by the fact that many South African infrastructure companies have been encouraged to invest in Africa in order to drive regional trade. Companies that have followed this principle include state owned enterprises Eskom and Spoornet (South Africa, MPE, 2004, 2007). These companies have shown their acceptance of international involvement with deals such as that between City Power and the Kelvin Power Station, a part internationally owned power generation plant. The existing infrastructure and experience that the South African firms have across Africa offers ideal acquisition opportunities to companies wishing to expand their operations in the power markets.

When looking at the twenty largest Chinese MNCs (Table 2) and the sectoral distribution of South African FDI to Africa (figure 6), the compatibility of the two regions can be seen, as both are focused on the same industries. This would indicate that there is a strong possibility of future co-operation between the two regions, as they possess mutually aligned goals. This has already been seen in the banking sector with the investment in Standard Bank, however many further opportunities exist in other industries.

A key industry in which these acquisition opportunities can be found is in the telecommunications industry. The top two African mobile phone operators, Vodacom and MTN are based in South Africa. Although at present Chinese firms have focused on the hardware side of the business, the profit potential of expanding into the service side is immense, and joint ventures with these firms may provide the means for Chinese companies to do so. When looking at the top 50 largest foreign investment activities in Africa between 1996 and 2006, it can be seen that the top four are all in the telecoms industry (UNCAD, 2006). Grobelaar, a manager at the South African Institute of International Affairs, noted in an interview that to date Chinese firms have focused on the hardware side of the telecommunications industry, but as they
seek further expansion opportunities down the line, partnerships with service providers may offer ideal opportunities.

It is vital to look back at what acquisitions and investment activity has occurred by Chinese firms in South Africa, in order to gain greater understanding of what may occur in the future. As well as the previously discussed Standard Bank deal, there are numerous other investment that has occurred. The ICBC deal is one which highlights how possible JV strategies will be followed, but this strategy can only be followed by companies willing to operate under a different brand to their own.

Companies wishing to further their own brand must follow a different strategy in order to establish themselves in Africa. An example of a case in which a Chinese company has done this, using South Africa as its primary base is Hisense. Hisense, a Chinese electronics manufacturer set up operations in South Africa in 1996 by forming the Hisense South Africa Development Co. Ltd. (SADC). It began operations by acquiring the manufacturing workshops previously owned by the South African branch of the Republic of Korea’s Daewoo International Group, before upgrading these facilities to allow for additional production capabilities.

Initially products were sold only in South Africa, but subsequent expansion has allowed for the export other African countries including Zambia, Malawi and Namibia. This company has maintained 20-30% growth in the region in the last decade, now using their South African base to export to other African operations (Bowker, 2008). Not only has the company focussed on growth opportunities, but also on establishing brand loyalty. Their commitment to quality and service is working, and for the past few years SADC has been credited by many large South African retailers as being the best supplier (Hisense, 2008). Not only have they been endorsed for their service by retailers, but also by government, being mentioned as the model of Chinese business activity in South Africa by Nelson Mandela. The huge growth in sales they have achieved also bears testament to the success of the aim of growing brand awareness and customer loyalty. This case presents an example of how future Chinese manufacturing companies, which wish to avoid reliance of importing of goods from China, may establish production facilities on the continent, and then focus of building brand awareness.
4.3 SOUTH AFRICA AS A PLATFORM

A key issue that needed to be investigated was the opportunity offered by South Africa to China as a choice of base country. What needed to be looked into was what benefits does South Africa offer, as this may become the main driver of Chinese FDI in the economy.

TradeInvest reported that China sees South Africa as the gate-way to the rest of Africa, and investment in South Africa as being strategic investment in the “preferred country” on the “preferred continent” (Bowker, 2008). When conducting the interviews, both Chris Alden and Sanusha Naidu noted in contrast that perhaps South Africa’s place was not as secure as government may like to think. Alden noted that many Chinese firms have succeeded already in Africa, without needing to use South Africa as a launching pad. He noted that the Standard Bank deal was an exception to this, as China saw the potential of using South African networks to expand their financial services operations into Africa. The Hisense deal is however another example of how Chinese firms may look to use South African as a base. Both these deals are however in sectors not traditionally focussed on in Africa by China, and as such, may provide a better example of future deals that focussing on traditional resource and construction deals.

Other research into which countries may be used as a base of African operations to incoming companies has been conducted by Era Associates, a South African based research firm. In a report published in August (Era Associates 2008) they note that Mauritius is set to be the major gate-way onto the continent. At present a trade development zone, Shanzi Tianli Enterprises Ltd Development Zone, is being established. This will provide space for the establishment of Chinese firms, as well as a foundation for these firms to gain access to Africa. Mauritian involvement in numerous economic zones would enable it to provide a strategic base for operations, and it is anticipated that this island will provide to gateway to Africa, much as Hong Kong has done for China. Although South Africa is presently signatory to many trade agreements, Mauritius has focused much more on the ensuring that they enter into agreements with China, as well as countries in which China would like to invest. These strategic policy decisions may place it ahead of South Africa in terms of benefits being offered to incoming Chinese MNCs.
The advantage that South Africa can offer over Mauritius however is the number of MNCs that are currently based here. These offer opportunities for JVs, such as the model followed in the Standard Bank deal. Alves noted that Chinese companies have used the JV method of entry with many of their resource deals, and as such, this may be a model they use in their transition into more service orientated businesses.

From these discussions it can be seen that South Africa is not the automatic choice for companies looking to enter the African market. As such, efforts will have to be made by government to ensure that discussions are entered into on what measures they can introduce to improve the chances of MNCs basing themselves in the country. Alves noted that addressing issues such as currently weakening infrastructure; labour legislations as well ever increasing levels of crime are also of prime importance.

Additional considerations such as the formation of trade regions with further African countries should also be investigated as a means to improving the benefits of South Africa. Fedderke and Romm (2004) recommend that South African policymakers should aim to reduce political risk, ensure property rights, and increase growth in market size, moderate wage increases, lower corporate tax rates and increase openness if they wish to increase investment in the region.

Specific concerns that have been highlighted by Chinese companies include South African anti-dumping regulations which some companies claim discourage growth and exports to the country. An additional factor that has been cited is the changing compulsory standards which place higher safety standards on goods (Era Associates, 2008). Although this law was introduced for the protection of the South African consumer, Chinese electrical products companies have noted that it undermines their exporting practices.

4.4 SUMMARY

From the above it can be concluded that although South Africa does offer many advantages to Chinese firms wishing to expand their African operations, it may not be the automatic choice. Mauritius is currently positioning itself to be the strategic gateway into Africa, and is entering into trade agreements that best meet this goal. In setting up trade zones Mauritius is focussing primarily on the advantages it can offer as a gateway to the continent, South African in contrast has many motivation when establishing trade relations. These include creating expansion potential for South
African firms, as well as possible political alliances. This means that although South Africa is also a signatory to many agreements, these may not be as strategic as those entered into by Mauritius, and the South African government will need to address this in future negotiations if it wishes to present the best alternative as an operations base.

An advantage that South Africa does offer is that its investment in Africa has led to the development of many South African MNCs dominating markets in various African countries. Since the industries these companies have focused on are closely correlated to those being looked at by Chinese firms, the possibility of JV activity exists. The ICBC deal is an example of the type of deal that other Chinese firms may wish to emulate. Additionally, the currently strong infrastructure, and advanced consumer base also presents a viable option for manufacturing firms wishing to establish themselves in Africa. Hisense is an example of a company whose choice to invest in South Africa was probably driven by these factors.

The relationship between South African and various other African states may however be a stumbling block to the choice by Chinese firms to align themselves with South African ones. Continued South African political involvement in dispute resolution across the continent may impact on relations in the region, reducing the chances of success of South African firms.

As noted by Fedderke and Romm (2004) and Alden in an interview, there are various country specific factors that the South African government will need to focus on changing should they wish to ensure that they are the chosen springboard into Africa. These include weakening infrastructure and escalating crime rates. If these issues cannot be resolved, the possibility of South Africa being chosen as a springboard into Africa may be reduced.
5 CONCLUSION

Chinese investment across the globe, and particularly in developing regions such as Africa, has increased hugely in the last twenty years. Much of this investment has come from the involvement of Chinese MNCs as they seek to expand their operations globally, following the liberalisation of their economy. Given that increased investment in a country can often help it to reach its development goals, attracting such investment is a primary concern of many policy makers. South Africa, despite its successful development since the end of apartheid still needs investment if it is to reach its development goals of 6% annual GDP growth. Since China has become a prime source of such investment, having invested US$6 billion in South Africa cumulative to August 2008 (Merwe, 2008), it is vital to understand what drives this investment, and as such, how it can be attracted.

The first step in investigating Chinese investment involves gaining a greater understanding of Chinese MNCs. This is necessary as it is often these firms that drive the investment, and accordingly an understanding of their business practices can help with gaining an understanding of overall Chinese investment. Many Chinese firms have developed from SOEs, and are still largely state owned, with the Chinese government traditionally holding upwards of 70% of company stock. There are various implications to this, including the industries on which these firms focus, and motivation behind their expansion techniques.

Traditional SOE focus was in resources and heavy industries, as the Chinese government sought to expand their economy. Many of the MNCs that have emerged from China following market liberalisation continue to maintain this focus. One additional industry that has become prominent amongst Chinese companies is the finance/banking sector. This has become especially important in assisting Chinese companies in the financing of their expansion drive.

Despite being run as private companies since market liberalisation, many Chinese MNCs are still significantly state owned. This has implications for firms in terms of expansion techniques and motivation. Government ownership of many firms has meant that funds can be more easily accessed, thus enabling cheaper expansion than is possible for many other firms. However, this involvement does come at a price as
companies cannot base expansion purely on their own development goals, but must also consider the needs of the country as a whole. This had led to severe losses in many Chinese companies’ expansion, as deals are brokered to secure resources for China, rather than because they present profitable opportunities to the company.

Another down side to this government involvement is the suspicion with which many of these companies are viewed. The United States for example has blocked certain business deals, fearing the involvement of the Chinese government in such arrangements. At present, Africa and South Africa are not concerned with this as they maintain a friendly relationship with the state- many having cut their ties to Taiwan to show their support. This acceptance of government involvement in deals is probably one of the key motivators for Chinese expansion efforts on the continent.

Many methods of market entry are available to companies looking for global expansion. Chinese companies’ degree of state ownership and access to cheap funds may mean that techniques followed by these firms will not follow those of traditional Western firms. In many cases joint ventures, or partial acquisition of firms, has been the main choice of Chinese firms. These methods allow for easy access to existing political networks and community ties, both vital to company success in Africa. Another issue of key importance to Chinese firms, access to brands, is also facilitated through these entry strategies, further encouraging Chinese firms to follow this route.

Research conducted into global FDI trends have tended to focus on traditional donors. This research has highlighted a few drivers of investment, including political stability and country financial development. Chinese investment has not been based purely on these traditional trends, as investment has been made into countries sanctioned by Western powers. Key drivers of this investment appear to be three-pronged – access to resources; strategic political alignment and access to global brands.

Since investment in Africa can answer many of these needs, it has been one of the key areas of focus of Chinese investment. When the ANC took power in South Africa in 1994, they recognised that this investment was necessary to meet their development goals. Accordingly they passed legislations which they believed would promote investment.
In looking at investment in the country since 1994 it can be seen that it is not necessarily these laws that have promoted investment, but rather the existence of South African firms which have a significant African footprint. Since one of the key drivers of Chinese investment is obtaining brands, this trend may continue, despite investment shifting from a Western focus.

This type of investment may not be the ideal for South Africa however, as greenfield investments will also be sought to boost growth. At present South Africa has tried to market itself as the ideal country in which to base operations for companies wishing to expand into Africa. There are various issues that government will have to focus on in the next few years if this is to remain true. Key areas which need attention are the strategic alignment of trade regions; weakening infrastructure and increasing levels of crime. Additionally, the impact of laws introduced to protect the South African consumer will have to be investigated, to find a balance between consumer protection and encouragement of Chinese investment.

Since this research has focussed primarily on secondary sources, it is suggested that further investigation into current activities of Chinese firms in South Africa and Mauritius occur. This will help to highlight areas of strengths and weaknesses of the two regions, and may assist South Africa in drafting future legislation aimed at investment attraction. A key limitation of this research was that interviews could not be conducted with Chinese business or government personnel, to determine their views and input on the trends observed. It is hope that now that the base of this research has been established and primary trends observed, Chinese support of the research may occur, leading to more primary source information access and the confirmation of refuting of these trends.
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