

South Africa's Foreign Direct Investment Links with the BRIC Countries

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Abstract

This paper examines the FDI links between South Africa and the other four BRIC countries. It first looks at official bilateral FDI stock and flow data published by the five governments, and shows considerable inconsistencies and gaps both within each government's data, as well as between the two governments in each bilateral link. It then examines unofficial firm-level data systematically collected by the author on the number and type of investments within each link, which shows a very different picture than the official data, in particular that India is in important respects a more significant investor in South Africa than China. Finally, the paper presents three brief case studies of investments in the electronics, pharmaceuticals and financial services sectors, examining investor motives and impact in both host and home economies.

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South Africa joined the BRICs group in April 2011, having been invited to the group's third summit by China, the host country. Re-named the BRICS (an upper-case 'S' replacing the lower-case 's'), the group remains in its infancy and rather loose. Initially without an explicit rationale, the July 2014 summit saw the announcement of the first collective initiatives – the New Development Bank with \$50 billion initial capital and a joint Contingent Reserve Arrangement, a \$100 billion fund to address foreign exchange liquidity shortages. Notwithstanding these, the economic basis for the existence of the BRICS as a group will continue for some time to rest on bilateral trade and investment relations amongst pairs of members. This paper examines South Africa's bilateral investment relations with the BRICs, primarily China and India, since relations with Brazil and Russia are relatively insignificant, as will become clear below.

Following a brief review of trade relations in Section 2, Section 3 presents official data on bilateral FDI asset stocks and flows between South Africa and the four partner countries. This examination highlights many inconsistencies between countries' reporting of the same bilateral FDI values, and even within a country's data over time. This underscores a secondary, methodological, contribution of the paper, to suggest that official bilateral FDI data needs to be supplemented by alternative data to build an adequate picture of bilateral investment relations. Section 4 presents a firm-level perspective on the bilateral investment links between South Africa and the BRIC economies, based on systematically collected public information, and showing a quite different picture than official data. Section 5 presents three brief case studies of firms and sectors in which South Africa's bilateral investment ties with China and India are significant, when viewed from a firm perspective rather than purely in terms of the financial value of asset stocks. Section 6 concludes.

Section 2. Trade

As is true for many countries, the geographical composition of South African trade shows the very rapid rise of China in recent years. In 1990, South Africa had barely any trade with the four BRIC countries: imports to SA for all four totalled USD328 million and exports from SA only USD111 million.¹ By 1995, total trade had quadrupled to USD1.76 billion, but it then rose much more slowly to 2002, when it amounted to USD2.3 billion, only slightly more than 4 percent of South Africa's total trade. But between 2002 and 2007, annual growth of South African in USD terms was 51% to China and 30% to India, but only 19% to the EU (see Table 1). In the wake of the financial crisis, exports to the EU declined, by 6.5% *per annum* between 2008 and 2012, while exports to China and India continued to grow, by 24% and 14% respectively. Total trade with the BRIC countries had grown to more than 19 percent of total South African trade by 2012, while trade with EU down to 25 percent of the total compared with 38 percent ten years earlier.

Since 2009 China has been South Africa's largest trading partner (leaving aside the EU as a whole), with 13.2 percent of total trade in 2012, compared with 8.0 percent for the US and 7.7 percent for Germany. China is both the largest recipient of South African exports,

¹ Throughout the paper, values are converted into US dollars using exchange rates provided by the IMF (www.imf.org)

purchasing 11.7 percent of the total, and the largest supplier of imports, with 14.4 percent of the total. India – 4.4 percent of total trade – is South Africa’s fifth largest trade partner. South Africa’s trade with the other two BRIC economies is small: Brazil is the 17th largest trade partner with 1.3 percent of total trade, and Russia is outside of the top 30.

Table 1 about here

Increased trade with China and India has had an uneven impact on the domestic economy. The rapid growth of exports to China and India has been an important driver of growth performance in SA since 2002, contributing significantly to raising the GDP growth rate of 4.25 percent *per annum* between 2001 and 2008 (compared with 2.9 percent between 1994 and 2000), and also to mitigating the effects of the global financial crisis since 2008, when the growth rate dropped to 1.9 percent. South African exports to both countries are very concentrated in mineral and base metal products (see Table 2). Though trade with the EU and the US appear quite dissimilar to that with China & India, South Africa’s exports to industrialised country markets are dominated by natural resource-based commodities which have undergone limited processing, such as pulp and paper and platinum coated catalytic converters for auto exhaust systems, as well as precious stones.

Table 2 about here

Imports to South Africa are more diversified than exports for both China and India, as seen in Table 2. Detailed analysis of South Africa imports shows China has the largest share in 27 of 44 manufacturing sub-sectors, with a dominant share of total supply (including domestic production) in several consumer goods markets, for example 46% of footwear, 42% of knitted fabrics and 32% of television and other electronic equipment. As elsewhere, Chinese imports have squeezed out local producers in several sectors. It is estimated that Chinese imports resulted in the loss of over 75 000 jobs in South Africa between 2001 and 2010, a very large proportion of net job losses of 110 000 during the period.²

Section 3. Bilateral FDI links – the picture from official data

The official data from both countries for South Africa-China FDI is presented in Table 3, with the equivalent for India in Table 4, and Russia and Brazil in Table 5.

Table 3 suggests that FDI relations between China and South Africa are of similar significance as the trade relations between the two countries. According to official South African Reserve Bank (SARB) data for end-2012 (the most recent available), China was South Africa’s 5th largest source of inward direct investment assets with 3.1% of the total stock, and the single largest destination for outward direct investment from South Africa,

² See Jenkins & Edwards (2012), who estimate that competition from Chinese producers led to South Africa losing about 10% of its potential exports to other African markets.

with 18.1% of the total stock of South Africa's direct investment assets abroad.³ South African assets in China in 2012 were about four times as large as Chinese assets in SA, according to the SARB.⁴ In the data collected by China's Ministry of Commerce (MOFCOM), South Africa ranked 12th amongst recipients of Chinese outward direct investment in 2012, with 1.3% of the total (MOFCOM, 2012).⁵ MOFCOM publishes inward FDI stock data only for selected source countries, and the most recent list – for 2010 – did not include South Africa amongst the 32 countries. But it is interesting to note that the SARB 2010 value of USD5.616 billion for SA assets in China at end-2010 would have ranked South Africa as 18th largest investor in China on MOFCOM list.

Table 3 about here

Table 3 reveals substantial disparities between the two countries' official data for the same assets, while significant inconsistencies over time are also evident in each country's data considered separately. The disparities between the two countries results from their different methodologies for data collection. MOFCOM FDI data is based on FDI project and forex approvals, while SARB data is based on companies' balance sheets with assets and liabilities broken down on by country of ownership, and collected via an annual survey and a decadal census, most recently for end-2011.⁶

Table 3 illustrates two limitations of aggregate financial data on FDI. The first is the sample frame for surveys (like those conducted by SARB) may omit firms, especially recent entrants, and therefore undervalue stocks. The two agencies' figures for 2007, varying by a multiple of ten, merit a closer look. At end-2007, there were six Chinese mining companies invested in South Africa, according to publicly available information.⁷ Sinosteel had stakes in two joint-venture operations worth USD380 million (ASA Metals) and USD230 million (Tubatse Chrome) respectively. Three other companies – Zijin (USD16 million), Minmetals (USD6.5 million), and Jiaquan Iron and Steel (JISCO, USD30 million) – made investments between 2005 and 2007 totalling a further USD52.5 million. These reported values suggest MOFCOM's estimate of USD702 million Chinese assets in South Africa is credible, while SARB's number – only USD70 million – seems wildly inaccurate.

The second FDI data limitation illustrated in Table 3 relates to asset valuation. The SARB follows IMF guidelines in requesting market valuation of assets. It appears that

³ At end-2012, 45.6% of foreign direct investment assets in South Africa were owned by the UK, followed by the Netherlands (18.6%), the US (5.4%) and Germany (5.0%). Of South Africa-owned direct investment assets abroad, 21.1% were in Africa as a whole, but amongst individual countries, China was followed by the UK (16%), Luxembourg (8.6%) and the US (5.4%) (SARB, 2014).

⁴ All data and rankings in this paragraph are based on data from SARB or MOFCOM, as for Table 3.

⁵ See MOFCOM, 2010a, 2011. Note that 57.6% of Chinese outward investment in 2012 was in Hong Kong, and 11.45% in the Cayman Islands and British Virgin Islands together.

⁶ MOFCOM has received extensive OECD assistance on its collection and processing of FDI data (OECD 2008). See SARB (2013).

⁷ See Business Day, October 3 2006; AFX News, November 15 2006; Metals News, 21 September 2007; Engineering News, June 20 2008.

this is equivalent to book value where specific assets are not traded independently. But where the asset is an equity holding (partial acquisition) in another company which itself is a publicly-listed corporation, asset valuation changes due to fluctuations in the latter's equity price can provide a seriously misleading impression about changes in the volume of direct investment activity.

This is shown in the SARB data for both South African assets in China and for Chinese assets in South Africa after 2008. The former is dominated by the 34 percent stake of NASPERS, a South African IT/media corporation, in Tencent, which was a small Chinese instant messaging service when Naspers purchased its initial holding in 2001. Tencent, which listed on the Hong Kong Stock Exchange in 2004, has become China's largest IT company. As detailed in Table 3a in the Appendix, the Tencent share price increased by 670 percent from end-2005 to end-2007, while South African assets in China rose by 718 percent. Naspers' holding then was about 94 percent of the value of SA assets in China. Tencent's share price continued to rise, and Naspers' stake was 98.5 percent of the end-2012 value of SA assets in China, and nearly 18 percent of South African foreign direct investment assets in *all* destination countries.⁸

Chinese assets in South Africa after 2008 are similarly dominated by a single investment – the Industrial and Commercial Bank of China (ICBC) holding of 20 percent of Standard Bank of South Africa (SBSA) purchased in late 2007, at a reported value of USD5.5 billion.⁹ At end-2008, ICBC's stake was equivalent to 93 percent of the SARB estimate of the value of Chinese assets in South Africa, and at end-2012, following the continuing rise in the SBSA share price, ICBC's stake was still as much as 85 percent of Chinese assets in South Africa.¹⁰

The domination of FDI asset stock values by a single substantial investment is of course more likely when a specific bilateral relation involves a small number of investors, which in turn may be more likely when one or both countries are developing economies. But similar inconsistencies are found in bilateral relations between industrialised economies. Furthermore, the implication based on official stock value data that China has in the past few years become one of South Africa's most important FDI sources and destinations is evidently superficial and needs careful qualification.

Table 4 about here

Turning now to India, Table 4 shows that South Africa's link is very much smaller in than with China according to the official FDI stock data. It should be noted that India's official FDI data is collected on a different basis than South Africa's and China's. The inward FDI data is collected by the Department of Industrial Policy and Promotion, and

⁸ At end-March 2014, the price was HKD536.00 (USD69.14) suggesting Naspers' holding was worth then nearly USD43 billion, more than double the end-2012 value.

⁹ At the time, this was the largest single outward investment by a Chinese corporation.

¹⁰ Although the equivalent MOFCOM figure does rise substantially in 2008, in the wake of the ICBC investment, its subsequent movement diverges significantly from that of the SARB data, for reasons that are unclear, but apparently unrelated to stock market valuation.

presented on a cumulative flow basis, rather than stocks, thus excluding reinvestment of profits and revaluation of assets. Outward investment data are not regularly published, but is available from the IMF CDIS database for 2009 onward.

The share of each country in the other's FDI stocks (both inward and outward) is trivial, well below 1% in each case.¹¹ But there are substantial disparities between the two countries' official data in this case too. Table 4 significantly understates the actual value of Indian-owned assets in South Africa: based on public information, it is estimated that one Indian corporation alone – Tata – had invested about US\$1.6 billion in South Africa between entry in 1994 and 2009 (Gelb, 2009).

This underestimation is likely due to another common distorting factor in official FDI data, the routing of investments via third countries to take advantage of favourable tax treatment. This is a well-known problem with official data for Indian FDI, both inward and outward, which show Mauritius as the source of 41.9% of cumulative inward FDI inflows into India between 2000 and January 2011 and the destination of 13% of cumulative outflows from India, while the figures for Singapore are 9.2% and 38% respectively (DIPP, 2011; Satyanand & Raghavendran, 2010). Both Mauritius and Singapore have long-standing double taxation treaties with India.^{12 13}

Table 5 about here

Table 6 about here

Tables 5 and 6 underline the problem of inconsistency in FDI data, both between countries (across the rows) and over time (down columns), with the SARB data in particular fluctuating widely. The SARB data for South African assets in both Russia and Brazil (column 3 in each table) probably reflects inadequacies in data collection, since assets acquired much earlier appear to be reported only after the Census of Foreign Assets and Liabilities was carried out for end-2011 (SARB, 2013). It is worth noting that Brazil is the only BRIC country which identifies both the immediate and ultimate source and destination countries in its published FDI data, thus obviating the third country routing problem.

South African assets in both Russia and Brazil are dominated by Naspers investments, as in China. Mail.ru, a Russian internet company of which 29 percent was purchased by Naspers in January 2007 (for USD165 million), listed on the London Stock Exchange in

¹¹ In 2010, Indian assets were 0.25% of total foreign assets in South Africa, and SA assets in India 0.17% of SA-owned assets abroad (SARB), while SA owned 0.09% of foreign assets in India (DIPP, 2011) and 0.64% of India's foreign assets were located in South Africa in 2010 (Satyanand & Raghavendran, 2010).

¹² Mauritius is also an important third country route for outward FDI from South Africa, with 9% of total outward stock identified as in Mauritius, but most of that has proceeded on to third countries.

¹³ A second factor which may have impacted on the official Indian data which reflect cumulative flows, rather than stocks *per se*, is the financing of investment with funds raised in the host economy or third economies rather than in the home economy. This issue may also affect balance-sheet data if debt liabilities are attributed to the affiliate rather than the foreign owner (not seen as foreign liabilities), or to a third-country lender.

November 2010, and Naspers' stake was worth USD2.085 billion at end-2010, USD1.58 billion at end-2011 (after the stock price dropped 24 percent over 2011) and USD2.09 billion at end-2012, when the stock price had returned to its end-2010 level. The percentage increase in South African asset stock value between 2011 and 2012 almost exactly matches the 2012 increase in the share price. In Brazil, Naspers purchased 30 percent of Abril, a publishing company, in May 2006 for USD422 million¹⁴ and 91 percent of Buscapé, an internet company, for USD342 million in September 2009, as well as ComparanTime, an e-commerce group, in 2008 for an unknown amount. Though these acquisitions were widely reported in the South African media, they were evidently not captured in the official FDI data before the Census.

The data for Russian assets in South Africa apparently reflect similar problems. As for Chinese assets, there is a single very large Russian investment in South Africa, the partial acquisition by Evraz (in fact registered in Luxembourg, not Russia) of 24.9 percent in Highveld Steel in 2006, the stake then being doubled in 2007. The 2004 and 2005 data are unaccounted for while the drop in Russian assets after 2010 is probably explained by Highveld's lower share price.¹⁵

Summarising this discussion of the official data, the FDI relationship between China and South Africa mirrors the significance of their trade relationship, but that the South Africa-India is much less significant, both compared with South Africa-India trade and with FDI between SA and the three other BRICs. However, various problems – different definitions and data collection methods across countries, substantial asset revaluations over time due to price rises of listed equities, and third country routings distorting source and destination countries – undermine the reliability of the data and vitiate its use for economic and statistical analysis. Furthermore, none of the countries provide cross-tabulations of sector and country (source or destination). Whatever their value for the balance of payments and macroeconomic policy, official FDI data are not very helpful in depicting bilateral FDI relationships, and therefore in evaluating their economic significance.¹⁶ In the next section therefore, we use unofficial firm-level data to present a picture which is both quite different and more nuanced because of the disaggregation.

Section 4. Bilateral FDI links – a different picture using firm-level data

This section provides a perspective on South Africa's FDI links with the BRICs using count data (the number of firms in a category) rather than stock value data. The approach is complementary to the official data, rather than alternative. The section focuses primarily on South Africa's links with China and with India, with a brief discussion at the end of links with Brazil and Russia. Data is presented on the number of investing firms

¹⁴ Abril listed in June 2011, the Naspers stake being worth USD509 million at end-2012.

¹⁵ At end-2007, Evraz's stake was worth approximately USD 360 million, in book value terms, and USD 800 million in market value terms. Highveld's share price peaked at USD24.08 in June 2008, but at end-March 2014, was only USD0.84. In March 2013, it was reported that Evraz planned to sell its stake – now 85 percent – for USD 320 million (moneyweb.co.za, 28/03/2013).

¹⁶ The same caveat must apply to the use of these data in econometric analysis, despite this being extremely common in the literature.

by sector and in total (a stock analogy), on year of entry (a flow analogy) and on mode of entry.

The data is drawn from The EDGE Institute FDI Database¹⁷, which assembles public domain information from investing companies, media reports and other sources, on operations by foreign firms in South Africa and South African firms abroad.¹⁸ As of end-2013, the FDI Database recorded operations of more than 2000 foreign firms in South Africa, together with over 3500 operations outside South Africa of 420 South African corporations. The tables below present count data, the number of investors in a particular category, but do not take account of size, which is often unavailable in the public domain or is reported on an inconsistent basis amongst firms, preventing aggregation. On the other hand, this approach enables analysis of distribution across sectors and modes of entry. The reported presence of firms has been verified via direct contact or careful checking of firms' websites.

Table 7 about here

Table 7 presents the number of firms involved in the South Africa-China and South Africa-India FDI relationships respectively, together with their sectoral distribution. At end-2013, there were 74 Chinese firms present in South Africa.¹⁹ This was an increase of 57 percent from only 47 firms present at end-2010 but was fewer than 0.5% of the number of Chinese firms investing abroad.²⁰

The number of Chinese investors is equivalent to just below 4 percent of the total number of foreign firms in South Africa, a similar proportion to China's share of 3.1% of total FDI asset stocks in South Africa (at end-2012), though the latter figure is predominantly due to a single investor, as discussed. In fact, Table 7 provides a quite different picture than the official stock dollar values in Tables 3 and 4 above. Though the Indian share of the official dollar value of inward direct investment asset stocks was very tiny, just 0.16 percent, and only 5 percent of Chinese-owned stocks, there are considerably more Indian firms present in South Africa than Chinese, though the gap has narrowed since end-2010, when there were double the number of Indian firms present compared with Chinese firms, notwithstanding the disparity in value.

¹⁷ An economic research organization in Johannesburg run by the author between 2001 and 2010; its FDI Database has been maintained after this date.

¹⁸ An operation is included if a foreign-based company owns more than 10 percent, value is added in the host country (sales or representative offices of manufacturing firms are excluded), and there are ongoing flows (of finance, technology, labour, intermediate goods or intangible assets) from the parent company or other associates abroad.

¹⁹ Up to 2010, nineteen Chinese firms had entered South Africa but subsequently withdrawn.

²⁰ According to MOFCOM, at end-2012 there were in total 16000 Chinese firms operating abroad, with 22000 overseas operations in 179 countries (MOFCOM 2013). There is a frequently-cited 'guesstimate' of 750-800 Chinese enterprises operating in Africa, but this probably includes many small businesses owned by Chinese immigrants to the host country, which is strictly speaking not FDI, though it may be termed 'entrepreneurial FDI'.

It is hard to conclude that there is a typical Chinese or Indian investor in South Africa – the investment operations have little in common beyond their home country. The size distribution of investments reflects a very wide range, from very large – ICBC’s initial investment in Standard Bank of over \$5 billion – to very small – the TV producer Hisense investing less than \$1 million at entry. The sectoral distribution is also broad, with the largest share of Chinese firms in infrastructure and construction. There has been much emphasis in the media and the quasi-academic literature on Chinese resource-based investment in Africa, making it perhaps surprising that there are only ten Chinese mining companies in South Africa. Four of these have entered since end-2010 while three of the six Chinese mining companies present at that time have expanded their presence since, two of them re-investing twice. But a total of 56 new foreign investors entered the South African mining industry since 2010, and 28 foreign investors already present re-invested: the Chinese firms remain a small minority within the industry, even amongst new entrants. There are as many Chinese firms in materials processing as in mining, but the former group appears to consist mainly of market-seeking firms including glass, cement, other building materials and plastic waste.

Thirty percent of the firms are in manufacturing sub-sectors other than materials processing. Outside of mining and the two materials processing firms which are export-oriented, the vast majority of firms appear to have entered South Africa for market-seeking purposes, selling into the domestic and regional (Southern African) markets. From the reports on which the data is based and firm interviews, no Chinese firm appears to have entered South Africa to establish an export assembly platform to serve developed country markets, for example in apparel or electronics, which is a common motive for Chinese firms seeking cheap labour resources in other developing economies.

Of the Chinese companies, 37 are state-owned enterprises (SOEs) and 25 privately-owned, while the ownership status of the remaining 10 could not be confirmed. However, the SOE-private distinction “is growing more difficult – and less meaningful” (Wang, 2007:19). The SOE-private ownership distinction may remain significant for natural resource-seeking firms exporting back to China, and for large financial institutions. About a quarter of the SOEs present in South Africa fall into these two categories. The remaining SOEs in South Africa appear to be market-seeking investments, part-owned by provincial or city governments (not the central state), but partially privately-owned via listings on the Shanghai, Shenzhen or Hong Kong stock exchanges. Even before their part-privatisation, firms owned by sub-national governments were subject to very limited *de facto* control by the central state in the domestic market (Montinola et al., 1996; Marukawa, 2001). Notwithstanding their SOE status, it is implausible that all of these firms are part of a coherent ‘China’ strategy in their outward investments.

Looking at the sectoral distribution of the Indian firms, 45 percent are in pharmaceuticals or IT/media (including business process outsourcing and IT services), sectors in which India has well-known capabilities. The remaining firms are broadly dispersed, though twenty-eight percent are in manufacturing (excluding pharmaceuticals), not generally regarded as a strength of the Indian economy. Financial services are primarily ‘market-sustaining’ for Indian banks, serving Indian firms and immigrants. Fifteen percent of the

firms, in mining and in agro- and materials processing, can be said to be resource-seeking and focussed on exporting, usually back to India. The remainder are market-seeking. Of the 115 Indian firms, only eight are state-owned.

As noted earlier, one of India's leading conglomerates, Tata Sons, has very significant assets in South Africa, with a presence in at least nine sectors, including mining, agro- (tea) and materials processing (steel, chemicals) for export, and BPO, tourism (hotels) and automobiles for national and regional markets. Tata established a second fixed line telecoms operator but is now divesting from this. The company first entered South Africa in 1994, establishing a holding company. It already had a presence in several other Southern African countries. Its trajectory in South Africa reflects a long-term strategy from the outset, focused on market exploration and risk assessment. Its first venture was a bus and truck assembly subcontracting operation started in 1998, four years after entry, followed by a joint venture in IT consulting in 2000. Both were low risk, involving small capital commitments and relatively low-cost withdrawal. From 2004, Tata used its conglomerate structure to establish itself across several industries in a short time, initiating 'greenfield' operations in steel, telecommunications and hotels, and a vehicle dealership network via a JV with a major local conglomerate. It also acquired a chemicals trading company and other auto dealerships in South Africa via acquisitions in the UK, but its first acquisition in SA was a local tea processor in 2007. Tata is probably the single largest 'greenfield' foreign investor in South Africa since 1994.

The reverse relationship – South African firms investing into China and India – also appears quite different than the official data. Thirty-six South African firms were operating in China and 54 in India at end-2013, up from 32 and 45 respectively three years earlier. As with inward investment, the India link is larger than China in terms of numbers of firms, with about 13% of South African outward investors having a presence in India, but only 9% in China. Eight of the firms in China are 'emigres', large South African firms which transferred their domicile abroad during the late 1990s. Five of these, plus another nine firms, have investments in both India and China.

The sectoral distribution of the South African investors suggests that the majority are market-seeking, including the mining firms which are the largest single sector represented in China. The sectors strongly represented in one or both countries – mining, materials processing, infrastructure and construction, consumer services, finance, IT/media – are sectors in which South Africa has significant capabilities. The exceptions are four pharmaceutical firms and four IT firms in India, which are strategic asset-seeking investments.

The EDGE FDI Database also allows for identification of failed entries, firms which entered a foreign market but subsequently withdrew.²¹ In addition to the firms present in South Africa currently, twenty Chinese firms were identified which entered South Africa but subsequently withdrew.²² Half of these appear to have been fast-moving consumer

²¹ This may have been for broader strategic reasons than because the entry itself failed, of course.

²² Identifying withdrawals was possible because research began in 2002, and firms' presence was re-verified in 2009-10.

goods manufacturers who established small operations in South Africa during the late 1990s with assistance from the Shanghai city authority. But ‘premature internationalisation’ was not confined to the FMCG sector, as withdrawals include one (privately-owned) bank, a mining company, two engineering/construction companies and three vehicle sales distribution operations. Nor was ‘premature internationalisation’ confined to Chinese firms: seven South African investors have withdrawn from China, of which six are Johannesburg Stock Exchange-listed. In both directions, firms appear to have over-extended internationally, and perhaps assessed risk rather poorly.

In the South Africa-India link, the withdrawal rate is very low: only two Indian firms from South Africa, and 4 South African firms from India. As suggested above, Indian firms appear to take a much more measured approach to entry, with initially small investment enabling firms’ to become familiar with the host market before committing significant resources.

Table 8 about here

Table 8 shows the dates of entry into South Africa for the Chinese and Indian firms, providing a perspective on the flow over time.²³ It is noteworthy that 24 Chinese firms entered South Africa before 2000²⁴, when Chinese outward FDI was still in the early stages of liberalisation, so that South Africa was one of the first foreign markets entered by the companies. Diplomatic relations between the two countries were established only in 1998. Early entries included the brown goods manufacturers and some of the banks discussed in the case studies below, which have been profitable in South Africa, and are still present. But many of the early entrants ‘failed’, an outcome consistent with the characterisation of Chinese outward investment at the time as “weak, unable to take aggressive initiatives...[and] perform[ing] poorly” (Cai, 1999). Chinese firms possibly saw Africa as “the last place on earth to dig gold”, as the Chinese media put it later (cited in Haifang, 2009) reflecting a perception (not necessarily solidly-based) of low risk.

Despite the large proportion of ‘early’ entries, the majority of the Chinese firms have entered since 2006, and the rate of entry since 2011 is much higher than it has been before, about nine firms per year compared with three per year in the previous decade. This is consistent with the acceleration of Chinese outward investment in the wake of the global financial crisis. The most recent period reflects a larger share of mining companies amongst entrants.

²³ Note though that firms may choose to enter new markets via a modest initial investment to limit risk, and make a more substantial investment later when they understand the market better. Several large Indian firms’ entry into South Africa followed this strategy.

²⁴ The 24 entrants include 7 ‘failed’ entries, and there were 12 other failed Chinese entries (19 in total) prior to 2010. Several of the failed entries were small manufacturing operations linked to a holding company, the Shanghai International Investment Corporation (SIIC) owned by the city of Shanghai. SIIC had grand aspirations in South African, reflected in its purchase of a mansion-like low-rise office park in Sandton, Johannesburg’s premiere financial and commercial district, renamed Shanghai House, which by 2009 had a single small suite occupied by SIIC, with the rest of the space rented out.

Indian companies' rate of entry rose after 2000, as for Chinese firms, and doubled between 2006 and 2010 compared with 2000-2005. Indian entry slowed slightly after 2011, from eight to seven firms entering per year. The rise in the rate of entry of Indian and Chinese firms does mean that their share of total flows into South Africa – measured as new entries and reinvestments – has increased significantly. In a 2002 study, India and China provided only 8 percent of new entries into South Africa during the 1990s (Gelb & Black, 2004), whereas a recent analysis found that India and China provided 16.8 percent of 292 new entries between 2011 and 2013²⁵, as well as 35 percent of 110 reinvestments (excluded from the earlier study) (Gelb, 2014). Should the BRICS flow share persist, the stock of foreign companies present in South Africa will of course begin to shift from their current domination by companies from OECD countries.

Looking at the reverse flows from South Africa into China and India, the early (pre-2000) entrants were 'émigré' corporations for whom internationalisation was a priority, such as Richemont, Anglo American, SABMiller and Didata. The bulk of South African entry into China has taken place since 2000, perhaps encouraged by formal agreements between the two countries, but more likely by China's WTO accession and growth acceleration, since the South African companies are all market-seeking, as noted. For similar reasons, the bulk of South African firms entered India between 2006 and 2010, the period when Indian economic growth peaked.

Table 9 about here

Table 9 shows the mode of entry, divided amongst greenfields (new operations wholly-owned by the foreign investor), joint ventures (JVs, new operations jointly-owned with a local partner firm), partial acquisitions (pre-existing operations in which the investor purchases a stake between 10 and 95 percent) and full acquisitions (pre-existing operations now wholly-owned by the investor).

A high proportion of Chinese firms entered South Africa via greenfields: up to 2010, 60 percent of Chinese entries were greenfields²⁶, though after 2010 the share dropped to only 20 percent. This level of greenfield entry into South Africa is very high: amongst all foreign entries between 1990 and 2001, only 31 percent were greenfields while 45 percent were full or partial acquisitions and 24 percent joint ventures (JVs) (Gelb & Black, 2004a). Interviewed in 2002, several Chinese firms identified business networks as a key resource for success in South Africa, and a few had sought unsuccessfully to establish JVs. Early Chinese entrants, without much internationalisation experience, would have had difficulty in establishing links with local firms for JVs or acquisitions, due to language and cultural barriers (Child & Rodrigues, 2005), but this aspect of the 'liability of foreignness' appears to have been moderated for entrants after 2000, especially larger firms entering the auto, mining and construction sectors, amongst whom JVs and acquisitions were far more common.

²⁵ Russia and Brazil added another 1.7 percent, making the BRIC total 18.5 percent.

²⁶ This includes failed and withdrawn firms, of which 8 were greenfield of 12 with known entry mode.

Indian firms entered more commonly through full acquisitions than Chinese, reflecting a greater confidence to operate without a local partner, perhaps due to shorter linguistic/cultural distance. But both Chinese and Indian firms were more likely than firms from other home countries to start new operations (greenfields or JVs) in South Africa, rather than acquire ongoing ones.

Around four-fifths of South African entries into both China and India are new operations of which around half are JVs, predictable given regulatory restrictions on foreign entry in both countries, and the difficulties of operating in either market for South African firms more familiar with 'western'-type institutions. Twelve of the 15 greenfield entries (including withdrawals) in China are service operations in financial services and infrastructure (engineering), including some major South African corporations whose initial Chinese operations were small. Only three began as full-scale producers. Amongst the JVs, half are in mining or material processing, where JVs are common.

The overall picture of South Africa's FDI relationships with China and India provided by the firm-level data is quite different than that provided by official stock value data. In particular, the link with India is much bigger than that with China from the perspective of the number of firms. Indeed the relationship with China is much less significant in South Africa's overall FDI linkages than stock value data suggest, as the linkages are neither 'dense' – they are spread thinly across many sectors in the host country – nor 'pivotal' for any specific sector (though brown goods in South Africa may be an exception, as the case study below discusses). The sectoral distribution of firms suggests that most investments in both directions are market-seeking, rather than natural resource- or efficiency-seeking. The sectoral distribution also confirms that outward investment from all three countries is especially significant in sectors where home country capabilities are more developed, and outward investors have been larger firms (including SOEs in China) who have become 'national champions'. The firm level data also reveals significant rates of entry very soon after 1994, but that these early entrants were characterised by a high withdrawal rate, perhaps due to firms' inexperience in internationalisation.

Table 10 about here

Table 10 provides the sectoral distribution of the SA-Russia and SA-Brazil FDI linkages. As already discussed above, in financial terms Evraz dominates inward investment from Russia, and Naspers the outward investments to both countries. Half of the Russian companies have invested since 2011, and not surprisingly, mining, materials and energy infrastructure firms make up the majority. In contrast to China and India, there are more outward investors from South Africa in both Russia and Brazil, than inward investors. Most of these corporations are South Africa's largest outward investors: 13 of those present in Russia and 20 in Brazil are also present in another BRIC economy. Indeed, of 67 South African corporations (including 'émigré' companies) operating in at least one BRIC country, 28 (42 percent) are present in at least two BRIC countries (6 companies are in three, and 7 in all four). Eighteen of the 28 also invest in the EU and/or the US.

Section 5. Case studies

This section presents three brief case studies looking at Chinese and Indian foreign investors in specific sectors in South Africa, and (in the latter two cases) at South African counterparts investing in China and India. The case studies rely on firm interviews and documentary analysis and make it possible to investigate firms' investment decisions and their impact in both host and home economies more deeply than is possible with either official data on financial flows or stocks, or firm-level data on the number of operations, particularly given the small numbers of firms involved in bilateral FDI links.

(i) Chinese brown goods manufacturers in SA

When research for this case study began in 2010²⁷, three of the five producers in South Africa of brown goods (home electronics such as TV sets and video players) were Chinese companies which had entered the market between 1993 and 1998, well before China's 'go out' (*zhu chou*) policy to encourage outward FDI after 2000. In the interim, Korean, European and Japanese investors as well as domestic firms withdrew from production in South Africa. The case study focussed on why Chinese firms entered the South African market so early, and how they maintained their presence in an apparently declining manufacturing sub-sector. In other words, what are their 'ownership advantages' enabling profitable investment? And what potential do they offer for a revival of activity in consumer goods manufacturing in South Africa?

All three investors – HiSense, SVA and Xoceco²⁸ – are major electronics groups in China, ranked 7th, 10th and 23rd respectively in 2006 in the broadly-defined electronics sector in China (Electronic Business, 2007). Their early internationalisation – before the 'go out' policy – was a response to intense competition in the Chinese TV manufacturing as coordination via the plan shifted towards the market. TV set production only began in China during the late 1970s, but rising consumer demand led to rapid entry into the industry during the 1980s, driven by *de facto* autonomous provincial governments chasing rapid economic growth. Sourcing technology from Japan, China was already the world's largest TV set producer by 1990 (in volume terms). But the intense competition led to significant over-capacity in black and white sets by the end of the 1980s. During the 1990s, foreign entry and the switch by Chinese consumers to colour TV exacerbated the volatile black-and-white set market, leading to price collapses and boom-bust cycles. Thus many firms internationalised to make use of excess capacity.²⁹

The Chinese firms' main activity at the time was their production in China of cathode ray tubes (CRTS, the largest component by value of a black-and-white set) with other key components. Since their products were suitable for the low-priced mass-market similar to China's domestic market, their major ownership advantage was not global, but relative to producers in emerging markets, which became the initial focus of their internationalisation, based on exports from China of key components or assembled sets.

South Africa was seen to have strong market potential in the early 1990s: in 1992, it was the 22nd largest producer of consumer electronics globally but the 13th largest importer,

²⁷ Data referred to in this case is for 2010-11, unless indicated.

²⁸ Xoceco operates in South Africa under the name Sinoprime.

²⁹ This paragraph summarises the excellent account in Marukawa (2001).

with half of local consumption imported (Baumann, 1995). Consumption was expected to grow with housing electrification accelerated in formerly black urban areas with the ending of apartheid. Though the major European producer, Philips, withdrew in 1996 citing the need to consolidate its global production in fewer sites, there was great optimism in the South African industry at the time: Korean electronics companies (Daewoo, Samsung, LG) also started local assembly in the mid-1990s, and Daewoo considered establishing a CRT plant in the mid-1990s as a joint venture with Anglo American, the largest domestic conglomerate, which was not active in the TV industry.

But all the Korean firms withdrew from production in South Africa within five years of the Asian crisis, maintaining their presence via imports and OEM assembly by domestic firms, though the largest of the latter also withdrew into importing. South Africa experienced strong market growth up to 2006, but this was met mainly by imports, as the share of domestic production declined to 35 percent of demand. The problems which characterised the domestic industry from its start in the mid-1970s – at the same time and for the same military technology reasons as in China – remained: lack of competition due to a small number of producer licences being issued; limited technological capabilities as foreign entrants were required to set up JVs with local firms, but not to transfer technology; a small market with few scale economies because exports (into the region) were not encouraged; and unpredictable and unstable tariff policies.

The Chinese producers' initial entry into South Africa was quite modest, but despite these challenges, they have expanded their local operations. Hisense invested only \$0.8 million in 1997, but when Daewoo exited in 2001, Hisense purchased its assembly plant for \$4 million. By 2009, Hisense's investment was worth \$31 million, and it opened a new factory near Cape Town worth \$35 million (still a tiny fraction of ICBC's South Africa investment).

They operate at the low end of the TV market, collectively supplying almost 60% of local set output in 2010, equivalent to 25% of domestic demand. In addition, they have diversified, moving into washing machine and stove assembly. Their parent companies have over the past 20 years developed both their technological and marketing capabilities and are now producing high-end appliances in China, such as flat-screen, high-definition (HD) TV sets, which are imported into South Africa. Two of the three are actively establishing their brands in the South African and other international markets, for example through sports-related sponsorships, and shifting their image from being purely price-based towards affordable quality. This follows a similar path to Japanese and Korean electronics producers in earlier decades.

There has evidently been an 'internalisation advantage' for the Chinese firms, that is, some benefit to producing in South Africa, even in the form of limited assembly. Two other Chinese firms tried to enter market via imports, in collaboration with existing South African firms, but both failed. In contrast, the firms producing in SA claim modest but stable profitability. Even at the time of entry when they had very few international activities, profits were probably less significant for the parent corporation than learning about internationalisation and foreign markets, but it is difficult to assess the latter after

many years. The SA affiliates now comprise a tiny share of overall global turnover, but have survived due to their positive contribution to profits, given frequent large losses by their parents.

The host economy has benefited from higher consumer welfare – retail prices for the Chinese products are about 25% below those of equivalent Korean models – and stable employment for the 1000-strong workforce, an admittedly small number.³⁰ Skills transfer to local employees could increase in the new Hisense plant, but other ‘dynamic’ productivity gains via transfer of technology or spillovers to other firms are limited by the small number of domestic linkages and competitors.

Probably the major impact is the demonstration effect of these firms, showing the potential for profitable and durable investment in South African consumer goods manufacturing. The Chinese firms’ ‘business model’ underlies this, combining low profit margins (around 5-10% of the ex-factory price) in mass-market products and low overheads with access to low-cost production in their home economy of the highest cost components. The relevance of low margins and low overheads is suggested by the plant closure of the largest South African assembler of brown goods in 2009, even though it was importing most components from China. The plant was sold to Hisense and re-opened in 2013, the third expansion of its investment post-entry. Margins and overheads in the typical South African business model are much higher than for Chinese firms, and perhaps too high relative to South African cost structures.

(ii) Financial services in China & SA

Several financial institutions from each country operate in the other’s market: four major Chinese banks have invested in SA, and 3 of the 4 major SA banks in China, as well as two major insurance companies. What is noteworthy, however, is that most of these institutions have formed alliances with a foreign counterpart: three in banking and two in insurance. The case study examines the significant market presence in both directions, and the predominance of alliances, formed to operate in one or other of the South Africa/Africa market or the Chinese market.

Each country has a ‘strong’ financial sector, but their very distinct histories means that financial services firms in each country have different but complementary capabilities. In South Africa, there has been a long history of foreign investment in banking going back about 200 years, while the emergence of mining near the end of the 19th century was accompanied by (and facilitated) by the very early establishment of a stock exchange in Johannesburg. As a result, complex corporate and project financing products has long been part of South African banking, which has thus developed credit and risk management capabilities. The growth of a sizable (initially white) middle class under apartheid created a retail market in which product innovation and cost reduction were crucial in banking, insurance and consumer credit markets, dominated by a few institutions seeking small competitive advantages over each other. Thus South African financial institutions have a broad range of capabilities and skills, but the small market

³⁰ Fewer than 10 percent of workers were Chinese.

size limits their capital base and pushes them to expand their international networks. They have followed three internationalisation strategies since the mid-1990s. Some have followed South African corporate customers in *their* international trade and investment activities, what may be termed a market-sustaining approach. Others have followed a more conventional market-seeking approach, seeking new customers but primarily in other emerging markets. A third group, also market-seekers, have entered industrialised countries.

China's financial sector is very different, its main features being a very large but shallow domestic market in both corporate & retail banking, and state backing (and control) of financial institutions.³¹ The 4 major state-owned banks (three present in South Africa) are young, having been created only in the 1980s via the break-up of the central planning 'monobank'. Given the economy's size, the banks' capital base is very strong, but the product range is narrow, and this, with borrowers' soft budget constraints, has limited the development of capabilities and skills in the sector, for example in risk and credit analysis. Chinese banks have internationalised cautiously – in 2006, only 2% of revenue was earned outside China. Yet two of the 'big 4' entered SA right after the 1998 Asia crisis, at the same time as the major banking reform and recapitalisation which the crisis triggered, with SA being amongst the first countries they entered. China-Africa trade and investment then were extremely small, and the only plausible explanation for their entry is "reverse spillovers", that is, SA was seen as a good 'classroom', with a small but very sophisticated Western financial sector.

Internationalisation of financial services firms requires internalisation, that is, the establishment of a commercial presence in the foreign market. This may be difficult and risky if a firm does not have the full range of requisite capabilities, which may be more likely for 'South' financial institutions than those from the 'North'. In this situation, alliances between two 'South' firms can enable expansion with limited internalisation, as each side complements its own O advantages with those of their alliance partner. When the alliance is to operate in a developing country context, a 'South' partner has an additional advantage in its familiarity with the operating environment and risk assessment.

Thus the choice of 'South' alliance partners is usually intentional. Jiang Jianqing, ICBC's Chair, indicated that its partial acquisition of Standard Bank of SA would support "ICBC's ambition to expand into investment banking, private equity and insurance," since half of Standard Bank's profit was derived from these activities (Financial Times, 25 October 2007). Similarly, Ping An entered an alliance with Discovery, the SA health insurer for its move into health insurance in the Chinese domestic market, *after* exploring links with American firms. The South African firm is supplying technology and skills needed by the Chinese partner, in a pattern similar to many manufacturing industries in China.

³¹ This paragraph draws on Naughton (2007), chapter 19.

This case shows the potential for collaboration between South African firms and firms from other BRIC countries in ‘infrastructural’ industries, where South African firms have strong capabilities.

(iii) Pharmaceuticals in South Africa and India

There is significant two-way investment in the pharmaceutical sector, with 23 Indian firms in South Africa (one-fifth of Indian firms), and three SA firms in India (including the two largest). As before, the contrasting sector histories in each country are reflected in firms’ motives for investing and their relative “O” advantages: whereas the Indian firms are market-seeking, the South African firms are strategic-asset seeking.

Up to 2000 there were just two Indian pharmaceutical firms in South Africa, where the market was small – total turnover was \$2.1 billion in 2000 – and bifurcated – the private sector comprised 80% of demand (Gelb, 2004). Exports were tiny – only \$50 million in 1999 – due to low purchasing power in the potentially large market in the rest of Africa. Supply was dominated by industrialised country (‘patent’) manufacturers with 70% market share, with the rest provided almost entirely by South African generics producers (foreign generics had just 1%). ‘Patent’ manufacturers had produced in South Africa for several decades – some (Roche, Eli Lilly) as early as the late 1930s – but from the 1990s these firms consolidated their global production in a few locations – plant investment costs were high due to scale, technical complexity and the need for regulatory compliance. Given its market size and (the perception of) a weakening regulatory environment, South Africa was not a strong candidate for a global production site and operations were increasingly restricted to packaging of bulk imports, local regulatory compliance for products, and marketing. Manufacturing capabilities in South Africa were limited despite the sector’s long history: almost no local production of active pharmaceutical ingredients (APIs), and almost no local supply of the specialised technical skills required for pharmaceutical plant construction and operation.³²

The Indian market was of course very large, and served mainly by domestically-owned generics producers. Fierce competition ensured that very low production costs translated to very low market prices. The Indian Patent Act of 1970 excluded product patents and limited process patents to 7 years, making it legal to imitate existing drugs (both on- and off-patent), rather than develop new drugs or chemical entities.³³ As intended, this encouraged domestic producers, who increased from about 2200 in 1970 to over 16000 in 1993 (Fink, 2000), supplying 70% of the Indian market, and exporting about one-quarter of output. India already had a strong pharmaceutical skills base by 1970, which grew stronger with the industry. Indian firms were not *global* technology or brand leaders, but domestically-built capabilities were sufficient to enable a few to begin internationalising

³² For example, in 2008, there was only one specialist consultant engineer in SA in air flow control, a key feature in pharmaceutical plants.

³³ R&D spending as a share of turnover was lower in the Indian pharmaceutical industry than for Indian industry as a whole (Fink, 2000).

in the early to mid-1990s, entering both emerging and industrialised country markets³⁴, underlining the relative rather than absolute nature of ownership advantages.

Before 2000, only two Indian firms *invested* in SA, establishing local compliance and distribution teams for their imported products, a common entry path in the industry. Ranbaxy, the first Indian entry in 1997³⁵, outsourced sales and did little brand-building until 2001, when it established a local marketing team. It was then ranked only 53rd in South Africa amongst generics, which collectively supplied 30 percent of the market. Indian entry after 2003 was rapid: by 2008 there were 20 firms present, seeking market given the daunting public health issues in South Africa and the region. Only seven entered via greenfield, the majority coming in by joint ventures or acquisitions aiming to leverage the local market knowledge of South African companies. Despite Indian firms' cost advantages relative to Western ('patent') producers and technological advantages over domestically-owned generic producers, market share growth was slow as firms needed to build their own brands and the credibility of Indian-made drugs in general.

In 2006, nine years after entry, Ranbaxy became the 5th largest generics company in the SA market by purchasing BeTabs, a local manufacturer which had a larger market share than Ranbaxy. Significantly, Ranbaxy kept the target firm's brand. This was first time since the 1970s that a foreign pharmaceutical firm had begun local production in South Africa. Two other Indian firms already present in South Africa (as well as two SA-owned generics) competed with Ranbaxy to acquire BeTabs. Before Ranbaxy could start production, it needed to upgrade the BeTabs plant which proved slow and uncertain due to local skills shortages.³⁶ Tellingly, neither the losing Indian bidders for BeTabs nor other Indian pharma companies have initiated local manufacturing since 2006, and there has been no Indian entry into South African pharmaceuticals since 2010. Expected local manufacturing growth has not materialised, with local production plants experiencing excess capacity, and market growth was disappointing.³⁷

Despite the significant number of Indian firms in the sector in South Africa, the overall impact of the FDI has arguably been limited, and certainly insufficient to shift the South African pharmaceutical industry onto a new trajectory. There has been some skills and technology transfer, but perhaps the more significant impacts have been via horizontal spillovers – increased competition for local producers spurring their own outward FDI - and forward linkages – lower drug prices – as western patent companies have acknowledged that the Indian presence in South Africa was a factor in their voluntary licensing of drugs for major communicable diseases.

³⁴ Ranbaxy obtained US FDA approval for its plant in India in 1988, and established regional headquarters in both the US and UK in 1994. Dr Reddy's Labs, only set up in 1986, set up manufacturing in the Middle East in 1993 and the US in 1994.

³⁵ Ranbaxy had submitted its first dossiers to the regulatory authority in 1993-94, and opened a South African office in 1997.

³⁶ Ranbaxy brought in personnel from India to carry out the process, which inevitably slowed it down and raised costs.

³⁷ In mid-2012, the SA market was worth only \$2.5 billion, 1.44 percent per annum growth since 2000 (ZAR growth was 5.3 percent in nominal terms).

Turning to investment in the opposite direction, Aspen and Adcock-Ingram, the largest South African generics, have both invested via JVs in production facilities in India, seeking both strategic assets (capabilities) and efficiency (low cost production). Aspen's Indian JVs, for production in India of cancer drugs (initially established in 2003) and HIV/AIDS drugs (2005) for export back to South Africa, were an important step in building its capabilities and supporting its entry into Latin America in 2007³⁸, followed by acquisitions in the US, Europe (Germany, Netherlands) and Australia. Though its Indian JVs – both now ended³⁹ – were just two of several alliances that Aspen leveraged in its rapid rise into the top ten generics producers globally, these were its first foreign production activities. It purchased or obtained voluntary licenses from several western patent producers (GlaxoSmithKline, Eli Lilly, Merck, AstraZeneca, Boehringer Ingelheim, Bristol Myers Squibb and Roche). Its link with GSK was especially important, and in 2009 GSK bought a 16 percent stake in Aspen.⁴⁰

Adcock's manufacturing JV in India was set up in 2007, and the firm has since expanded in India, opening a regulatory office and purchasing a mid-sized marketing company (ranked 55th in India) with a broad domestic presence. These subsequent investments were market-seeking, but leveraging off the earlier asset-seeking activity, which also supports market expansion in Africa (Ghana and Kenya) and its home economy. Both Adcock and Aspen are now focussed on internationalisation, targeting increased shares of revenue outside South Africa.⁴¹ In sum, it can be argued that the South African investment in India has perhaps been of greater importance to the South African sector than Indian investment in South Africa, by contributing to the technical and cross-border management capabilities of its leading firms, despite their relative insignificance in the Indian market.

Section 6. Conclusions

In its examination of South Africa's bilateral FDI relationships with the other four BRICS countries, this paper has shown that inconsistencies in and inadequacies of the official FDI data result in its having limited descriptive value in describing the size and composition of the bilateral relationships, and this in turn severely restricts its analytical value for investigating the motives for or impact of FDI. Given that official aggregate financial stock and flow data provides a very partial picture, the paper underlines the importance of firm-level data (even in count rather than value form) as an essential complement. This shows the dominance of one or a few large investments in the FDI

³⁸ Initially via an acquisition in Brazil from one of its Indian partners.

³⁹ Aspen sold both profitably to its JV partners, the HIV/AIDS plant in 2008 and the cancer drug plant in 2010.

⁴⁰ The GSK stake is now 12.4 percent, with Aspen valued at about \$1.5 billion.

⁴¹ In 2013, Adcock was the target of a \$1.2 billion bid by Chilean firm CFR Pharmaceuticals, seeking to leverage itself into the African and Indian markets. Reflecting the attractiveness of Adcock's distribution presence in Africa and its spare production capacity in South Africa, this attracted a competing and ultimately successful bid by South African conglomerate Bidvest, which had no prior presence in pharmaceuticals.

relationships examined, a feature which is likely to be common in bilateral FDI relationships between developing countries. Once the FDI picture is ‘corrected’ by looking at the firm-level data together with the official data, it is evident that (from a stock perspective) South Africa’s FDI relationships with the other BRICS economies are much more modest than its trade relationships, though from a flow perspective – new entries and reinvesting companies – the BRICS’ significance has risen sharply in recent years since the economic crisis, as has been the case for trade flows.

The paper confirms that outward investment is relatively concentrated in sectors where the home economy has relatively-well developed capabilities, while also underlining the importance of outward investment in the further development of those capabilities. In addition, the financial services and pharmaceutical cases underline that there are important complementarities in key sectors supporting capability development and internationalisation of firms when BRICS are both home and host economies.

The paper also points to a contrast in firm strategies and behaviour between Chinese and Indian investors, with Indian firms appearing much more cautious and risk-averse than many Chinese firms when entering South Africa, notwithstanding the smaller cultural distance faced by the former. The strategy described above for Tata was quite common amongst Indian firms, an initially small fixed asset commitment followed by a long period of increasing familiarity with the host market, and the market’s familiarity with the investor and its brands, before an increase in committed resources. A few Chinese firms have followed a similar strategy with success, for example, Hisense and FAW, but the market presence of Chinese firms appears to have been more volatile overall.

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Note on sources

The FDI Database used to produce the tables in Section 4, and the case studies in Section 5, both make extensive use of newspaper reports on companies, which has been verified wherever possible via company websites and/or interviews with management. Both the latter sources have also provided much additional information. It has not been practical to

list each report used or the many dozens of interviews carried out over a period of several years, but are available from the author.

Newspaper online archives

Business Day
Business Report
Engineering News
Financial Mail
Financial Times
Mining Weekly

Company websites

Abril
Adcock-Ingram
Aspen
China Construction Bank
Dr Reddy's Labs
EcoBank
Hisense
Mail.ru
Naspers
Ranbaxy
Standard Bank
SVA
Xoceco

Interviews

Amap
Aspen
Dr Reddy's Labs
Be-tabs
Discovery Health
Golden Nest
Hisense
Ranbaxy
Standard Bank
Sinosteel
SVA

Tables

Table 1. South African trade with BRIC & other selected countries (USD billion),

	2012				2007		2002	
	SA Imports	SA Exports	Total trade	Surplus/deficit*	SA Imports	SA Exports	SA Imports	SA Exports
	M	X	X + M	X - M	M	X	M	X
China	14.64	10.14	24.78	-4.50	8.6	3.48	1.37	0.45
India	4.60	3.67	8.27	-0.93	1.78	1.31	0.28	0.36
Brazil	1.67	0.79	2.46	-0.88	1.66	0.49	0.47	0.17
Russia	0.20	0.41	0.34	0.21	0.56	0.14	0.09	0.04
<i>BRIC total</i>	<i>21.11</i>	<i>15.01</i>	<i>36.12</i>	<i>-6.10</i>	<i>12.57</i>	<i>5.42</i>	<i>2.21</i>	<i>1.02</i>
EU	29.17	17.38	46.55	-11.79	26.86	20.58	11.13	8.80
Germany	10.24	4.17	14.41	-6.07	9.30	4.83	4.09	1.78
US	7.49	7.59	15.08	0.10	6.12	7.38	3.05	2.39
<i>World</i>	<i>101.61</i>	<i>86.71</i>	<i>188.32</i>	<i>-14.90</i>	<i>79.89</i>	<i>67.38</i>	<i>26.22</i>	<i>26.58</i>

Surplus (+)/Deficit (-) for South Africa

Source: 2002, 2007: SA Department of Trade & Industry, www.dti.gov.za

2012: WITS (World Integrated Trade Solution) database, www.wits.worldbank.org

Table 2: Composition of South African trade with BRIC, EU & US economies, 2012
Percent of SA exports to/imports from each trading partner

2012	China	India	Brazil	Russia	EU	US
SA Exports to						
Mineral products	76.3	67.1	22.7	15.7	20.8	9.9
Base metals	11.5	17.4	26.0	4.2	12.1	15.2
<i>All other products</i>	<i>12.2</i>	<i>15.5</i>	<i>51.4</i>	<i>80.2</i>	<i>67.1</i>	<i>75.0</i>
SA Imports from						
Machinery	42.7	11.6	13.9	13.1	29.6	33.3
Textiles & apparel	10.4	3.8	0.8	0.1	0.9	0.6
Base metals & related	7.9	5.5	4.9	16.0	4.9	2.9
Chemical & allied	6.1	12.7	3.2	35.6	13.2	13.4
Vehicles	3.7	18.7	7.7	0.2	15.7	22.7
Mineral products	0.6	32.2	7.1	5.1	4.3	4.0
<i>All other products</i>	<i>28.6</i>	<i>15.5</i>	<i>62.3</i>	<i>29.7</i>	<i>31.4</i>	<i>23.1</i>

Source: WITS (World Integrated Trade Solution) database, www.wits.worldbank.org

Table 3: Official FDI data, South Africa & China (USD million)

\$ mill	FDI into SA from China			FDI from SA into China	
	<i>Stock</i> SARB	<i>Stock</i> MOFCOM	<i>Flow</i> MOFCOM	<i>Stock</i> SARB	<i>Flow</i> MOFCOM
2000	109	n.a.	n.a.	0	n.a.
2005	54	112	47	684	106 (67)
2007	70	702	454	4898	69 (38)
2008	2876	3049	4808	3126	26 (22)
2009	4604	2307	42	13744	440
2010	5616	4153	411	13992	463
2011	4369	4060	-14	12774	363
2012	5077	4775	-815	20284	327

Sources: *Columns 1 & 4*: SA Reserve Bank; *Columns 2 & 3*: Ministry of Commerce, China (figures in brackets are number of projects); *Column 5*: 2005-2008: private communication to UNCTAD from Ministry of Commerce, China (figures in brackets are number of projects); 2009 -2012: Coordinated Direct Investment Survey, (CDIS), International Monetary Fund, Washington, www.imf.org

Table 4: Official FDI data, South Africa & India (USD million)

\$ mill	FDI stock into SA from India		FDI stock from SA into India	
	SARB	RBI & various sources	SARB	DIPP India*
2002	18	22	1	n.a.
2007	80	44	2	68
2008	86	140	41	75
2009	307	209	126	104
2010	378	217	160	110 (20)
2011	235	217	183	112 (23)
2012	220	180	203	120 (152)

Sources: *Columns 1 & 3*: SA Reserve Bank;
Column 2: 2002: Premila Nazareth Satyanand and Pramila Raghavendran, "Outward FDI from India and its policy context", Outward FDI Profiles, Vale Columbia Centre, September 2010
2007: Jaya Prakash Pradhan, Indian direct investment in developing countries: Emerging Trends and Development Impacts, IISD for UNCTAD, June 2008
2008-2009: Ministry of Finance, Government of India, personal communication, August 2010
2010-2012: Reserve Bank of India, personal communication, April 2014, of data submitted to Coordinated Direct Investment Survey (CDIS), International Monetary Fund (www.imf.org).
Column 4: Ministry of Finance and Department of Industrial Policy & Promotion, Government of India, Monthly fact sheets on FDI, various issues. (Figures in brackets for 2010-12 are CDIS data for India inward stock from SA Downloaded April 1 2014 from www.imf.org).

Table 5: Official FDI data, South Africa & Russia (USD million)

\$ mill	FDI stock into SA from Russia		FDI stock from SA into Russia	
	SARB	Bank of Russia	SARB	Bank of Russia
2002	0	n.a.	0	n.a.
2004	1221	n.a.	0	n.a.
2005	1753	n.a.	0	n.a.
2007	0	n.a.	0	n.a.
2008	0	n.a.	42	n.a.
2009	730	34	22	15
2010	1064	35	67	12
2011	385	34	2482	8
2012	140	35	3434	9

Sources: *Columns 1 & 3*: SA Reserve Bank, except column 1, 2012 from Coordinated Direct Investment Survey (CDIS), International Monetary Fund (www.imf.org); *Column 2 & 4*: Bank of Russia

Table 6: Official FDI data, South Africa & Brazil (USD million)

\$ mill	FDI stock into SA from Brazil		FDI stock from SA into Brazil	
	SARB	BCB	SARB	BCB
2002	15	n.a.	2	n.a.
2007	31	n.a.	5	n.a.
2008	25	n.a.	44	n.a.
2009	27	n.a.	84	n.a.
2010	57	21	91	156
2011	77	15	569	379
2012	42	124	718	422

Sources: *Columns 1 & 3*: SA Reserve Bank QB, except 2012 from CDIS; *Columns 2 & 4*: Coordinated Direct Investment Survey (CDIS), International Monetary Fund (www.imf.org).

Table 7: Sectoral distribution of firms, South Africa-China and South Africa-India

Percent of firms in column	China in SA	India in SA	SA in China	SA in India
Mining	14	7	22	6
Consumer goods	6	7	8	7
Materials processing	13	9	11	4
Electrical/electronic machinery	10	3	0	0
Automobiles	7	6	0	0
Other machinery	6	3	11	0
Infrastructure & construction	21	4	19	17
Consumer services	6	5	6	22
Finance & business services	14	8	17	17
IT/media	4	25	6	20
Pharmaceuticals/healthcare	1	20	0	7
Conglomerates	0	2	0	0
Total	100	100	100	100
Number of firms end-2013	72	115	36	54
Number of firms end-2010	45	93	32	47
Disinvestments	20	2	7	4
Reinvestments	15	25	n.a.	n.a.

Source: The EDGE Institute FDI Database

Table 8: Date of entry of firms, South Africa-China and South Africa-India

Percent of firms in column	China in SA	India in SA	SA in China	SA in India
Before 1994	5	1	14	0
1995 – 1999	17	10	8	4
2000 – 2005	15	24	44	33
2006 – 2010	24	46	22	48
Since 2011	36	16	11	13
Unknown	3	3	0	2
Total	100	100	100	100
Number of firms end-2013	72	115	36	54
Number of firms end-2010	45	93	32	47

Source: The EDGE Institute FDI Database

Table 9: Mode of entry of firms, South Africa-China and South Africa-India

Percent of firms in column	China in SA	India in SA	SA in China	SA in India
Greenfield	44	36	42	35
Joint venture	33	39	39	43
Partial acquisition	17	2	17	9
Full acquisition	3	23	3	9
Unknown	3	0	0	4
Total	100	100	100	100
Number of firms	72	115	36	54

Source: The EDGE Institute FDI Database

Table 10: Sectoral distribution of firms, South Africa-Russia and South Africa-Brazil

Number of firms in column	Russia in SA	Brazil in SA	SA in Russia	SA in Brazil
Mining	4	1	6	6
Consumer goods	0	0	0	2
Materials processing	2	0	3	3
Electrical/electronic machinery	0	0	0	0
Automobiles	0	1	0	0
Other machinery	1	1	1	0
Infrastructure & construction	2	1	1	3
Consumer services	0	0	2	0
Finance & business services	2	0	0	4
IT/media	0	0	2	5
Pharmaceuticals/healthcare	0	0	0	1
Conglomerates	1	0	0	1
Number of firms end-2013	12	4	15	25
Disinvestments	2	0	1	n.a.
Reinvestments	1	1	n.a.	n.a.

Source: The EDGE Institute FDI Database

Appendix

Table 3a: Naspers & ICBC shares of FDI stocks in China-SA link

	Tencent share price: USD	Naspers holding in Tencent: USD mill	Naspers holding in Tencent: % SA FDI stock in China	Naspers holding in Tencent: % SA total OFDI stock	Standard Bank of SA (SBSA) share price: USD	ICBC holding in SBSA: USD mill	ICBC holding in SBSA: % China FDI stock in SA
2005	1.07	664	97.1	1.76	n.a.	n.a.	n.a.
2007	7.18	4451	90.0	6.76	14.46	4411	n.a.
2008	6.45	3999	119.6	8.01	8.76	2671	92.92
2009	21.76	13 493	98.2	18.59	13.82	4326	93.96
2010	21.99	13 634	97.4	15.25	16.21	5156	91.81
2011	20.06	12 438	97.6	12.82	12.22	3891	89.05
2012	32.22	19 979	98.5	17.87	14.00	4509	88.80
2013	62.31	38 630	n.a.	n.a.	13.85	3983	n.a.
03/2014	69.14	42 869	n.a.	n.a.	12.00	4270	n.a.

Source: Share prices – <https://www.google.com/finance>; shareholdings – company annual reports; asset stocks – SARB *Quarterly Bulletins*.