Impacts of China's investments in South Africa

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Abstract

South Africa's increasing international importance has attracted China's interest and both countries intensified their cooperation in the past decade. Especially economic relationships were strengthened and became a highly debated international issue. This study attempts to investigate this increasing bilateral relation by exploring the aspect of Chinese foreign direct investment (FDI) in South Africa and examines whether the cooperation is as exploitative and asymmetrical in favor of the Asian power as often stated. The Chinese investments in terms of their benefits and costs for the South African development are examined and this is used to either confirm or reject the negative mainstream assumptions about the possible exploitation and dangers for South Africa's autonomy through economic dependencies.

First a contextual introduction provides general knowledge about the Chinese-South African relations, foreign investments, markets and the current international debate on the topic. The main focus of the study is defined to lay on the impacts on human development and economic benefits; a second aspect is the investigation of created (inter)dependencies and political power increase through the investments.

A deductive approach is used to test the main liberal assumptions about positive influences of FDI in general. Furthermore is investigated, whether the Chinese FDI has exceptional features, like strategic political influences, which would make additional theoretical frames necessary. This paper utilizes a "case study" to test the theoretical basis and for the operationalization a detailed indicator set is used, including indicators regarding the activities of Chinese firms in South Africa.

The data collection entails an amount of general data, giving insights about FDI volume and composition, Chinese companies' impact towards South Africa's labour market, skills development and legal compliance, as well as some comparative aspects including other African nations. Furthermore is a sample of Chinese companies, operating in South Africa, examined and the main information about them depicted.

This data collection is analyzed first with regard to the liberal notions and is valued in terms of whether it is less positive for South Africa's development than other comparable foreign investments. Besides that is also examined, whether Chinese companies have "unfair" competitive advantages and through this harm South Africa's local industry and in a more broad context, whether the Chinese firms operate

in a political manner that facilitates dependencies and is aimed towards the increase of China's political power.

The findings were extremely divers, apart from the statement that the investigated material was often found to be unreliable. This draws a diverse picture and it is concluded that the impacts of Chinese activities vary according to industry sector and company size. It seems that in several cases the Chinese investments might lack behind the positive expectations, but are far away from a harming or exploiting structure. Additionally is found that the Chinese companies seem to have some monetary advantages, due to government support. This appears to be unpleasant for other foreign companies, but not for local firms. It is concluded that no coherent strategy for political power increase can be reasonably assumed, although certain governmental preferences are supported by policies.

However, one of the most interesting outcomes of this study is the observation, that the extensive media coverage and excessive discussion is inappropriate in relation to the importance of the issue. The matter of Chinese FDI in South Africa seems to be way less relevant, than the misrepresentation makes one assume.

This study concludes that some aspects of this issue need a further, more detailed investigation, to generate a holistic picture of the bilateral relationship and it is pointed out that the pure focus on FDI cannot be seen as representative for the whole cooperation.

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1 Introduction

1.1 Problem field

Chinas engagement on the African continent and especially in the sub-Saharan African region has been a debated issue for decades now (Kaplinsky et al. 2007, Tull 2006, Zafar 2007). The unique relationship to South Africa is an interesting matter, since the bilateral relationship between China and South Africa changed in the past years dramatically: China became in 2009 South Africa's number one trading partner (Reuters 2009)[1] and briefly after, in 2010 invited China South Africa to join the "BRIC" grouping of emerging economies (Herskovitz 2010), which South Africa followed in 2011 (Niu 2011: 12). Furthermore are several agreements and cooperations on their way and political ties are increasing (Xinhua 2010). The emergence of forums to better the understanding among the partners and the intensification of diplomatic structures show stable bilateral relations (Ballim 2012, Niu 2011, Rotberg 2008).

So South Africa, as one of the "newly emerging economies", and China, the rapid growing nation, are expanding the bilateral ties in terms of political and economic cooperation (Bowker 2008). This intensification of a bilateral relationship is an internationally highly relevant issue and raises new questions about implications of the relation. This relationship between the two countries consists of several features, like trade, investments and political cooperation (Zafar 2007) and one of the most crucial aspects here is the engagement through foreign direct investments (FDI). Particularly interesting is hereby the impact on South Africa as "smaller" partner in this cooperation.

Several studies stated that the FDI composition in sub-Saharan Africa has crucial impacts in terms of its GDP growth and development increase. Some studies examined Chinese investments and its influence on GDPs and other economic incentives. However, there are currently not many investigations about the specific impacts of Chinese investments in South Africa and it seems like a crucial matter to understand the FDI composition, since its relevance is important for the understanding of whether this aspect of Chinese engagement is a benefit or a threat for the South African economy.

[1] China replaced Germany after long years of leading position as number one import partner and the USA as number one trading partner.

1.1.1 Problem formulation

Due to the relevance of the topic the research question for this paper is: *"What are the observable impacts of the Chinese direct investment for South Africa's development?"*

This question drives the investigation about benefits and costs of the Chinese engagement and in specific seeks to point out whether and, if so, in which terms the investments are beneficial for South Africa. The investigation focuses on academic questions regarding development and economic interdependencies. It is the purpose to investigate intended and unintended impacts of FDI and hereby confirm or reject current mainstream assumptions, especially about assumed harm for South Africa's autonomy and economic dependencies. It is aimed to find out whether the Chinese FDI is special and has different impacts compared to other investments[2]. It is examined whether there are special characteristics[3] given and the implications for South Africa are identified.

For a strategic research the introduced research question only determines the investigation in a broad sense and later introduced hypotheses define the conceptual approach of data collection and analyses. The hypotheses are generated as a combination of existing theoretical notions and the state of the current debate[4]. However, to create a holistic frame the investigation will take place on the basis of two different assumptions:

1) *"Chinese FDI has little, or less positive impacts on South Africa's national economy in comparison to general assumptions about FDI; especially in terms of human capacity development."*

2) "*The Chinese FDI has negative influences on South Africa's national economy, since it strategically facilitates dependencies due to political power interests and harms the local economy through "unfair" competition."*

The overall goal will be to investigate whether and which of these hypotheses is evident, according to empirical data. It is crucial to investigate and conclude about the reality an observable content of these statements.

[2] This is introduced in detail in the hypotheses in the chapter of the conceptual frame.
[3] Like amount, strategic location, quality, and more
[4] more detailed description in the following section

1.1.2 Scope

This research is from scientific relevance since, both nations are important international actors and their relationship is therefore a concern of the international community. Especially South Africa has increasing international importance and became the key player in sub-Saharan Africa (International Monetary Fund 2012), its international activities and mandates increased over the past years, whereby it gained power to express its own interests. South Africa is interesting as it seems to be a self-determined actor and rather independent (Niu 2011, Nkoana-Mashabane 2012). Besides that are investigations regarding China crucial due to its extreme economic growth and its international political activities[5]. Another main point of the interest is the curiosity about the "reality" and "confirmability" behind some negative public statements about the Chinese engagement in South Africa.

However time and formal constraints restrict this study and so only certain aspects of the phenomenon are investigated. It unfortunately excludes determining issues like political cooperation, trade and aid. Additionally is this study only focused on the investments in South Africa and not vice versa. Furthermore would have been beneficial to extend the scope to other sub-Saharan countries to identify here differences.

To solve the papers problem in a sufficient manner the approach for this study is: First an introduction about the overall strategic orientation is given, which includes the concepts and perspectives of the study. The next steps entail the generation of research hypotheses, on which basis a structured data collection follows. After this empirical data are interpreted according to introduced concepts and the validity of the theories is analyzed interpretation (Bryman 2012). Finally the conclusion gives a summary about the findings, explains the results and generates the final statements of the study. The conclusion is focused on the rejection or verification of the papers hypotheses, as well as on the theoretical explanatory power, significance and informative power of the study.

1.2 Definitions[6]/ basic understanding terms

To investigate FDI related issues some general economic terms have to be defined to generate a common ground of knowledge and understanding. These explanations include, a brief description of the basic structure of a national economy and the definition of *"foreign direct investment"* (FDI), including its different types, features and implications.

[5] G20

[6] These include general and no theoretical definitions, so an introduction before the theory section is useful.

1.2.1 Economy

An overview about economic concepts is necessary to generate a basis for the further investigation, especially to identify structures and impacts of FDI in an economy:

"Economy" is described as the unity of all institutions like companies, private and public budgets as well as all necessary procedures, like sales and purchase, which are related to the production or wastage of goods (Pollert et al. 2009); or is defined as a *"(...) multidimensional concept that refers to a system of capital accumulation through the production, exchange, distribution, and consumption of goods and services involving economic structures, organizations, and actors competing for power and hegemony"* (Sullivan 2009a: 169). An economy can be divided in different industry sectors, which vary in composition between countries. Generally four[7] main sectors are distinguished (Investopedia 2013, Luthra 2013b, Rosenberg 2007):

- **"Primary sector"** including**:** Raw material extraction, raw material packing and processing; basic food production, which means agriculture, forestry, hunting, fishing
- **"Secondary sector"** including**:** Manufactures goods (processed goods), activities like metal works and engineering industries (automobile, textile and construction)
- **"Tertiary sector"**[8] **("Service Sector")** including**:** Services for society and businesses like retail and wholesale sales, and financial services (banking, insurance), healthcare, legal system and so on
- **"Quaternary sector"** including**:** All intellectual activities like education,

This division varies in different scientific models but it is crucial to understand the basics of synergies and linkages of an economy. For example others identify additionally the following sectors: like *energy*, which includes low-cost and stable energy supply as a major factor and *construction*, and finally *transportation*, which describes as the mobility of goods and people (DESTATIS 2013). These concepts help to identify the main industries, and interrelations, monetary flows, production cycles and external influences

Another categorization is the differentiation between the sectors by the fact of ownership, or supplier: The *public sector* including services and institutions provided for free and the *private sector*, which

[7] Some include a fifth sector which comprises high level decision makers of industry and government.
[8] In most developed and developing countries, a growing proportion of workers are devoted to the tertiary sector.

defines usually all industries and services provided by private companies (this is the focus of this study) and finally the "third sector" including industries and services which are semi-public, meaning they are supported by the government, like social services, water, electricity or public transport[9]. These distinctions are useful to identify different industry types, to build categories for the later investigation.

Besides that are certain industries claimed to be from "strategic" importance for a nation and these are crucial economic features. These vary and are determined by the country's economic composition. Some identify "strategic sectors" as the basic services like communication, transport, and energy, which are seen to be necessary for any further economic activity (Ibarra-Colado 2009). Accordingly the importance of sectors varies due to the extent to which they are needed, meaning sectors, which are essential for the whole economy, like electricity or similar, are highly relevant in a specific country.

The linkages between industries, private households and politics are building the foundation of a "national economy" and it is crucial to understand national economies, since this enables in the following an insight in structural influences of the Chinese FDI in South Africa.

[9] Varies between countries

1.2.2 Structure of a market economy

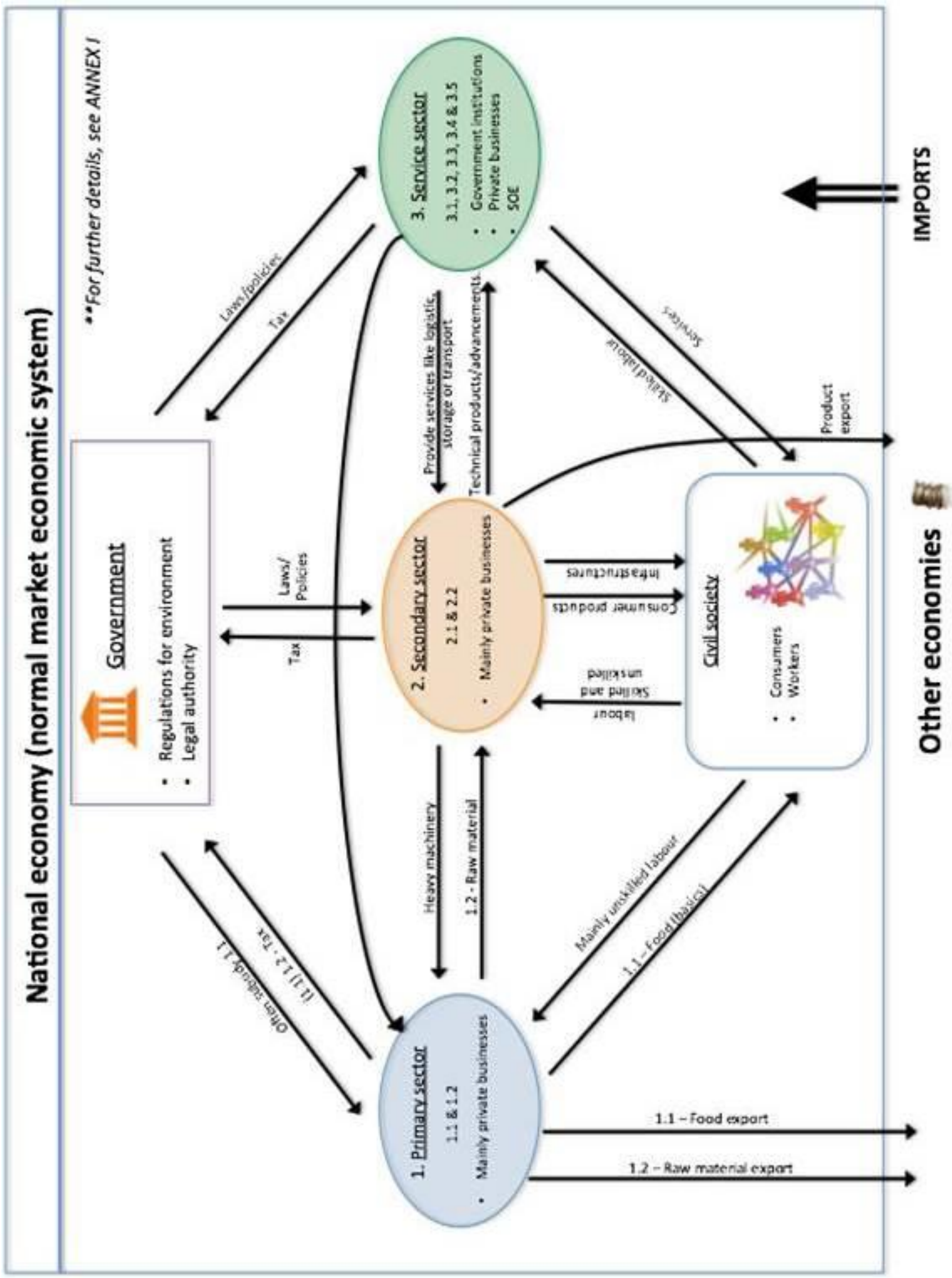

Figure 1: Basic linkages in a market economy. These connections are crucial for the understanding of the location of FDI in a market structure. The main focus of this study lays on the sectors 1.2; 2.2; 3.5 (see ANNEX I)

1.2.3 FDI

Foreign direct investment is a specific form of investment, it is defined as *"(…) the monetary value people or businesses put into a business activity, company, or financial institution in order to make a profit"* (Murphy 2000). An investment is also understood as "*an asset or item that is purchased with the hope that it will generate income or appreciate in the future"* (Sullivan 2009b: 273) and the *foreign* direct investment is the type of investment, which is done from one national economy to another, so *"(…) the investment in an entity in one economy by an investor in another economy"* (Reiter 2008)[10]. It is, so to speak, an investment over national borders.

FDI, as most other forms of investment, provides certain control[11] over an acquired asset for the investor[12]; the extent of this control varies according to the type of shares and their value. There are several types of FDI, which include equity and non-equity investments.

The main equity forms of FDI are:

- *"greenfield investments"* which are investments in a new facility
- *"mergers"*, where assets and operations of two firms with different origins form a new entity through combination
- *"acquisitions"* where assets from a local entity are transferred to a foreign investor

Non-equity forms are:

- Subcontracting, management contracts, turnkey arrangements, franchising, licensing, and product sharing

After this introduction of the forms of FDI the main focus for this paper will lay especially on the equity forms including mergers and acquisitions (M&A) and greenfield investments. Today's composition of FDI is mostly M&A of already existing firms and less greenfield investments. Most FDI is located in the developed nations. However, in the general notion about FDI this differentiation between types is

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[10] Firms as sources of FDI are so called multinational or transnational corporations (MNCs), which can have budgets that even exceed those of countries (Reiter 2008).

[11] Control of an asset is defined as the ownership of minimum 10% of shares or voting stock in an enterprise (OECD Benchmark).

[12] This is distinguished from "foreign portfolio investment" (FPI), which describes investment in foreign financial instruments.

crucial, since differences in investments determine impact on an economy. Generally greenfield investments are seen as the most positive type of investments. The attraction of FDI apart from the influence on the economy is important, since FDI is accounted in countries "balance of payments", which are important in the international statues of a nation.

The measurement of FDI is undertaken in two ways: one is the "FDI flow" and the other the "stock of FDI". The first describes the volume of FDI in a determined area over a given time[13] and entails three components: 1) equity capital[14], 2) reinvestment[15], 3) intra-company loans (input from the parent company); while the "stock" refers to the total amount of foreign-owned assets at a certain time (Reiter 2008). These can be applied two ways: inward, which means data from recipient or host country, or outward, which implies measures at the FDI source, the home country.

"MNCs are the major source of FDI –they generate about ninety-five percent of world FDI flows" (Accolley 2003: 5). Accordingly is an investigation about FDI usually an investigation about foreign MNCs in a country or a region, or the investigation of one specific MNC in various countries. The home base of an MNC (which is not always easy to identify due to strong international ties) is usually considered to be the country where it was founded and where a substantial proportion of its activities are located, or its origin (Walter and Sen 2009: 173).

1.3 Current debate

1.3.1 Existing academic literature

The debate about Chinese engagement all around the globe and especially in Africa increased due to its unique economic growth and its increasing international engagement and importance (Shambaugh 1996, Tull 2006). Its great demand for raw materials and its therefore apparent increasing activities on the African continent became a highly debated issue. Academic debates examined and discussed various aspects of this emerging relationship and so it became a rather controversial topic.

The general debate is dealing with political questions, economic issues and growth matters; especially aid, trade and investments and bilateral cooperations are the focus of debates and new studies. Many studies are concerned with aspects of Chinese influence and so merge observations from different nations and/or different features of engagement to gain a general insights and validity (e.g. Gilroy et al.

[13] Usually one year
[14] Shares of the enterprise
[15] Of the earnings from the entity

2005, Padayachee 2010, Rotberg 2008). This can be helpful to generate a holistic understanding, but this can be extremely misleading in single cases and as Nick Young (2007) points out for Africa: *"(…) Africa is a vast and diverse continent that does not easily lend itself to useful generalisations or, indeed, to a single policy. There is a world of difference between Angola and Egypt; and nearly all African countries themselves encompass considerable ethnic and linguistic diversity"*.

Furthermore are the investigative approaches highly diverse, since some focus on economic or political phenomena, or on rather ideological matters and explanative concepts. In many cases even various approaches are combined, which can make it difficult to understand results and conclusions (Young 2007). Many used data are diverse and sources are not explained in detail, what often results in incomparability (Botha 2006: 18).

In addition seems the material to this debate often determined by many controversies, by which some seem to be biased, prejudiced, or ideologically driven. The discourse frequently entails debates about the origin of the investigating academics, whereby especially Western scholars are often criticized for negative statements about Chinese activities. For instance is stated that *"(…) typical (for Western observer) is the widespread suspicion that China must be up to no good"* (Young 2007). This is described as *"(...) hypocritical for Western states to be concerned about how China is approaching Africa when they have had centuries of relations with Africa starting with slavery for centuries and continuing to the present day with exploitation and cheating"* (Prah 2006).

On the contrary, some scholars (including many African academics) also claim concerns about extremely negative impacts of China's engagement. These critical voices claim serious damage for development, economic growth, democracy and human rights (Askouri 2006, Jenkins et al. 2012, Tull 2006).

All this shapes a controversial and sometimes even emotional debate, which includes a great extent of ideology and moral values. The different interests are influencing the discussion, which makes the matter itself even more interesting.

1.3.2 South Africa and China

An introduction about the South African relationship to China is inevitable to generate a basic understanding of the various perspectives on that issue. According to many observers increased the cooperation between the two countries in almost all dimensions over the past decades (Zafar 2007) and this partnership seems to become even more important in the light of recent political changes in South

Africa (Marais 2012)[16]. China became recently relevant for academics and the potential international impacts are discussed by a many scientists (Wasserman 2012).

Especially "Western" observers claim a strong shift of South Africa towards China, which is claimed to be potentially dangerous and exploitative. Many studies claim that the Chinese competition would harm the South African economy in a serious way (Jenkins et al. 2012) and refer for instance to *"the loss of 77 000 South African jobs and $900m in revenue from trade (…) to the influx of Chinese products into Africa"* (van Zyl 2012), or even claim the destruction of a whole industry sector to be a result of the engagement.

Additionally some approaches of the South African government are criticized by observers: *"South Africa's apparent current strategy of bending backwards to appease China, is raising the spectre of undermining hard-fought democratic gains by allowing the Asian dragon to buy up all the strategic sectors of the economy. This will only lead to a new form of colonialism (…)"* (Gumede 2013). Especially a too intense reliance on the Asian financier is seen as possible negative for the nation: *"South Africa must make China work hard for the money, so too must other African countries"* (Gumede 2013).Others value the circumstances as positive for South Africa's economic future and assume that this economic cooperation is a promising approach for the development (Langeveldt 2011). It is seen as a way to finally abandon the "ineffective" Western development aid.

However, surprising is that some scholars claim no real significance in the bilateral cooperation and the recent changes. It is often declared that the relevance of Chinese engagement in South Africa's economy is rather low: "*China's footprint in the Africa is still not nearly on the same scale as that of the principal Western states*" (Sautman and Hairong 2007 in Young 2007).

1.3.3 Debate about FDI

Most debates are concerned with bilateral trade and its impacts, or Chinese "aid", which includes often the so called interest-deducted loans[17] and debt releases (Anshan 2008: 32f), hereby the latter is partly included in this study. However, FDI is often only seen as an additional feature and not as an independent aspect (Gelb 2010). Only few affords were made to investigate the constellation and

[16] *"If there are investors who stay away because they feel that we don't have old-style, dated, antiquated bilateral investment treaties in place, I can assure you there are plenty of other investors from other parts of the world who are happy to come and don't insist on this."* Trade and Industry Minister Rob Davies after South Africa terminated an investment treaty with Belgium and Luxembourg when it expired.

[17] A Chinese loan system introduced in 1995

structure of Chinese investments and even less to identify the main implications and causes for South Africa. Some studies provide quantitative assessments, but give no evidence about positive or negative implications for the development of South Africa.

Apart from this lack of insights, the general investigation of FDI in developing or emerging economies is comparatively advanced, but the impacts of FDI are often controversial debated in the academic sphere (Loungani and Razin 2001). Two main notions can be divided: Either FDI is assumed to increase development, facilitates economic growth and can be a major driver for regional integration and global participation; or it is seen as critical issue that might harm local and national economies of developing nations[18] (Loungani and Razin 2001).

Investments, the type of investments and investors are seen as crucial aspects for every economy and are understood as immensely influential in the international community. However, the current Chinese investments are describes by many scholars as potentially exploitative towards African economies, but there are hardly studies found which focus exclusively on FDI and single African nations.

It seems remarkable that especially the Chinese FDI is often identified as threat and that even supporter of the positive FDI notion appear skeptical about the Chinese activities (Salidjanova 2011). Nevertheless some scholars point out that China invests under different circumstances and so a number of projects are only implemented due to this engagement.

The questions which are arising out of this discourse are: How much dependency and reliance on one partner is advantageous[19]? To answer this it is important that data are collected and strategic investigations about the importance of the Chinese engagement are carried out.

[18] The theoretical basis for this debate is introduced in the following chapter.
[19] *"It appears that there are huge expectations within the South African government that China may become a big financier in the R850 billion infrastructure roll-out. If foreign finance is sought, it would be an absolute folly for South Africa not to seek financiers across a large spectrum of emerging markets, including the old industrial powers, rather than just Chinese finance alone, because this will imprison South Africa to Chinese whims."* (Gumede 2013)

2 Methodology

"A set or system of methods, rules, and principles employed by a given discipline that govern how research is conducted." (Sullivan 2009c: 325)

This section introduces the overall research strategy and analytical approach and it describes how the investigation is aimed to answer the papers question in a scientific, comprehensive manner. It determines the course of action assures a comprehensive framework and entails the chosen meta-concepts. Furthermore it justifies the choices and lays the foundation for the operationalization of research and hypotheses. It assures the creation of scientific linkages between theoretical concepts and the real world phenomenon. It is additionally dealing with the constraints and limitations of this work and explains possible shortcomings in terms of scope and content.

2.1 Research orientation and strategy

The research in this paper acknowledges, that only *constructed* pictures of reality can be achieved through social research and that the gained "knowledge" is created through perspectives, notions and values and does not provide an objective description of an independent existing reality[20]. So the overall strategy is aligned to the acknowledgement, of shifting paradigms, understanding and perceptions.

The strategic approach for this study is aligned to theories and concepts given by relevant literature and so the research strategy is depending on existing theoretical backgrounds. First it has to be stated whether a study follows an inductive, or a deductive approach, what describes whether it aims to generate an own theoretical conception (*induction*), or aims to validate an existing conception (*deduction*). If there is not much theoretical work available an inductive approach would be sufficient, but are already adequate theoretical basis given deductive studies seem more appropriate. So it is crucial to align to the present knowledge to prevent the investigation to repeat existing understanding and to facilitate rejection, confirmation or enlargement of the present academic stand.

The theoretical groundwork for this topic seems rather sophisticated; especially in regard to FDI, development and economic relations. Several empirical studies exist, which provide a basis for an operationalization[21]. Hence this study follows a *deductive* research structure, which is characterized by Norman Blaikie (2004) as *"a process used to derive particular statements from general statements"*. Accordingly only the meta-theory streams are abstract and the sub-branches are more concrete and so

[20] This statement can be also valued in terms of an ontological and epistemological tendency.
[21] see next Chapter

enable a sufficient investigation. So this paper uses the existing theories and is aimed to generate insights about their validity. It uses the theories to draw conclusions from the real world problem through the deduction of hypotheses from a relevant theory, which is than contested thorough relevant data: *"Testing such a hypothesis is assumed to be a test of the theory itself"* (Blaikie 2004).

The strategy has to be clarified in terms of data generation and requirements towards the material and interpretative methods. So a decision about a *qualitative* or *quantitative* course of action[22] is crucial, since it determines the findings. Most deductive works are aligned to *quantitative* research, as this is adequate to validate theories (Bryman 2012: 36). However, this study will follow a qualitative approach, even though this is rather exceptional (Hale and Astolfi 2007: 201, Sandelowski 2004), but the flexibilities of a qualitative approach are here needed, since for the analysis a qualitative interpretation is more useful. However some of relevant data sets are quantitative, which are not excluded, as it is neeeded.

The first step to address the papers problem is to generate a basis on which the hypotheses are built and therefore an overview about the current debate about China's influence and risks for South Africa is given. This is combined with aspects of the theory, what is the basis for the generation of the hypotheses. It is crucial to combine existing "knowledge"[23] like theories and observations about the specific phenomenon (Bryman 2012: 25), to ensure that the hypotheses are in a scientific scope, but also consider real world assumptions.

This approach implies some limitations for the investigation, but entails also crucial advantages: A deductive approach gives the possibility to investigate a phenomenon on the basis of an agreed[24] notion, which leads to the use of verified structures and has usually a clearly determined scope so it is less likely to draw distorted conclusions. Additionally contains a deductive approach an inductive feature in its survey about the theoretical basis.

[22] The general understanding divides in the quantitative approaches which use predominantly measurements of quantifiable data for the investigations; while qualitative strategies focus more on the interpretation and on less quantifiable data (Bryman 2012:35).
[23] In this case referring to approved concepts and notions (Bryman 2012).
[24] Among a certain group of academics

2.2 Design

After the outline of the general orientation of the research, the research strategy, the next steps are to identify the research design[25] and usually strategies and designs are strongly aligned. The problem formulation shapes the research design, since it implies a territorial scope as unit of interest (South Africa) and it identified the main actors of interest (China and South Africa)and it partly determines sources, types and relevance of data.

The most useful design seems to be a "case study", which is a *"detailed and intensive analysis of a single case (…) (and) (…) is concerned with the complexity and particular nature of the case question"* (Bryman 2012: 66). So it deals with impacts of a specific phenomenon and is often used for inductive approaches, but it can also generate valid results in deductive studies (Bryman 2012: 70ff, Hammersley 2004). Case studies can *"impl(y) (...) the collection of unstructured data, as well as qualitative analysis of those data"* (Hammersley 2004), which is a benefit for this investigation.

The so called "case" is per definition the unit of investigation and is here defined as "the South African nation" including its economic and political features. This is a rather "large" unit, especially since usually it is rather an institution or a single community, but possible as Martyn Hammersley (2004) points out. Another problem for case studies (especially within a deductive approach), is the generalizability of case studies, since one case might not be representative to any further cases (Bryman 2012: 69). This implies that the findings might not be transferable or lack general "validity".

However, this investigation aims to generate insights about theoretical concepts whether these are evident in theis rather exceptional context. So it gives insight about the phenomenon and generates a basis for following studies. Therefore the design is aligned to the so called *"extreme"* or *"unique"* case studies as described by A. Bryman (2012: 70).

2.3 Theory requirements

For the theoretical basis the following choices were made and what requirements the theoretical concepts have to fulfill: First the l requirements imply a "problem solving approach" to ensure an understanding of the matter in its given social system and enable conclusions in a useful context.

[25] The methods and tools are described in a later part due to strong dependencies on successive information.

Secondly, there is a need for a theoretical frame, which takes in particular economic relationships, national economical sovereignty and influences into consideration. Besides that the theoretical frame which focuses on impacts of FDI is most useful for this investigation.

A more detailed introduction about the concrete research strategy and methods is given after the introduction of the theories and concepts, since the generation of the conceptual frame and the methods for data collection and analysis have to be in alignment to the chosen theoretical basis.

2.4 Data and sources

Certain requirements for material and data sources have to be met, especially since the papers context makes data collection comparatively challenging, so some parameters had to be set: The data have to be reviewed critical, since many scholars claim reliability problems. It seems that certain information is not published, or is highly doubtable (Gelb 2010) and since this study is relying on only secondary data (what is unfortunately inevitable), the assessment of the information has to be more detailed. It would have been preferential to generate own data, or at least confirm the findings with primary data. To generate a sufficient data pool the collection of material was carried out based on following features (see Annex II):

The authors' origins[26] are identified and taken into consideration, their position and academic background was assessed. The purpose of the material is examined and a distinction between company papers, newspaper articles, academic papers or government statistics is made.

Furthermore is the data foundation of sources examined and whether these can be seen as reliable (according to other academic sources). Additionally, an assessment whether further material or events give evidence about reliability and whether causal chains and drawn conclusions are in alignment to comprehensive approaches. It is also depicted how correlations are generated and whether these are critically assessed and other possibilities are taken into consideration. Furthermore ideological, emotional or similar biases are pointed out, when observed.

So the main determination for the sources in this context can be seen on two levels: First defined by the reliability of the used data, like statistics and other and, secondly, the interpretation of these; is a crucial lack of reliability observed in one of these levels this has to be pointed out and taken into consideration.

[26] This is only taken into consideration, when it seems to be an important factor for the findings or statements of a source and is in the Annex II identified and explained.

The detailed findings are described in the Annex II. Some data are used, but the limitations and their origin have to be taken into consideration.

2.5 Limitations

The scope and, as mentioned above, the data collection of this paper are limited in several aspects. Next to the limitations of the narrow scope, which were mentioned in the introduction, also the strategic and methodological aspects are limited or limiting for this study. An extension in the observation time would have been beneficial to investigate changes over time. The limitations of a deductive strategy are that the study relies on the existing theoretical knowledge, what can result in a restriction of observations, due to the pre-defined scope, what might prevent a holistic research. Besides that, studies focus often on a limited number of the theoretical aspects, which could prevent the finding of correlations.

The main methodological constraints are due to the given need to investigate the phenomenon as "single case study", whereby more and additional approaches might have been useful, but beyond capacities devoted to this paper.

For instance "quasi-experimental evaluations" (in smaller scale like on company basis), would be an extremely beneficial for a comparative problem solving. Also designs dominated by observations, interviews, opinion panels could have been a useful assed. A cross-sectional design or a multi case study would have been an interesting choice since these could focus on more than one case and it could include a great amount of data (Bryman 2012: 58). Unfortunately this would be beyond the time and space frame of this paper.

An additional limitation is that some material appears comparatively unreliable and often no other (better) source could be identified; so some data were less reliable than they should. This could have been at least limited within a more extensive time frame and the possibility for the collection of primary data. Furthermore an additional quantitative approach could have been a great benefit for the investigation for instance.

Other limitations are detected in the other sections of the paper and are hereinafter always identified. It is important that limitations in scope, data, material or analysis are defined when they occur to give an impression about limiting aspects.

3 Theory

"Theory, at its simplest, is reflective thought" (Brown and Ainley 2009: 7)

The following section will give an insight about theories and concepts this study uses to investigate the introduced problem. In social science theories are used to create frameworks that simplify reality, to enable analyses of the world, which are at the same time complex enough to generate reliable outcomes (Jackson and Sørensen 2007). Theories are abstracted ideas of understanding the world, or parts of it under certain (determined) circumstances. To set events in scientific contexts these concepts (theories) are needed to achieve common academic understanding. Theories ensure a comprehensive structure for understanding, explanations and analyses (Savigny and Marsden 2011).

Furthermore they introduce academic definitions to ensure common understanding of terms, which is necessary for every analyzing process. Definitions are essential since *"(…) there are virtually no areas in social science where (…) universal consensus can be relied upon (…)"* (Brown and Ainley 2009: 2). Besides that, any analysis of a social phenomenon is determined through specific perspectives[27] which are crucial for the interpretation of data. Consequently, the choice of theory is crucial for every study since it identifies its focus areas (Jackson and Sørensen 2007: 54).

3.1 International relations as research field

The introduced problem of this study has a variety of aspects and features and therefore many different perspectives would be suitable. It is crucial to choose a basis for this research to ensure an investigation of different aspects of the complicated reality (Jackson and Sørensen 2007: 56).

The academic field for this study is the "International Relations" (IR) discipline[28], which contains various theoretical approaches to investigate all kinds of international matters. IR is an interdisciplinary frame[29] and is defined[30] as the academic field which is concerned with *"diplomatic-strategic relations of states"*, or generally speaking: *"the study of relations about cross-border transactions, including economic and political matters"* (Brown and Ainley 2009).

[27] In the field are several meta-theoretical positions applied like "positivism", "realism", "constructivism" and more (Brown and Ainley 2009: 19).
[28] There is a still ongoing debate about IR as an own discipline.
[29] Some academics claim different distinctions but agree on its interdisciplinary approach.
[30] Only a selection of definitions is introduced.

The roots of the field in disciplines like history, economics, politics, law and philosophy have generated a multidisciplinary approach (Daddow 2009: 55). IR mostly deals with interdisciplinary subjects including economic interdependencies and international organizations (Jackson and Sørensen 2007: 30), so it provides a comprehensive basis for this study.

According to Jackson and Sørensen (2007), IR contains four main theoretical streams[31]: "Realism" (Neorealism), "Liberalism" (Neoliberalism), "International Society" and "International Political Economy" (IPE) (including Marxism). Other scholars exclude IPE and "International Society" as main theories and substitute these with other categories (Viotti and Kauppi 2010: 11, Daddow 2009: 102ff).

Traditionally, many approaches were concerned with war and peace and power related aspects in an inter-state context[32] (Jackson and Sørensen, 2007). IR concepts have arisen from events in the real world and seek to provide an understanding of international processes. A new approach emerged as soon as another failed in its explanative capacities.

However, due to the focus of this specific research, about Chinese investments in South Africa, an economic theoretical basis must be the starting point and the level of analysis is the "interstate state and national level" with a clear focus on South Africa's national system (Viotti and Kauppi 2010: 9). Accordingly, the choice for an overall theoretical foundation is the international political economy (IPE).

3.2 Introduction to IPE

An introduction of the theoretical basis of IPE is necessary to ensure common knowledge for the later analysis. The following section describes the analytical streams of IPE and builds the theoretical frame of this paper.

The studies of "International Political Economy" (IPE) are commonly defined as the study of *"(…) linkages between economic and political activities at the level of international affairs"* (Cohen 2007: 197). It emerged out of two former separate fields: *"Although politics and economics have been studied separately for analytic purposes and as academic disciplines (…), it has long been recognized that economic factors shape political decisions, just as political factors may have a decisive influence on economic choices"* (McClelland and Pfaltzgraff Jr. 2013). Others define IPE as *"the management of economic issues through the state"* or as theory explaining markets and states as arenas for

[31] Many scholars deny the distinction, however it seems useful for this specific introduction.
[32] For example "feminism" and "international law" are new approaches.

(international) political action (Savigny and Marsden 2011: 198, Caporaso and Levine 1992: 1). Its key components are the market, the state and the society, but the assumptions about the interrelation vary (Savingy and Marsden 2011). Its traditional approaches vary in notions about the quality of the correlations between politics and economics.

Robert Cox (2011: 121) states for IPE that there is a "problem-solving (functional)" and a "critical (systemic)" theoretical approach[33]. Cox claims that this difference is caused by the varying purposes of theoretical concepts: The previous one seeks to investigate problems within a given system, while the latter is focused on problems of the system itself. While the "formal approach" uses mainly economic models and frameworks to investigate political activities[34], the "topic approach" focuses more on the international system (Savigny and Marsden 2011: 197).

Another differentiation is the assumptions about quality and composition of the relationship between politics and economics. Some claim, that politics (in form of policies and regulations) is the determining feature and shapes economic performances; others see the economy as main driver, which influences the political activities. The third approach is a middle way, which acknowledges asymmetric interaction between both features; today almost all IPE scholars agree on interdependence, but claim different emphasizes.

The main IPE approaches are *"Mercantilism"*, *"Economic Liberalism"* and *"Marxism"* (Universalium 2013). All of them have historical traditions and are highly aligned to meta-concepts of IR. A general overview is given to increase understanding of the different notions:

The traditional *"Mercantilism"* today also known as "economic nationalism" (is closely linked to the realist conception), focuses mainly on the power struggle between states (Jackson and Sørensen 2007: 181ff). It supports the assumption, that a strong economy benefits a state in this competition. So it implies that "economic activity" is, or should be, subservient to the interests of the state (McClelland and Pfaltzgraff Jr. 2013). Its main assumptions are that states need a strong economy to remain powerful in an anarchic international setting and this must be preserved by the protection of key industries, what can include tariffs and subsidies. Mercantilists generally deny the assumptions about

[33] This distinction can be made in general for IR concepts, Cox (2011) focuses on IPE related approaches.
[34] Majority of its aligned studies have a positivist perspective and use quantitative and statistical economical methods (Farrell and Finnemore 2011: 54).

“common interest” and “mutual benefit”[35], what drives them to a “protectionist” economic view (Jackson and Sørensen 2007: 182).

Another approach is *“Economic Liberalism”,* which supports a positive notion of the international system, and claims that the international stage will eventually be dominated by “interdependence” and the global economy is assumed to be a “positive sum game”, where all actors will eventually gain the same benefit and an equal distribution of wealth is predicted.

It developed traditionally the notions about positive “free trade” and the policies of “laissez-faire“[36]. Today’s economic liberalism shares its classical roots the view that economic growth is maximized through “free trade” [37] but it supports certain political interference. Economies are seen as autonomous entities and its main assumptions area positive view on human beings and mutual gain from free exchange and trade between nations and these exchange increases interdependence which leads accordingly to cooperation and prevents war. This view is today’s mainstream approach and is adopted in policy decisions and is supported by many academics[38] (Brown and Ainley 2009, Jackson and Sørensen 2007).

The third approach, “Marxism” emerged as a critique on the liberal perspective and rejects the notion that the capitalistic system is a beneficial system for the common economic development. It was based on Karl Marx assumptions about class struggle (McClelland and Pfaltzgraff Jr. 2013, Universalium 2013). It is based on the assumption that a social class clash, triggered by the capitalist system, would result in a revolution, which would eventually overthrow the system (Jackson and Sørensen 2007: 189ff). Its main assumptions are that the capitalistic system is expansive and international relations are determined through competition and conflict and a “non-integration” in the system is seen as an option to protect national interests.

3.3 Description of development approaches

According to the introduced requirements for the theoretical framework “IPE” is the main concept. But the choice between its main approaches can only be made with a closer look on their economic aspects

[35] Describes the notion that the world system is meant to balance itself in a positive sum game
[36] Meaning: no government intervention
[37] As a result it supports the establishment of free-trade organizations (McClelland and Pfaltzgraff Jr. 2013)
[38] The recent debate between “economic nationalists” and “economic liberals” focuses mainly on whether states should comply or repel economic globalization.

especially the concepts of “development”. This is inevitable, since economic impacts are commonly judged in terms of (economic) “development”.

“Development” is defined as *“(…) processes of economic and social change that improve the living conditions and choices of people (…). It would be wrong, however, to assume that development is something that occurs only in poor countries or that is directed only at poor people. Development happens everywhere, all the time (…)”* (Corbridge 2010). It is often understood as “economic development” which is a *“process whereby simple, low-income national economies are transformed into modern industrial economies”* (Krueger and Myint 2013). Generally speaking it is *“a change in a country’s economy involving qualitative as well as quantitative improvements”* (Krueger and Myint 2013)[39].

Hereby the classical IPE approaches use the same conception of “development” and focus on economic changes, whereby new approaches include more features like distribution, welfare, democracy, freedom and more (Jackson and Sørensen 2007: 210). However the introduced definitions show that the focus on development is suitable for this study and so different perspectives on development and on what facilitates or inhibits it are examined.

3.3.1 Economic liberalism and development

The main branch within the “economic liberalism”, concerned with development, is the “Modernization Theory”. This is claimed to be a “Western” perspective on the means by which states can or should better their economic and social situation. The overall aspect of this branch is the “modernization” in a sociological context, which generally refers to an advanced status of society, which is claimed to be linked to the national economic performance and vice versa.

The change or “positive transformation” is, according to this theory, multifaceted and includes culture, psychology, politics and intellectual patterns, as well as economic and technological aspects. It focuses on the process of industrialization, which implies an increase in division of labour, economic and technological advancements, which should lead to an increase in efficiency and therefore to competitiveness. However, this concept identifies mostly endogenous factors for development or underdevelopment of a state. Modernization is claimed to be the driver of international engagement, which is the basis for global interdependence and so for peace (Evans and Newnham 1990: 252).

[39] Economic development is for many academics tantamount for “economic growth” (GDP per capita) (Krueger and Myint 2013)

This paper will focus on the concepts, which identify the demands for modernization in terms of economic related aspects, as an inclusion of sociological, psychological aspects would be too extensive.

So the main political components for "modernization" are seen in the integration in the global market sphere and "growth promoting" policies. Accordingly "open trade" and "foreign direct investment" are seen as positive influences on the economic development[40]. The main concepts focus on technology and skills transfers, so an international exchange and large investments in modern industrial sectors are seen as inevitable (Jackson and Sørensen 2007: 203).

3.3.2 Marxism and development (structuralism)

As critique on the "Modernization Theory", emerged the "Dependency Theory", which was influenced by Marxist thoughts and so focused on the *systemic* aspects of development. The causes of poverty and underdevelopment are claimed to lay in the global capitalist system. It states that the *"(t)hird World countries, in the periphery of the global capitalist system are poor and underdeveloped, because they are exploited by the advanced capitalist countries in the core. Their major problem is dependency on the core countries"* (Sørensen 2011). This set of thoughts claims almost exclusively exogenous factors as reasons for underdevelopment and some radical scholars promote even an exclusion from the global economic system, to avoid exploitation through dominant wealthier states (Jackson and Sørensen 2007: 205). It claims that the gap between mainly producers of primary products and the producers of manufactured commodities lead to inequality[41] (Brown and Ainley 2009: 164).

This position implies that politics are in charge to "protect" the domestic economy and to avoid, as far as possible, import of manufactured products. The focus of nations should be on the import of new technologies and capital goods[42] (Brown and Ainley 2009: 165).

3.3.3 Mercantilist and development

The Mercantilism is also an approach driven by the idea of economic growth and development. In recent years, this view became an influential stream for a new understanding and reviewing of "classical" notions of development. It emerged out of the previous rather inflexible notions about development.

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[40] Modernization Theory formed the expression of the "competitive advantage" which claims international competition is necessary to increase efficiency and to find a nation's "best" (most competitive) industry (Brown and Ainley 2009: 160).
[41] So different commodities have different economic value and this assumption is today mainly a consensus and no longer just a notion of this theoretical branch.
[42] Also commonly agreed favorable economic constellation.

Especially radical assumptions about always beneficial state interaction, or the counter perspective "exclusion from the global economy", gave a rise to new more flexible approaches.

Most of them declare a middle route to be the best solution for national development: Mercantilists claim a need for state intervention and some protectionism for national industries, but also promote that too much restrictions are negative, due to bureaucratic failures. Also exclusion from the global economy is seen as counterproductive for any development and progress (Jackson and Sørensen 2007: 207).

Scholars claim that a moderate strategy ensures economic growth and global competitiveness. Especially in terms of free trade and foreign investments, the mercantilist view, is moderate and diversified. It accepts FDIs as possible opportunities benefitting development and technical advancement, but also as note that it can include possible threats to the domestic industry. Foreign companies are seen to either dominate and suppress industrial improvement of national companies through their advantages; or increase working efficiency, technological advancement and skills development of local firms through business linkages (Jackson and Sørensen 2007: 207). This perspective has many varying concepts and these are highly diverse in emphasis, notions and extend.

3.4 FDI specific theory

The previous introduced theories help to understand the different conceptions about the world, political economy and finally also development. However, to gain an explicit theoretical frame these branches are still too broad and more narrow approaches are needed. Positively is to mention: *"Nowadays the issue of foreign direct investments is being paid more attention, both at national and international level. There are many theoretical papers that examine foreign direct investments (FDI)'s issues (…)"* (Denisia 2010: 104).

Most theoretical conceptions include several economic linkages and combine hereby trade, foreign direct investment and sometimes "foreign aid" in terms of effects on development. However, for this paper notions and frames about FDI will be the parameters, but since some of the trade and FDI matters are highly interrelated and hence this study might be slightly limited in this specific regard.

3.4.1 Causes for FDI

Reasons and causes for FDI are not the main focus of this paper, but certain aspects have to be identified, to ensure a common understanding of foreign investment structures and determinants. This is needed for the analytical part and to be able to distinguish the notions about FDI from the Chinese investments.

Today's scientific debate about causalities of FDI did not reach any consensus yet, but achieved some common ground. It is an agreed condition (from a macroeconomic perspective) that *"foreign firms must possess certain advantages that allow them that such an investment to be viable"* (Denisia 2010: 105). Apart from this there are several features identified to play a role for FDI: The main reasons can be summarized as *"(a)n investor's motivation for acquiring or establishing foreign assets fall into three primary categories: FDI may be an effective way of gaining access to a foreign market or to valuable foreign resources, or it may be an effective way of reducing the cost of operations. But these incentives may be mitigated by potential risks due to uncertainty in the political and economic environment of the host country or the openness of the country to FDI"* (Reiter 2008).

Political determinants are claimed to be for instance taxation, trade barriers and regulations for monetary transactions; other potential issues are markets and production costs (Walter and Sen 2009: 179ff). These notions led to today's policies, which aim to attract foreign investments; however the extent to which these are determining investments is not commonly agreed and academic studies and assessments show differing results.

According to Walter and Sen (2009), a differentiation between *horizontal* and *vertical* FDI determines the interests of MNC's. *Vertical* FDI is an investment *"by a firm to establish manufacturing facilities in multiple countries, each producing a different input to, or stage of, the firm's production process"* (Dictionary Central 2013b). Horizontal FDI is aimed to *"(…) establish manufacturing facilities in multiple countries, all producing essentially the same thing but for their respective domestic or nearby markets"* (Dictionary Central, 2013a). The first is considered as "cost-seeking" investment and the latter is described as "market-seeking", which is used to enter new (often protected) markets, or to increase its market-share and to gain more demands. For both is the main driver profit maximizing activities.

The vertical FDI is recently increasing, since companies tend to fragment their value chains in order to decrease costs, so this kind of FDI is mostly bound to developing countries, where physical labour is comparatively cheap (Walter and Sen 2009: 194ff).

3.4.2 Concepts of FDI impact

A lot of research has been made in order to examine drivers, reasons and causes for FDI, but this gives no evidence about its impacts. Most studies just assume FDI to be beneficial for development (Denisia 2010). Hence, a great number of policy advices have been generated in order to support FDI and to hereby "ensure" sustainable development (Dupasquier et al. 2012). And in this context the OECD (2002) stated that *"(t)he overall benefits of FDI for developing country economies are well documented. Given the appropriate host-country policies and a basic level of development, a preponderance of studies shows that FDI triggers technology spillovers, assists human capital formation, contributes to international trade integration, helps create a more competitive business environment and enhances enterprise development. All of these contribute to higher economic growth (…)"*

However, some years later some of these positive assumptions were modified and relativized especially by several academics: *"Although the classical theory seems to paint an overwhelmingly positive picture about the benefits that can be derived from FDI, empirical evidence on the subject is mixed"* (Kebonang 2006). Some scholars claim a great lack of evidence for positive correlations between FDI and development; others even claim negative implications for host countries. The most agreed statement is the gained understanding that *"(t)he conclusion reached after several empirical studies on the relationship between FDI and economic development is that the effects of FDI are complex"* (Denisia 2010: 104).

There are of course some rather agreed notions about features that have positive impacts on host economies. However, extent, linkages and outcomes are still highly debated. Today's theoretical approaches vary and empirical studies have been diverse in their findings (Moran 2005). It is mainly agreed that FDI is *not per se* positive and that certain parameters have to be fulfilled: *"Simply opening up to foreign investment does not guarantee inflows, and even when countries do manage to attract FDI, the implications for development differ considerably, depending on the circumstances. For instance, in order to secure the greatest possible positive impact of FDI inflows, a host country needs a minimum absorptive capacity (…)*" (Zampetti and Fredriksson 2003: VII).

Especially the economic nationalists argue that the effects are highly depending on several aspects, for instance on the industrial sector the investments are made in (Denisia 2010). The liberal perspective, on the contrary, assumes FDI to be beneficial, but some forms more than others.

The modernization concept claims that foreign firms possess advanced technologies and knowledge, compared to domestic companies, and that the domestic companies can have an advantage imitating features. Technology and knowledge spillovers are here claimed to arise through linkages between foreign and domestic firms. The main focus here is on backward linkages[43] which are supposed to be one of the main drivers of modernization of industries (Vacek 2007). These linkages can force firms to provide technical assistance to its affiliates to ensure efficient working bases in order to meet international requirements and standards (Moran 2005: 283).

FDI is generally assumed to be a (possible) resource of:

- access to new capital
- access to advanced technology
- access to knowledge and skills
- efficiency increase
- international integration (Walter and Sen 2009)
- Improvement of labour situation
- Improvement in infrastructure (communication, physical roads, etc.)

Whether FDI is actually providing these benefits is according to most scholars: first depending on the type of industry the foreign company is investing in and second also determined through policy incentives. *Some* of the assumptions are shared between the economic liberal view and economic nationalism with its realism background; it is useful to take their different features into consideration.

The more realist perspective assumes that growing markets need strong governments to ensure a smooth running economy (Bruton 1992: 102, Rueschemeyer and Putterman 1992: 258). Accordingly, the spillovers and benefits through FDI are claimed to be by no means automatic. Several scholars agree on the positive potential, but stress the fact that governments have to take action to promote these benefits (Kokko 2002 in Nunnenkamp 2004: 668). They support the idea of positive FDI impacts, but are more restrictive towards the MNC activities. The notion implies that the impact of FDI on development is highly depending on the host country's condition, whether certain features are building an

[43] "Backward linkages" are defined as domestic firms supplying MNCs. This is diversely evident in empirical studies.

environment which promotes spillovers and which can eventually also make use of the income growth in a sustainable manner (Nunnenkamp 2004).

Positive spillovers are more acknowledged to occur in manufacturing or service industries, rather than the primary or so called extractive sector. The latter is even declared to be counterproductive, since it could decrease the interests of domestic companies to invest in new sectors and so play a main role in the adjustment of an economy (Alfaro 2003). It is stated that *“(…) investment in natural resource extraction has not brought poverty reduction, but instead they have been afflicted with a ‘resource curse’ in which mineral dependence has been shown to slow and even reduce economic growth in developing countries (…) and the tendency of FDI to crowd out local investment“* (Re-Define 2008).

A main critic on FDI is *“(…) that foreign-owned companies, especially in expert industries, tended to function as enclaves with limited linkages to the rest of the local economy; second, that their propensity to import inputs stifled local industry and prevented realisation of ‘dynamic efficiency’ gains from industrialisation; and, third, that the potential gains from trade and investment were siphoned away from poor countries by structural features in the operation of trans-national corporations (TNCs) and international markets”* (Daniel 1991).

It is also claimed that for instance the contribution to employment and labour standards is not always given and that FDI can also intensify unemployment through the increase of demand for skilled labour, which drives up wages, which domestic firms might not be able to afford (Görg and Greenaway 2001, Lipsey and Sjöholm 2004).

It is crucial to first identify “channels” for the “positive” spillovers, which take place through four main channels: imitation, competition, linkages, and/or training (Gorg and Strobl 2001, Hermes and Lensink 2003, Lensink and Morrissey 2001). In detail is described that foreign firms use advanced technologies and organizational skills and domestic firms will often find it cheaper to copy them rather than innovating new ways and this might lead to more productivity in them (Accolley 2003). “Competition channel” means that, when the competition between foreign and domestic firms induces domestic firms to invest in new technologies or adopt new methods of production to ensure competitiveness.

The channel of linkages implies that in instances such when a domestic enterprise supply foreign firms with (raw) materials, manufactured goods and/or services; the linkage may force foreign firms to provide technical assistance to domestic partners or encourage them to upgrade their technology in order to meet international standards (Gorg and Strobl 2001, Lensink and Morrissey 2001: 3). The last channel is when international firms implement training for domestic partner employees, or to requite new staff for own firm branches (Lensink and Morrissey 2001: 3).

These four channels are not, in actuality, independent one from another (Accolley 2003). For instance it is claimed that there is no real benefit created if purely technical hardware is spread from an international company to its local partners, but the knowledge, how to use this is not transmitted simultaneously.

4 Conceptual framework (operationalization)

"Describing social phenomena and testing hypotheses require that concept(s) be operationalized. Operationalization moves the researcher from the abstract level to the empirical level, where variables rather than concepts are the focus. (…) The actual research then involves empirically studying the variables (…)." (Mueller 2004)

On the basis of the introduced theoretical perspectives this chapter generates the framework, on which basis the papers problem is solved. It introduces the strategy for the data collection and the analysis by defining the leading hypotheses. It concludes also about theory choices, research tools and methods. This ensures a scientific foundation of the analysis, a comprehensive structure and ensures a manageable investigative process.

4.1 Choices of theoretical conceptions

The first choice is the *"economic liberalism"* in terms of the modernization theory, which is sufficient, since it entails a clear basis to investigate the Chinese FDI in terms of "commonly" agreed benefits for the development of a nation. Hereby the question, whether Chinese investments are promoting the national development can be examined[44]. Additionally, the concept of *"economic nationalism"* with its varying notions will be used to assess the findings within an additional perspective.

This ensures an investigation which treats, on the one hand, Chinese FDI just as every other FDI and focuses on the quality of its impacts as objective as possible; but also draws attention to a more critical systemic view in which strategic alignment and power relations are taken into consideration. The findings of these two partial analyses will be set in relation to generate a comprehensive conclusion.However, the most crucial aspect is to answer which of the "positive" features of the modernization theory and channels are applying for Chinese investments in South Africa. The chosen concepts and reviewed studies identified several dimensions as features on which to investigate implications of FDI.

[44] It is crucial to mention that some findings whether FDI has positive influences are still highly diversified; this study is less focused on purely economic outcomes and certain not monetary profits are mostly agreed (Moran 2005: 298).

4.2 Hypotheses

After the insight from current academic debates about Chinese companies and investors and the view of existing academic literature about impacts of FDI (see previous chapters) the following basic statements could be generated:

1) *"Chinese FDI has little, or less positive impacts on South Africa's national economy in comparison to general assumptions about FDI."*

2) *"The Chinese FDI has negative influences on South Africa's national economy, since it facilitates dependencies and harms the local economy[45]"*

For both hypotheses the focus areas have to be examined and the features, dimensions and indicators have to be identified, which narrows their focus areas. On their basis more insights are generated in order to provide an operational frame. The following section provides the conceptual foundation (which also leads to the final version of hypotheses stated in the introduction).

4.3 Operationalization

Through the insight in different executed studies and assessments some major focus areas could be depicted. And in order to gain a sufficient scope the paper is focused on a few features, what ensures a manageable frame. So to generate an investigative basis it is necessary to implement an "operational definition" also known as "indicators", for the chosen concepts. The indicators are used to "measure[46]" some aspects of the concepts. The main requirement for any indicator is that it can be set in relation to the concept and give relevant evidence about it. For more complex concepts, like the impacts of investment, the generation of a multiple indicator frame is useful (Bryman 2012: 164ff). Different types of indicators can refer to different methods of measurement and can be either directly or indirectly linked to the variable they are standing for.

The main dimensions found in the existing literature about the impacts of FDI are:

- "Human capacity building", which entails the increase of labour standards and wage (for skilled labour), knowledge and skill transfer to local employees intended and unintended and beneficial

[45] In the following are only the needed aspects of the hypotheses mentioned, sine a constant repetition seems not useful, the most precise versions are defined in the introduction.
[46] Not necessarily meant in a quantitative way.

involvement through corporate social responsibility programs (CSR)[47] (Gilroy et al. 2005: 15, Lipsey 2002)

- "Technology transfers" to domestic enterprises including hardware transfers like machines, IT systems and many more[48] (OECD 2002: 12)
- "Organizational and efficiency increase", the cannel is claimed to entail all linkages between local and international firms. Mostly "backward linkages" are important (Vacek 2007, OECD 2002), since these imply the need for the MNC to provide knowledge to the local partner to ensure best possible working modes (Lipsey 2002: 40, OECD 2002: 13)
- "Sectoral FDI composition", meaning the sector in which the investments are mainly undertaken and whether these investments open new opportunities for the host nation (Moran 2005: 298f)
- "Compliance and influences on legislation and policies", which entails influences on policy decisions and the compliance to existing regulations of the host nation (tralac 2004: 25ff).

These dimensions are the main focus areas found in existing investigations. They provide a basis to detect the impacts of Chinese FDI, but this study is not encompassing all dimensions and only some are operationalized into the indicator frame. Some dimensions are interrelated and this has to be taken into consideration in the later analysis.

The dimensions occur, according to the literature, thorough the following "channels" (Gorg and Strobl 2001, Hermes and Lensink 2003, Lensink and Morrissey 2001):

First though "trainings", including external and internal trainings by companies, are seen as channels for the benefit of human capacity building. Important hereby are the amount of people which are benefitting and the quality of knowledge which is provided (tralac 2004: 23). Secondly via inter-company "competition", which has a direct effect on the markets and is claimed to increase local firms productivity and labour standards[49] (Lipsey 2002: 18, OECD 2002: 13). The third is the so called

[47] *"(…) it has become increasingly expected (…) that businesses, particularly the most powerful companies, should go beyond local regulatory compliance to earn their 'license to operate' by demonstrating that their operations provide a beneficial impact"*, which describes the CSR approach (Forstater et al. 2010: 14).

[48] MNCs are an important source of research and development (R&D) activity, and they generally possess a high level of technology, so they have the potential to generate considerable technological spillovers towards less advanced firms. However, whether and to what extent MNEs facilitate such spillovers is not agreed yet and can vary (OECD 2002: 12).

[49] Evidence for causality is sometimes denied

“imitation” whereby local companies are assumed to gain benefits by copying the activities and schemes of the MNCs (Accolley 2003: 21).

The introduced dimensions and channels are main parameter for the investigations of impacts of FDI. So to generate out of these features valid indicators certain criteria have to be fulfilled, which imply data availability for each chosen indicator, high relevance according to literature findings and a strong logic causal relation to the papers problem. However, not all of the features are sufficiently evident yet[50] and some correlations[51] are rather hard to examine; hence the main dimensions for this paper will be the following[52]:

First, the overall *composition* and *volume* of Chinese FDI in South Africa is crucial, so it is necessary to investigate the sectors of industry it is located in. Secondly, the Chinese impacts on South Africa’s *labour market* have to be identified. Third the implications for *human capacity development*, like skills and knowledge transfer, are examined, since this is, for many scholars, the most crucial factor for future development (Gilroy et al. 2005). The impacts include intended spillovers through CSR, trainings or programs and qualification processes in the company[53]. And finally, the *legal compliance* or non-compliance to the regulations of South Africa is assessed. The last two dimensions are especially for the Chinese FDI crucial, since observers often claim a lack of engagement and legal compliance of the Asian investors.

4.4 Limitations of the concept

Next to scope and methodological limitation (mentioned in chapter 2.5), this paper examines only certain aspects of the problem and has to exclude some aspects of FDI influences. The investigation of the impacts of Chinese FDI on South Africa focuses on the three introduced features of “human capacity building”, “legal compliance” and “labour market” and will take the structure and volume of the Chinese FDI in general into consideration; however it excludes the other examined dimensions due to time and space limitation.

[50] For example it is not agreed whether FDI is purely positive for a nation‘s labour market, since studies show controversial evidence for this feature (Lipsey 2002, Moran 2005).
[51] In this study “correlation” is not only understood in the statistical regard (Tacq 2004) and is used in terms of “causal effect”, which describes a causal interrelation between data, whereby one influences or determines the other.
[52] Some of the features will only be partly or not included
[53] The unintended ones are rather difficult to identify

The positive impacts through international competition[54] in terms of for instance labour standards and wages are included, but with the notion that those correlations between FDI and the improvement of the labour situation are not always seen as evident (Lipsey 2002).

The investigation of unintended spillovers towards efficiency and productivity of local companies will not be investigated in depth, especially since the literature shows that benefits are rather hard to correlate with the presence of a foreign firm. Even the OECD (2002: 13) found that *"(r)eliable empirical evidence on horizontal spillovers is hard to obtain, because the entry of an MNE into a less developed economy affects the local market structure in ways for which researchers cannot easily control. The relatively few studies (…) spillovers have found mixed results."*

The technology spillovers to local partners would be observable and measurable positive correlations and are, according to literature findings, rather easy to observe; but there appeared a great lack of reliable data available so this feature would require a too detailed investigation of the different companies and industries.

The distribution of the Chinese investments between the different industrial sectors of the South African economy is relevant, but here are some limitations in the reliability of the data given[55], which causes uncertainties, which could not be avoided. Furthermore are the "unintended" spillovers of skills and knowledge difficult to detect and often a clear correlation between the engagement of a company and the increase of human capacity cannot be made and would require long-term investigation. Finally the political aspects of China's influence on South Africa's regulations is exclude, since an investigation in this scope would require additional background knowledge to ensure valid insights.

To sum it up this study will focus on three main dimensions, which are investigated in depth; however the generation of the indicator frame would exceed the determined frame of this study and therefore the explicit indicators are identified, defined and described in the table in Annex II of the paper.

[54] While it is economically desirable that strong performing foreign competitors be allowed to replace less productive domestic enterprises, policies to safeguard a healthy degree of competition must be in place (OECD 2002: 17).

[55] *"Though many writers provide quantitative data on the FDI relationship, (…) there are a wide range of disparate and inconsistent figures, with several papers providing more than one estimate without attempting to reconcile them"*(Gelb 2010: 2).

5 Empirical data

This section entails a brief introduction about the Chinese economic structures and overseas activities to ensure common ground of understanding, it describes in what regard Chinese FDI might partly not follow the "capitalistic" logic as Western FDI does. This is crucial for the latter analysis, especially considering the theoretical frame. This information is background data and therefore part of the empirical aspects of this study. In the following the main empirical sources and findings are identified and summarized.

5.1 The special features of Chinese investments

This section provides an insight in structures, strategies and policies of China's economy and investments. Fortunately there have been an increasing number of recent studies, which focus on China's privatization process and economic transformation.

It is important to clarify that the approach of the modernization theory is based on a "capitalist" economic notion and so implies that businesses are aligned to a purely profit maximizing logic, which is concerned with profit maximization, competition and expansion. Companies have to minimize costs, while increasing efficiency and productivity, which is seen as the "usual" organizational form in today's market economies[56]. The MNCs are determined through owner and/or shareholder decisions and their foci lay on monetary gains, so firms act demand and supply oriented[57] and activities which are not aligned to these requirements result in financial constraints and can finally result in bankruptcy (Wright and Rogers 2009). Since these assumptions might not apply to Chinese firms in general a brief summary about their special structures is provided through a summary of recent academic works on Chinese oversea projects.

5.1.1 China's companies and OFDI

First of all is crucial that there are difficulties to access reliable data regarding Chinese outward foreign direct investment (OFDI). It is a prevalent issue for observers that quality and quantity of data published by the Chinese authorities is rather low, although the situation seems to improve (Rosen and Hanemann 2009: 3). Besides that, statements whether official figures are under- or overestimations, are often

[56] Apart from "non-profit organizations" and social services.
[57] *"Profits are basically the difference between price at which things are sold and the costs paid by the firm of their production"* (Wright and Rogers 2009: 7).

contradictory. Furthermore is assumed that the lack of transparency is one reason for the concerns of international actors towards Chinese activities (Davies 2012: 1, Salidjanova 2011: 25).

However, one agreed notion is that the Chinese economy has undergone crucial changes in the past decades and became increasingly diverse but many see as evident that the state-owned, or government controlled firms are still dominating (Chen and Young 2010, Morck et al. 2008). Several scholars depict as crucial factor for the Chinese economy in the next years the *"willingness and ability of Chinese enterprises to build their reputations, both individually and collectively"* (Davies 2012: 7) and predictions about the future of Chinese activities are highly diverse (Davies 2012: 7, Salidjanova 2011).

Historically was China a closed economy with no, or extremely limited overseas interests: *"Virtually nonexistent on the eve of the economic reforms beginning in 1978, OFDI remained insignificant through 2004"* (Rosen and Hanemann 2009: 3). Nevetheless the growth of the OFDI in percentage is stated to be rapid, but the actual volume is consequently described as less significant than most media statements suggest (Salidjanova 2011: 1). Many academics value these notions as over exaggerated and describe China's role as an international investor still as comparatively minor[58] (Rosen and Hanemann 2009: 6).

5.1.2 China's strategies

Traditionally Chinese companies` overseas activities were highly regulated by the State and the primary goals were to conserve foreign currency and to prevent capital flight and leakage of state assets and it was used to ensure that overseas investment targeted industries to secure China's long-term interest (Zhang 2005: 7). The regulative frame is claimed to have undergone some crucial changes: *"(…) the motives and targets of China's OFDI are changing rapidly, driven more by a readjustment in China's economic growth model than by political considerations"* (Rosen and Hanemann 2009: 15).

The Chinese government invented strategies to stabilize the economic growth and its future development and implemented an OFDI promoting strategy, which provided supporting conditions for certain overseas investments: The policy of *"zou chuqu"* (translated as "Go out" strategy"[59]) is a policy that *"mobilized China's banking sector to (…) support Chinese companies' investment in Africa (and globally)"* (Chan-Fishel and Lawson 2007: 63f).

[58] China (including Hong Kong and Macau) accounted for only 6% of global OFDI stock today (Salidjanova 2011).
[59] This policy was initiated in 2000 and is officially encouraging Chinese firms to invest abroad with government approval (Zhang 2005: 5f)

It is pointed out that lately commercial motives became main driver of Chinese policies[60], which is seen as contrast to the past, when economic activities were determined through the political incentives (Rosen and Hanemann 2009: 11). It is described that the government became less restrictive over the past years. The “Ministry of Commerce of the People’s Republic of China” (MOFCOM) released the first industry-based “Guidelines for Investments in Overseas Countries’ industries”, which guarantee economic advantages[61] for compliant firms (Lawrence and Martin 2013, Zhang 2005: 9).

China created a mechanism for the provision of preferential interest rates for oversea activities. Four types of oversea projects can today receive interest-subsidized loans: First development projects which are aiming to cover the shortage of domestic resources; secondly, projects focused on manufacturing and infrastructure, which promote the export of domestic goods like technology and equipment; thirdly, R&D projects to provide advancements; and finally, A&M projects that improve enterprises’ international competitiveness and help firms to develop international markets (Salidjanova 2011: 5, Zhang 2005: 7). This is a new foundation for monetary ties between large oversea projects and the Chinese government in form of state-controlled banks. However, most observers describe that China’s liberalization process is not even close to be completed and it just started the transition (Rosen and Hanemann 2009: 12).

The reasons for China’s change over the past decades are seen in the need to integrate into the global system, especially in terms of trade to ensure the necessary commodity supply for China’s national growth. The commodities include especially raw materials and the demands are often seen as main drivers for China’s OFDI: *“Since China’s large overseas investments are executed by state-owned enterprises, and backed by state-controlled banks, many observers posit that Beijing uses aid and soft loans to secure access to natural resources”* (Chan-Fishel and Lawson 2007: 64). Some describe it as as *“an aggressive outward economic expansion program”* and value these strategies as potential threats (Silk and Malish 2006: 105). Others claim that in terms of strategic control and political alignments the Chinese unity is not as coherent as often assumed: *“Local officials make their own decisions in their own interests, often without the knowledge or support of Beijing”* (Hersh 2012).

Further some describe internal challenges for the overseas engagement of Chinese companies: *“Some of the biggest obstacles to China’s firms going abroad are homegrown: lack of corporate vision and*

[60] *“For example, since December 2008, China Banking Regulatory Commission has been allowing commercial banks to make loans for cross-border M&A”* (Salidjanova 2011: 6).
[61] in terms of foreign exchange, capital, taxation and customs and furthermore

experience, inadequate overseas management skills, and schizophrenic political attitudes" (Rosen and Hanemann 2009: 3). It is almost satirically described that *"(…) it is easy to buy mining assets in a lightly regulated environment in Africa, fly in a hundred Chinese workers to extract the resources, and ship them back to China. It is a much greater challenge to run manufacturing and service operations in Atlanta, Newark, or Cologne"* (Rosen and Hanemann 2009: 14).

5.2 China's economic background

The special Chinese circumstances are claimed to be a result of China's economic past. It explains today's ties between the government and most Chinese companies**.** Firth et al. (2012: 435) state that *"(a)fter 30 years of gradual reforms, China's socialist market economy is now characterized by the co-existence of the commercialized state sector and the private sector"*. Historically the Chinese economic structures are rooted in the "central planned economy" during the Mao era[62], where the state controlled all major economic issues (Chow 2011: 1). By the end of the 1970s almost 75 percent of the industrial production was in the hands of so called State Owned Enterprises (SOE) (Encyclopedia of the Nations 2013)[63]. To increase productivity and the economic performance radical reforms were implemented[64], so legislation, economy and policies were restructured and decision making processes became more decentralized (Encyclopedia of the Nations 2013).

Nevertheless, many remnants in terms of structures, leadership and regulations are still in place and shape China's economy and several of today's largest Chinese companies emerged out of the former ministries and some hold still some old advantages and in most of them is the government majority shareholder (Silk and Malish 2006). The advantages often include a monopoly status, profitable government contracts, cheap land and more (Silk and Malish 2006: 110).

However, recently some legislative changes were made, which show current changes within China including for instance the first attempt to implement "private property" as basic right in 2004 (which was a milestone for the privatization process, but several other "private property" issues are still unsettled).

For the understanding of the Chinese OFDI, a description of company structures is important to generate a basis for the understanding of the companies, even though officially a diversification of

[62] From 1949 till 1978
[63] This is assumed to have led to economic stagnation due to a non-competitive environment
[64] After 1978

ownerships of many Chinese businesses has been undertaken. Many observers doubt this to be the actual reality: *"Although legal ownership status for many of these companies may have changed, the relationships and channels of influence between local governments and industry remain, including through the supply of capital for investment"* (Hersh 2012).

Besides that, several studies found that *"(…) firms are driven by their self-interests to influence the institutional processes. While these assumptions apply to firms that are structurally separate from external institutions, they may not hold for firms that are themselves a part of the institutions (…) SOEs are, by definition, assets of home-country governments, which makes them a part of their home-country institutions"* (Cui and Jiang 2012: 265). So many scholars believe that Chinese companies are operating overseas like political actors (Globerman and Shapiro 2009, He and Lyles 2008 after Cui and Jiang 2012: 265). Even the cooperative structures with affiliates in host countries are influenced and determined by the Chinese government, which is pushing for the joint ventures[65] structures in overseas investments (Cui and Jiang 2012: 265ff).

According to some scholars, the western skepticism is fueled by the fact that the majority of OFDI from China are undertaken by state-controlled firms, which are often located in strategic key industries. However some point out that *"(t)his trend is not unique to China; the most powerful firms in many developing countries are often partially or totally state-owned."* (Salidjanova 2011: 25). In total numbers[66] the centrally controlled SOEs were 2009 claimed to provide about $38.2 billion (about 68 percent) of the total Chinese OFDI while the private enterprises accounted for only 0.6 percent ($345 million) of the total flows (some the ownership data were not available) (Salidjanova 2011: 6).

The most criticized issues, among the academics, are direct ownership structures and many studies claim that in the Chinese economy a clear distinction between private and state controlled enterprises cannot be made. It is claimed that the channels for influence from political side changed, but control is still exercised (Hersh 2012). Others, on the contrary, state that the recent worldwide corporate bailouts have made China's enterprises less exceptional in terms of government control (Rosen and Hanemann 2009: 2).

Previous studies defined government ownership by *"(…) the total share of equity owned by local governments, government ministries, government bureaus (…) and state owned banks"* (Cui and Jiang

[65] "Joint Ventures" (JV), include commonly two frims from differenet orgin (one from the host country)(The Economist 2011).
[66] Always considering that they are not especially reliable.

2012: 273) and there is strong evidence found that many companies, which are declared to be private, are still finally controlled by provincial, local or national-level governments (Delios et al. 2006). Furthermore the research describes that *"(i)n China, like many other transitional economies, a majority of the listed firms are spin-offs from wholly state owned enterprises (SOEs). The state (…) often retains a substantial investment stake in the listed spin-offs and can influence management decisions"* (Firth et al. 2012: 435f). In this study a sample of Chinese companies shows that a strong majority was finally controlled by the government, what might not be truly representative, but provides evidence that the government still plays a crucial role in Chinese firms. However changes are seen in the reduction of preferential financing and soft budget constraints (Firth et al. 2012: 436).

Rosen and Hanemann (2009: 16) clarify some notions about state influence, and describe that *"Even in state-owned oligopoly industries (…) maximize their access to government favoritism, but do not always heed the call to serve government purposes. And while they share ultimate ownership by the state, they compete aggressively with one another both at home and abroad."*

So several observers describe a strategic alignment of companies to the goals of the government and they claim that this alignment to government interest might be contradictory to the firm own interests: *"Maximizing these objective functions may entail expanding production capacity even if profitable investment opportunities are scarce. Hence, government controlled firms would use available cash flows to expand investment even if profitability is reduced."* (Firth et al. 2012: 436f). This statement is related to the so called "soft budget syndrome"[67], meaning that many Chinese companies operate under soft budget constraints and are able to obtain official funding and more, which leads to less financial incentives and make investments possible regardless of monetary profits (Firth et al. 2012 and sources therein).

In summary are the most important findings in the reviewed literature that Chinese firms operate often in a different system than other companies and this will have to be taken into consideration in the following study. Certain government interventions need to be taken into consideration when the Chinese oversea activities are investigated[68]. For this paper is important to focus on certain large Chinese companies and investigate their activities. This might also imply statements about the influences of the Chinese government.

[67] When companies are unable to cover their own expenditures and the government (or another supporting organization) intervenes to ensure further operations of this company (Kornai et al. 2003).
[68] Exchange approval, monetary flow approval and more

5.3 Data survey

The reviewed literature, including databases, academic studies, company reports and media articles, is listed in Annex II. There are the viewed sources described and their reliability and relevance examined. The sources are categorized according to the aspect and indicator to simplify the approach. A code system is introduced to enable the classification of different sources; these include an explanatory index, which contains further relevant information about the sources[69] and identifies the type of source, reliability and relevance. Hence it is possible to distinguish between academic papers and newspaper articles, what provides an overview about the used data sources. This shapes assessments about findings of this study and increases the reader's overview. The coding system is further used to identify correlations, linkages and incoherencies.

The "source codes" assign each source to one of the following groups:

- **GD**: General FDI data
- **GP**: General policy background from South Africa and China
- **SD**: Sectorial distribution data of Chinese OFDI in ZA
- **GS**: General knowledge/skill transfer data of Chinese companies
- **SS**: Specific Chinese companies skills and knowledge transfer
- **SO**: Specific Chinese company ownership

The following index consists of three different variables: First, a number to distinguish between the different sources within each group. Second, a capital letter providing information about the source type (P: Public/official data; A: Academic data; M: Media data; C: Company surveys/data). Third, a lowercase letter describing the believed reliability (r: reliable; d: doubtful; b: possibly biased; n: reliability not completely clear).[70]

The most important data are summarized in the following section to provide the basis to answer the papers problem and to finally enable a rejection or confirmation of the papers hypotheses. To generate an adequate foundation some critical observations are included. The chapter contains general data as

[69] This is useful since the information density can be increased, which is beneficial for the content of the paper.
[70] For more details see Annex II

well as facts about specific Chinese companies. In this section only the most fundamental findings are summarized, which are in the next chapter analyzed and interpreted.

5.3.1 General Findings

5.3.1.1 China's FDI in South Africa

The structure and volume of Chinese investments in South Africa are crucial for the general understanding. It is important to identify the main firms and fields as parameter for the following analysis: First of all it seems commonly agreed that the trade between China and South Africa is more crucial than the FDI relations. In terms of Chinese FDI activities negative and positive matters are stated, but several sources (**$SD_{1\text{-}3M/A}$, GS_{1Ad}**) state that the FDI relationship is not as developed as the trade relations and so many scholars focus more on the asymmetrical trade configuration (**SD_{1Ar}:** 14ff, **SD_{3Mb}**).

GS_{3Ar} for instance, describes that the FDI amount between China and whole Africa is rapidly increasing, but states that data regarding FDI are not really reliable. However, it claims that the main recipients for Chinese investments were South Africa, Egypt and Sudan and it describes that the focus areas of Chinese FDI vary. **$GD_{1\text{-}6P/A}$** describe the FDI volume and provide an overview about current FDI trends from Chinese investors. **GD_{6An}**[71] states that China's OFDI to Africa has increased exponentially in the past years and states that from 2003 to 2008 South Africa was the primary recipient (**GD_{6An}**: 11588). Further seems agreed that the Chinese FDI to South Africa is in average growing over the past decade and reached in 2011 the equivalent to 42% of its GDP (**GD_{5Pr}**: 4).

SD_{1Ar} additionally provides a summary about large scale projects undertaken by Chinese companies, which shows that between 2007 and 2008 the number of Chinese companies in South Africa was comparatively low. Records claim more than 4100 activities of foreign firms and just over one percent was identified as Chinese. Furthermore, from about 2000 foreign companies only 47 were Chinese. Among these were claimed to be 25 SOEs, 13 privately owned firms and 9 with unconfirmed ownership (**SD_{1Ar}**: 15)**.** Compared to China's OFDI these numbers were low, since 7000 Chinese enterprises were operating abroad (Rosen and Hanemann 2009: 4).

5.3.1.2 Chinese FDI sectoral composition

SD_{1Ar} points out that the official sources often provide implausible data. For example a single Chinese project exceeded the official total volume of a whole year's FDI flow. However, **$GD_{1\text{-}6P/A}$** state numbers

[71] Uses Chinese Ministry of Commerce as source, which is in other studies identified as unreliable

for South Africa's inward FDI configuration, but the South African government is not publishing data on operations of foreign affiliates; so other materials have to be used to find evidence about the flows.

GS_{3Ar} (: 8), states generally that *"most high profile Chinese investments in Africa are focused on resource extraction (…) and construction of large-scale infrastructure projects including roads, railways, and (…)"*, but without providing any detailed information about its sources and volume. **GD_{5Pn}** (: 5) presents the composition of South Africa's FDI stock in 2009 and examines that the main sectors were: mining with more than a third (33.4%), manufacturing just under a third (27.9%), finance and business services were 27.1%, communication and transport were around 7%[72]. In 2010 the services sector contributed 36% (including financial sector representing 24% of the total); the manufacturing sector about 26% and the primary sector about 38% (**SD_{1Ar}**). So the configuration seems rather stable.

Crucial projects between 2007 and 2010 were according to **SD_{1Ar}** first an investment of the Industrial and Commercial Bank of China (ICBC), acquiring a stake of 20% of the Standard Bank of South Africa (value about US$ 5.5 billion) and the next largest by Chinese mining firms, including Sinosteel and Jiaquan Iron and Steel (JISCO), and Zijin. Finally five Chinese automobile firms are mentioned and some engagement of China's main banks (**SD_{1Ar}**: 12ff).

It seems evident that the distribution of Chinese investment is spread across all sectors with foci on construction**,** mining, automobile, electrical machinery and financial services. This represents also Chinas global most competitive industries.

The past years show a change in the preferential industries and new investments in extractive industries were not announced, while the big Chinese manufacturers, like the automotive and the electronic device industry, plan on increasing their investments and financial engagements (Cokayne 2012). So recently many new investments were made in, for instance telecommunication services and renewable energies and several public tenders were given to large Chinese manufacturers[73] (**SO_{2Ar}**: 25).

[72] The South African Reserve Bank was found to be rather unreliable, but is here the only found plausible source and is used to give a rough basis (**SD_{1Ar}**).

[73] This kind of strategic investigation like in **SD_{1Ar}** was not undertaken after 2010 and therefore an overview for the years after 2009 is not available.

5.3.1.3 Economic (inter)dependencies

GS_{3Ar} states that the growing dependence of the African economic cooperation with China is determined by a correlation between China's economic growth and in Africa's emergence since 1999 (**GS_{3Ar}**: 7); the main dependency drivers are claimed to be bilateral trade, but FDI is partly seen as an additional matter.

Today many infrastructure projects are financed and implemented by Chinese firms and these commitments increased rapidly (World Bank estimates after **GS_{3Ar}**). *"Many of these investments are supported by grants and loans to governments or 'soft loans' to enterprises from China's development banks (…)"* (**GS_{3Ar}**: 8). It is described that several large projects are implemented by Chinese players, since they have unique financial possibilities. Furthermore, is claimed that they would invest in more risky projects and focus on long-term agreements with their national affiliates.

The South African government states that it tries to increase the bilateral relation on several dimensions and political choices are often aimed to increase China's investments. Currently South Africa plans to invest heavily in infrastructure, energy and manufacturing, what is expected to generate new opportunities for foreign firms. New taxation regulations are announced and all this should be stimulating for the Chinese investors. Besides, it is stated that the grouping of the BRICS (Brazil, Russia, India, China and South Africa) facilitated investment and the statement of the Industrial and Commercial Bank of China (ICBC)[74] to invest in local renewable energy projects was claimed as political achievement (SouthAfrica.info 2013b).

5.3.2 Findings to the main indicators

5.3.2.1 Impacts of Chinese FDI on "Labour"

The following section presents findings about labour conditions, wages, employment rates, for Chinese firms in South Africa. **GS_{1Ad}** gives a data sample and provides information about several labour related issues. It investigated different Chinese companies in several sub-Saharan nations on the basis of negative perceptions about Chinese firms (**GS_{1Ad}**: 148ff):

- Chinese firms have extremely poor working conditions
- Chinese firms ensure that skilled jobs are done by Chinese and not local employers
- Chinese companies do not focus on CSR programs, or trainings

[74] Shareholder of the Standard Bank

GS_{1Ad} claims high diversity in its findings, especially in terms of treatment and wages of employees and claims violations of human and labour rights. However, these negative events were foremost found in countries with low institutional capacity and less developed legal systems. On the contrary were some Chinese firms found to offer even better working conditions than comparable firms. **GS_{1Ad}** (: 149) concludes that the behavior is largely depending on the legal capacity of the host nation and less on the nationality of the company.

GS_{2Ar} additionally states that, Chinese investors would often fail to meet expectations of local job creation and skills and technology transfers; furthermore is claimed that Chinese firms often prefer to employ a Chinese workforce, what seems to harm the local job creation and hampers knowledge spillovers. Especially in high skilled jobs Chinese employees would be preferred and as main reasons are mismatches between working procedures of Chinese and African workers identified.

5.3.2.2 CSR[75], knowledge and skill transfer

It is crucial to examine the social engagement of Chinese companies in the host nations to assess the full impacts of the Chinese activities. Channels hereby are internal and external trainings and CSR projects of companies and for this papers context only programs aiming on human development are investigated[76].

$GS_{1\text{-}3Ar\&d}$ give insights about China's CSR legal framework and provide details of CSR strategies and **GS_{2Ar}** states that some Chinese companies have strong interests in these regulations to ensure positive global publicity for Chinese firms in general. It seems that a positive image is crucial for international operations. **GS_{3Ar}** identifies China's CSR foci in several African nations in 2009 and the main areas were education and training, skills development, health, welfare and downstream enterprise development. This shows that the focus in South Africa is less on human rights, good governance, anti-corruption and labour rights, which reflects its status as "emerging economy" and shows an alignment to the most urgent challenges.

GS_{1Ad} investigated the main channels of knowledge transfer to local employees in the mining industry and provides an overview of studies about Chinese firms and their social engagement. It concludes that Chinese enterprises would generally not promote CSR programs and that technology and knowledge

[75] Here defined as: *"(A firm) meeting legal requirements and broader expectations of stakeholders in order to contribute to a better society through actions in the workplace, marketplace and local community and through public policy advocacy and partnerships"* (Forstater et al. 2010: 13).

[76] Excluding environmental and similar projects, even though it can be argued that on the long-run these are also benefitting the human capital.

transfer would not be a feature of Chinese actors ($\mathbf{GS_{1Ad}}$: 160). Researchers found that Chinese companies often only generate temporary employment, what is seen to be hindering for positive transfers. However, these statements seem, in regard to other literature, highly doubtable and most of the investigated companies of this study are engaged in CSR projects and especially educational programs and community work are hereby in focus[77].

Some sources point out that China's drivers for CSR differ to the Western ones, since in China CSR is a government driven strategy: *"In contrast to the West, where the pressure for CSR has primarily been driven by civil society, for Chinese companies it is driven in particular by the government as a stakeholder"* ($\mathbf{GS_{3Ar}}$: 19). $\mathbf{GS_{3Ar}}$ shows that international standards were adopted and many Chinese companies joined the UN Global Compact. Nevertheless, the CSR training and skills development programs appear rather new in Chinese enterprises and it is mentioned that more monitoring would be needed to ensure sufficient CSR strategies ($\mathbf{GS_{3Ar}}$: 19ff).

Additionally several governments begun to develop own CSR standards, aimed to determine the activities of large enterprises to ensure a benefitting approach for their countries. South Africa has a comparative advanced legislation, which includes for instance the "Broad Based Black Economic Empowerment Act" (BB-BEE).

5.3.2.3 Legal compliance

Two main legal matters are crucial for any FDI: the regulations that are directly aimed at (foreign) investment and the national labour laws. South Africa has no exclusive foreign investment legislation, but a regulatory frame for general investments which apply also for foreign investors. First a closer look at the labour rights in South Africa is important and in the following other crucial legislative issues are examined.

The South African labour rights are commonly seen as advanced and South Africa's institutional capacity is estimated high especially regarding enforcing the legislation. $\mathbf{GD_{7Ar}}$ confirms that *"it (South Africa) possesses a sophisticated labor court system, a constitutional commitment to enforcing labor rights and (…) that South Africa's legal system is best equipped, among African states (…)".* The Basic Conditions of Employment Act (Republic of South Africa 1997) regulates the minimum conditions of employment, which applies if there is no specified industry agreement and the Labour Relations Act (LRA) (Republic of South Africa 1995) provides all institutional rights for employers and employees. Furthermore state

[77] for more detailed information see the following section

GP_{3Ar} and **SD_{1Ar}** that the Broad Based Black Empowerment Equity Act (BB-BEE) (Republic of South Africa 2004) is also crucial for foreign investors, since it provides incentives for company activities and structures (many investors enter South Africa in joint ventures with domestic "black-owned" partners to ensure legal compliance (**SD_{1Ar}**: 19)).

Additionally the labour unions are highly organized and shape and influence the employment conditions in South Africa, what is seen to challenge foreign employers. Currently crucial for labour conditions is the issue of extensive use of "labour brokers", or sub-contractors, especially in the primary industries, which the unions demand a ban on, since contract workers are less covered by legal protection (**GP_{3Ar}**: 226). So the media reports were mostly covering contract work, in the mining sector, which is apparently exploiting in terms of working conditions and wages. However, this is not solely attributed to Chinese companies and is an issue regarding the whole mining industry.

These circumstances make legal violation less likely; of course they are still happening, but extent and severity seem low compared to other sub-Saharan countries. For instance are in countries like Lesotho, Zimbabwe and Zambia labour and human rights violations by Chinese firms reported (International Trade Union Confederation 2012, Moyo 2012). **GS_{1Ad}** describes these and provides information that there are also differences in the treatment of Chinese and African employees observed (**GS_{1Ad}**: 149ff).

Crucial is that *"South Africa does not have a stand-alone investment law; investment is governed by sector-specific legislation (…)"* (Lizano et al. 2009: 19):

- general investment incentives of South Africa (Southern African Development Community 2013)
- limitations on foreign ownership in certain sectors[78] (tralac 2004: 7)
- restriction relating to FDI concerns *local* borrowings (tralac 2004: 7)
- regulation to "local content providers" (Bureau of Economic and Business Affairs 2012) and BB-BEE (tralac 2004: 6)

So most legal findings in South Africa were individual cases containing single interests. Other legal findings were mostly regarding competition laws and public procurement procedures. Most legal accusations were made in terms of "illicit" awarded contracts and unfair competition.

[78] Certain sectors require government approval for foreign participation, including energy, mining, banking, insurance, and defense (Bureau of Economic and Business Affairs 2012).

In the general material no violations, non-compliances, or avoidance strategies became evident and the deeper investigation regarding this specific issue is mostly undertaken in the investigation of the specific companies (see following section).

5.3.2.4 Ownership and finances

The ownership structures of the investigated cases is briefly described and relevant findings about soft and hard budget constraints, evidence for governmental ownership and provisions of "preferential" loans are examined. However the general findings about government ownership are depicted in a previous section, which are used for the later analysis. So the main findings about the firms operating in South Africa are gathered for the individual companies, since these are diverse in their government relations.

5.3.3 Company cases of firms impacts

5.3.3.1 Primary sector: Example "Aquarius Platinum" & "Wesizwe Platinum"

An in depth investigation of the primary sector is crucial, since it is identified as the main interest field for China's overseas activities. In the primary sector in South Africa no direct Chinese owned mines exist and the Chinese commonly operate in joint ventures and do not open own operations (**SD$_{1Ar}$**: 8). The two cases of mining companies, which are investigated are the *"partly Chinese-owned Aquarius Platinum South Africa"* (AQPSA), which is the joint venture partner of the Chinese firm *"Zijin"*, and *"Wesizwe Platinum"*, the partner of the Chinese "*Jinchuan Group*".

5.3.3.1.1 "Aquarius Platinum"

AQPSA's linkages with Zijin are hard to detect, but become evident through financial commitments in the "Blue Ridge project" (**SS$_{1Cb}$**, MBendi 2010, McKay 2006)[79]. AQPSA is not a directly Chinese owned company, but is here investigated, since Zijin the Chinese partner is reliable for decision making. Additionally shows **GS$_{1Ad}$** that it can be a sufficient strategy to investigate the partnership of choice.

GS$_{1Ad}$ claims that the negative perception about Chinese firms in primary industries could not be confirmed (only AQPSA was investigated in South Africa). It is stated that the reason to investigate this firm was frequent complaints about the Chinese employer by South African trade unions[80]. The study states that, despite of all accusations, the *"(e)mployment practices and procedures comply with*

[79] this information about the linkages is rather hard to generate, what might also be due to the unrests and critics about the labour conditions after the Strike wave 2012 which began in one of the Aquarius mines
[80] By the Congress of South African Trade Unions (COSATU)

internationally accepted standards and conventions, such as the International Labour Organization's Fundamental Principles and Rights at Work" (**GS_{1Ad}**: 159). This assessment appears doubtable, since an Aquarius Mine became a few month after the publication of this source the initial point of the biggest labour unrest in South Africa since apartheid (Lee 2012, Botterweck 2012). However, there was no evidence found that the company did not comply with national legislation, but it is likely that the conditions for the employees were extremely marginal and so the positive assessment of **GS_{1Ad}** seems implausible.

In **SS_{1Cb}** main facts about AQPSA are presented and it is stated that in 2012, a total number of 10,141 people were working for the company in Southern Africa. Out of these were 1,772 working in the mine in Zimbabwe. The data show interestingly that exactly 1,725 people were directly employed in AQPSA (2012) and about 1,572 of them in the Zimbabwean mine. Out of 8,369 South African workers were only 153 direct employed and the majority (8,216) was sub-contractors. Furthermore decreased the total number between 2011 and 2012 (**SS_{1Cb}**: 15). Additionally is shown the rate of locally recruited employees of Aquarius is comparatively low (at an average of only 38%).

The firm states an engagement in their workers' health care: *"Aquarius employees in South Africa have access to comprehensive health-benefit schemes for employees and dependants. Further, the company provides on-site primary-health and occupational health services."* (**SS_{1Cb}**: 14). This means that the general health care is only provided for direct employees, while the contractors have only access to basic health services on the construction site (**SS_{1Cb}**).

CSR and trainings

AQPSA states that its *"(…) social performance is reviewed in respect of safety and health; employment, training and development; community development; and the implications of care and maintenance"* (**SS_{1Cb}**: 13) and also **GS_{1Ad}** describes the company as positive example in terms of labour standards and CSR projects.

It is engaged in the upgrading of schools, training programs, the expansion of primary schools and more (**GS_{1Ad}**: 163). **SS_{1Cb}** (: 13) confirms that the company has implemented development projects and human resource (HR) development initiatives. According to the company, more than 27,000 days of training for employees and contractors were provided and the total expenditures on skills training was claimed overcome ZAR 30 million in 2012 (**SS_{1Cb}**: 16).

However, in terms of knowledge and technology transfer is stated clearly: *"Executives of the partly Chinese-owned Aquarius, which mines platinum group metals, have confirmed that Zijin, the Chinese investor, did not bring any new technology to South Africa as part of the deal, nor were any new jobs created"* (**GS_{1Ad}**: 136).

Legal compliance

SS_{1Cb} states the main legal frame for the firm in South Africa and examines a compliance with BEE and indigenisation legislation. It is evident that the company had no major legal issues in South Africa, since neither in the South African court records nor in the media was any indication for illicit activities given. The only findings before the strike outbreak were claims by trade unions, that the working conditions and security standards were extremely low and would need systematic changes. However, even after the outbreak rarely violation of law was found and accused and it seems to be the case that not enough evidence was presented to press actually charges against the mining companies, not matter of their origin.

AQPSA claims that no significant fines and no significant fines for non-compliance with South African legislation (**SS_{1Cb}**: 8), were imposed against the company. It is not clear, what the term "significant" exactly describes, but no evidence for a non-compliance of the company could be found and no legal violations were proven.

However, the trade union complaints were formal and focused especially on security issues, but remained unsuccessful, but all these accusations were rejected.

Ownership

AQPSA is only partly Chinese owned and so the following section will focus on the Chinese partner and its ownership structures. Additionally the possibility of Chinese preferential financial support is examined and the "Blue Ridge Mine" project is especially investigated.

In terms of the monetary background of Blue Ridge is stated that a consortium of South African banks are the financiers of the project. Among these is the South African Standard Bank (Ridge Mining PLC 2006), which has through its 20% shareholder the ICBC close linkages to the Chinese government. Anyhow from the reviewed material there is no evidence found that either Aquarius or the project experience any preferential treatment.

Zijin Mining defined as *"a large-scale state-owned mining group"* (Zijin 2013). It is China's largest gold producer, under government control and therefore it is in favor of support through national banks (**SO_{4Cb}**). It seems to occasionally work under limited budget constraints, since some of its overseas projects were financed by the China Development Bank (CDB) (Tandem Post 2013), but no direct financial involvement in the South Africa operations is evident (**SO_{4Cb}**: 5)**.** Besides that, is stated by Cuñat (2010) that *"(l)ower production costs, a sharp increase in mineral production and ample access to financing are some of the key drivers behind the rapid increase in overall competitiveness for Chinese gold mining companies (…)"*.

However, in the reviewed literature was no evidence found that the company works under true soft budget constraints or can be claimed to have obvious competitive advantages through its role as SOE.

5.3.3.1.2 "Wesizwe Platinum"

Wesizwe Platinum is one of the major mining companies in South Africa and is currently engaged in the opening of a platinum mine in South Africa, the "Bakubung Platinum Mine", which is the core of the cooperation between the Chinese Jinchuan Group and Wesizwe Platinum (Wesizwe 2013b). However, the opening date of the new mine is announced to be 2018, so this investigation is restricted to the beginning phase and future planning and therefore will have to be finally verified by future studies.

Labour

SS_{2Cb} describes the labour structure of Wesizwe in 2011, when the company employed only 42 workers directly, while at the construction site a total of 306 were required, which were all employed through sub-contractors and labour brokers. Additionally only 26.8% were documented to be from the local communities (**SS_{2Cb}**: 40). It is expected that at production peak in the Bakubung Mine more than 3,000 people will be needed, but no statements for the kind of employment are given.

Today (2013) are already about 1,000 people working on the construction site, of which more than 300 (30%) are claimed to be local workforce. These are currently mostly contractor employees (Wesizwe 2013a) and it is claimed that the company aims for more local employees. It is announced that with the mine development there will be increasing opportunities for employment during the production phase of the project. These facts are presented in the company's own report and still show the precarious situation of the South African mining workers. The company claims that it tries to find qualified people in the surrounding, but with rather low success. *"The total contractor workforce stands at 1036 staff.*

Our yearly average has been 30.25% local employment from the surrounding communities compared with our Social and Labour Plan commitment of 20% local employment" (Wesizwe 2013c).

Besides that is no information about the wages of the workforce available, which seems unusual, especially after the mining strikes in 2012.[81] The only statement found was: *"Wesizwe aims to maintain salary levels that ensure the company remains competitive in attracting and retaining skills while managing costs"* (**SS_{2Cb}**: 41). They claim several percentages of pay raises, but the actual wage is not stated (apart from the management). Besides that it is crucial that no statements about healthcare services for workers could be found. Generally this is a publicity factor and is stated within a company's social profile.

It is mostly contractor labour described, which suggests that the company does not aim for direct and real employment. These employment rates are rather negative, but these conditions are by far not exceptional in the mining landscape of South Africa. Especially the platinum mines are claimed to be rather exploitative in terms of labour standards and wages. However, mostly the firms are acting within their legal parameters.

CSR/training HCB

SS_{2Cb} states that the core values of the enterprise are *"(e)mployment equity, zero harm to people and the environment, and community empowerment"* (**SS_{2Cb}**: 20) and in that context an investment of R24 million for development projects was announced for 2012. These could not be confirmed, but seem, in the lights of the on-going projects, extremely plausible (**SS_{2Cb}**: 20). Wesizwe claims that in the past year its human resources development (HRD) expenditure was higher than the Mining Charter stipulates (Wesizwe 2013d) and the necessity to address skill shortages in South Africa became recognized earlier this year. So Wesizwe became engaged in a number of skills development initiatives, which benefit the own projects and the whole industry (Wesizwe 2013c). There are currently no reports available, which would assess, or evaluate the social projects (**SS_{2Cb}**: 32).

Ownership

In this case are the linkages between Wesizwe and the Jinchuan Group highly interesting, especially as the finances of the Bakubung Platinum Mine give evidence that the finances are provided by several Chinese institutions. The financing of the project is covered through investments of the China Africa Development Fund (CAD Fund) and the Chinese Development Bank (CDB). However **SS_{2Cb}** states that the

[81] There is no official minimum wage in the platinum sector, in contrast to gold or other mining industries.

Chinese partner will not take any operative action, but determines major decisions of the project. Additionally a leadership change in 2011, whereby Jianke Gao from Jinchuan, became the new CEO of Wesizwe Platinum was an additional linkage (Webb 2011).

SO_{2Ar} describes the main financial linkages and describes detailed the agreement and claims that it includes an equity injection of over US$ 220 million from Jinchuan and the CAD Fund[82] to Wesizwe, which constitutes 45% of Wesizwe's shares.

The Jinchuan Group and the Fund also agreed to offer a preferential loan of US$ 650 million for the completion of the new mine. So the project is additionally seen as *"(a) major step forward in the involvement of the CDB[83] and the CAD Fund in South Africa"* (**SO_{2Ar}**: 15). Extraordinary seems that the CDB bank and the Fund agreed to provide more funding, if the project would require additional contributions. So the financial situation indicates that the budget constraints are less tied and through the Chinese policy banks the liquidity seems rather extraordinary (AU Conference of Ministers for Mineral Resource Development 2011: 39). However, the Jinchuan Group is clearly described as SOE (**SO_{3Cb}**: 3); but it is stated that the group has hard budget constraints and is even claimed to be an extraordinary profitable entity.

Foreign companies failed in terms of competition with Chinese investors, for instance when the Jinchuan Group put in a bid of R8.90 for every Metorex share (one of South Africa's biggest mining companies), or R9.1 billion and was hereby topping Vale's (a Brazilian company) offer of R7.5 billion. The offer came two weeks before Metorex shareholders were meant to vote on the Vale offer (Prinsloo 2011). Events like this seem to encounter often resistance from the competitors, claiming unfair advantage through government finances.

5.3.3.2 Manufacture: "Hisense Group"

The manufacturing sector provides 13.7% of all jobs in South Africa (Statistics South Africa 2011). In this regard **SD_{1Ar}** & **SS_{5Ar}** point out that the brown and white goods sector (Luthra 2013a) in South Africa is an important part of the economy and so this industry is relevant for the investigation of Chinese activities. Out of five domestic brown and white goods producers in 2010 three were Chinese (**SD_{1Ar}**: 25). Besides

[82] (**SO_{2Ar}**: 7, China Development Bank, 2013).

[83] *"China has three policy banks, namely the State Development Bank of China, the Export and Import Bank of China, and the Agriculture Development Bank of China. The three policy banks are wholly owned by the state (…)."* (Li et al. 2001: 151)

that South Africa reduced its imports of televisions by almost 30% year-on-year in 2012, while the exports increased by more than 70% (SouthAfrica.info 2013a).

However, it is claimed that several Chinese electronic firms, like Hisense Group (Hisense) and the TCL Corporation, invested in South Africa (**SD_{1Ar}**: 30ff). Hereby **SD_{1Ar}** & **SS_{5Ar}** claim that the Hisense Group is the most crucial player, since it increased its investments immensely: *"HiSense's initial investment was $0.8 million, which increased to $11.8 million by 2007 and $31 million by 2009 (…)"* (**SD_{1Ar}**: 32). Today is Hisense planning to invest again by opening a new factory for more than R350 million. **GS_{4Ar}** describes that *"(s)ince arriving in South Africa, the company has maintained annual production, sales and profit growth averaging 20-30 percent (…)"* (**GS_{4Ar}**: 9).

The findings about the Hisense Group were partly limited, since some data about ownership and legal compliance could not be generated.

Labour, CSR/training

Detailed statement and company reports were not found regarding trainings, CSR programs or similar, even the information regarding CSR projects in China can be seen as comparatively poor (China CSR Map 2013). In South Africa Hisense's labour situation is determined by new investments, which created already over 300 jobs and the company has stated that it aims to increase these to over 1000 (SouthAfrica.info 2013a). These statements show dramatic changes to the total of 200 employees of the company in 2009.

Today's new facility is claimed to improve the local employment and it is evident that the firm invested *"in a skills-transfer programme led by Hisense technicians and engineers from China"* (SA – The Good News 2013). Besides is assessed that this employments will have *"a profound effect on the economic and social morale of the Western Cape"* (SA – The Good News 2013).

However, seemingly the Hisense Group used to have challenges with labour regulations and is claimed to have argued *"that (capital) productivity in South Africa was about half the level in China, partly because labour regulations restricted overtime and double shifting"* (**SD_{1Ar}**: 32). Furthermore was described that the company tried to avoid effectively the engagement of unions, by *"a move of the plant from Johannesburg to a peri-urban industrial zone(…), with lower labour costs and distance from the trade union offices being important factors in the move together with land cost"* (**SD_{1Ar}**: 32).

Ownership

Hisense Group is the largest, *"partially state-owned company listed on the Shanghai Stock Exchange"* (**SD_{1Ar}**: 25) and it was ranked 116th in the world in electronics (2006). The strong ties between the oversea offices and the headquarter are seemingly evident and are describes as *"(…) closely controlled by head office and presumably tightly integrated into its global strategy"* (**SD_{1Ar}**: 32).

5.3.3.3 Service sector: Telecommunication & IT-Services: "Huawei Technologies"

The service sector is a crucial part of every industry and especially in "emerging economies" like South Africa is the service industry crucial. It is a valuable component of the industry, providing skilled labour and potentially generates enterprises, which can compete on a global scale. Telecommunication is also highly relevant, since it is crucial for any kind of business activities. **SS_{3Ab}** states that almost 60% of the Chinese telecom assets on the African continent are in Algeria, Egypt, Tunisia and South Africa, which shows a focus on South Africa in the sub-Saharan region (**SS_{3Ab}**: 53).

The main Chinese operators on the African continent are "Huawei Technologies" (Huawei) and "Zhongxing Telecom Ltd" (ZTE); both have their logistic centers in South Africa. However, Huawei is in South Africa the main player and involved in several large projects. It was selected by MTN, who is the largest mobile operator in Africa, as main strategic global partner. Furthermore, **$SS_{3Ab\&4Cr}$** claim that Huawei is an extraordinary socially engaged company and it is claimed to be highly advanced in terms of CSR projects.

Labour

The share of local employees outside of China accounts for 72%[84], which is probably much lower in developing countries, considering Huawei's activities in developed countries, where the rate is close to 100%. The local employment in developing countries shows that even the technicians are often Chinese. Leading management positions are almost exclusively Chinese. Comparable numbers for other companies in Angola, reach a local employment rate from over 74% (Tang 2010: 353), but the average local employment in African countries in the telecommunication sector is rather low (37.8%; data 2007).

Huawei claims that it has over 4,500 employees in Africa *"of which more than 55% are local talents"* (Huawei 2013f). According to the company's own information over 30,000 non-Chinese workers are employed, out of a total of 140,000[85] and operations in more than 140 nations worldwide (Huawei

[84] Number varies: *"69 percent of employees working in our overseas offices and operations are locals"* (Huawei 2013f)
[85] 2013 more than 150,000 (Xuelei 2013)

2013a). For Southern and South Africa no information about local employment rates could be found; none of the company publications contained numbers, which is astonishing, since information for North and West Africa is provided (Huawei 2013d).

CSR/training

Huawei is, according to its own statements, highly engaged in trainings and education for telecommunications and leading in terms of CSR and skill development programs. It built several training and education facilities and so ensures a social contribution. Huawei states that this is driven by their own interest, due to the lack of national supply of skilled workers and the trainings are used to create own qualified employees.

A partnership with Telecom at education funds, research subjects and training initiative at the University of Cape Town (UCT) were founded. Besides that Huawei has also set up an IP network training and certification center in the UCT to provide free IP engineering, technical training and certification for Southern Africa. Already in 2008 were about 5 Training centers in South Africa in place and in recent years several community based investments were done (Huawei 2013b). It is evident that Huawei is more active in programs and trainings in other countries and their focus is apparently not the South African nation. Many programs in other countries seem comparable large and are claimed to be extremely successful (Huawei 2013g).

Ownership

China's telecommunication enterprises are some of China's globally most successful firms and are closely linked to the government. ZTE, for instance, is a so called "national champion"[86], what guarantees access to loans with extremely low interest rates (**SS_{3Ab}**: 50f). ZTE and Huawei are both claimed to have close links to *"the Chinese military and intelligence establishments"* and are also claimed to have access to low cost production due to *"(…) access to cheap state subsidized funding sources and state political support"* (**SS_{3Ab}**: 50). This is seen as an competitive advantage, which would not be available to purely private companies (**SS_{3Ab}**: 50). It is remarked that *"Chinese companies can offer services and products at a fraction of the cost of their Western counterparts (…)"* (**SS_{3Ab}**: 52).

Huawei is described as *"(…) perhaps China's most globally successful company, is careful to say it is a collective rather than a private company"* (**SO_{1Ar}**: 199). This is crucial and Huawei self never published

[86] The national Champions are firms (mostly SOEs generated out of former ministries), which are nationally in a leading position and became the firms for China's go out strategy.

any reliable information about its leader and ownership. So this topic became issue to many speculations in the past years. Officially is the company a *"private company wholly owned by its employees"*, but many observers seem to doubt this. Ren Zhengfei, a former officer and founder of the enterprise in 1988, is believed to be the majority shareholder and access to governmental preferential loans seems likely: *"On hearing the company needed funds to compete with foreign firms in the domestic (…) market, Zhu ordered the banks on the spot to support the company"* (**SO_{1Ar}**: 199). Nevertheless in the media the company is mostly introduced as "privately owned enterprise", what is possible, but would not contradict the claims about strong linkages to the Chinese government (Olsen 2013).

It seems evident, that the company's leadership is tied to government and through this crucial monetary support and loans are available. Huawei is described as example for China's "go out" policy and the strategic government support (**SO_{5Ar}**). Besides is documented that the company received initially a state-loan over US$ 8 million, which is denied by the company. However it is stated by the firm that during the early 1990s the company struggled to receive any loan and had to pay immense interest rates, since it was not a SOE. It is admitted that in the end of the decade Huawei received state support, but neither the form nor the volume were published (**SO_{5Ar}**: 3ff).

However, the overseas projects and the mother company are claimed to be profitable. Huawei is claimed to be the second largest enterprise as provider for telecom equipment, but the net profit from operating activities faced severe down-turns between 2010 and 2011, what started to recover in 2012 (Huawei 2013c). Today the company seems to have steady revenue growth rates, which is claimed to further increase in 2013 (Damuller 2013).

Even though it is rather evident that Huawei as well as ZTE are not as aligned as the Chinese approach might suggest and so the companies are even operating in direct competition: For instance an in 2011 published Telkom tender generates legal tensions between the companies. ZTE submitted a bid, but failed the short listing and Telkom awarded among others Huawei as partner, so in the beginning of 2012, ZTE served an application seeking to stop the tender implementation, but Telkom opposed the application (Mahlong 2013).

6 Analysis

6.1 Introduction

The following chapter entails the analysis, which is using the introduced empirical data and sets these in the context of the paper's hypotheses. The findings are assessed in regard to the earlier introduced theories and the goal is to generate a conclusion about verification, or denial of the hypotheses. Therefore the empirical data (see previous chapter) is set in the context of the introduced theoretical frame, hereby are indicators for the hypotheses with regard to the theoretical concepts assessed. Later a comprehensive insight about China's political strategic alignment is given. Finally both findings are merged and in each separate section a brief summary about the theoretical foundation is given to ensure a complete understanding.

To ensure as short and clear overviews as possible mainly policy advices, which are based on the theoretical concepts, are used to briefly recall the main theoretical assumptions. It also examines remarkable findings and material limitations. Correlations and conclusions are in detail explained and set into the problems context[87]. The data are analyzed regarding their positive influence on development.

6.1.1 Material/ sources

The material and data situation calls for the following comments: First a great incoherence among the sources was detected and several studies appear inconclusive, especially set in the context of additional data and events. This incoherence seems rather exceptional in an academic context, even though most academic debates entail contradictive perspectives, but here the extent of incoherent facts appears comparatively high. Some studies claim to provide comparisons between Chinese engagement and other actors, but eventually lack any comparative approaches, so statements are often missing a real comparison[88].

Many generalizing statements seemed often unproven or highly doubtable[89] and unfortunately even official databases can be seen as rather unreliable. It appears that notions and assumptions are often stated as facts and conclusions seem to lack causal logic. Besides that, some academic sources seem to

[87] The analysis of the empirical material is in its order not aligned to the empirical findings, since the theoretical relevance is for this section determining, while in the former part a logic order about FDI facts was more adequate.
[88] **GS_{2Ar}** for instance, shows CSR limitations and developments in Chinese contexts, but lacks reflective evident integration of European firms and approaches.
[89] For instance including statements which are in the data survey described as doubtable

avoid critical reflections and provide rather biased perspectives[90]. These circumstances made the investigation complicated and challenging.

However, some investigated data seem reliable and are used to interpret the impacts of Chinese engagement; but also incoherencies and lacks of information are, if observed, identified. Therefore it is crucial to analyze the data with great awareness of these restrictions.

It is crucial to mention, that today crucial changes in terms of data availability can be stated: Chinese companies seem to become more transparent and begun to state company information (see Huawei and Hisense). However, detailed data about ownership and finances are often not available. Hence, this information is often fragmentary, which limits a comprehensive insight.

6.2 Analysis I

The actual findings about the Chinese activities in (South) Africa are extremely diverse, due to the above mentioned restrictions and also due to diversity in the issue self. The material was collected with the purpose to find information regarding the South African case in specific; nevertheless findings about the continent and the sub-Saharan region were coincidently made and these have also to be taken into consideration. The empirical data show a great difference between Chinese activities in South Africa and the rest of Africa in almost all crucial dimensions.

The first hypothesis states that *"Chinese FDI has little, or less positive impacts - especially in terms of human capacity development."* And It is assumed that: *"(…) the benefits of MNE presence for human capital enhancement are commonly accepted"* (OECD 2002: 15). So for the purpose of this paper it is crucial, whether this accounts also for Chinese firms and the analyzed dimensions include, according to the conceptual frame, impacts on South Africa's labour conditions, the impacts through social engagement of Chinese enterprises and knowledge and skills transfers; all these are interpreted in regard to their facilitation of human resource development. Additionally legal compliances of Chinese firms are examined, with a focus on legislation aiming to ensure developmental benefits.

6.2.1 Analysis labour

Already in 2002 the OECD stated a correlation between increasing labour conditions and foreign investments: *"Among the other important elements of the enabling environment are the host country's*

[90] Salidjanova (2011); Silk and Malish (2006: 105) with statements about purely extractive interests seem rather single-sided and often lack evidence

labour market standards." (OECD 2002: 14). As examined in the theory section of this paper the FDI influences on labour markets are commonly identified as important aspect for any host nation. It is assumed that FDI generates new circumstances, like competitive pressures, skills increase, job creation and more and generates hereby positive implications for many dimensions of labour[91]. The theory describes additionally the impacts which are created through a regional or national increase in wages for qualified labour through inter-company competition.

However these "positive spillovers" are not seen as guaranteed and they were only in some of the reviewed investigations evident (Lipsey and Sjöholm 2004). Besides that, also negative impacts seem possible and were stated in several theoretical works and found in some studies. Especially the damaging of local industries and local job creation is seen as possible harmful aspect (Lipsey and Sjöholm 2004).

To assess whether the impacts of Chinese companies differ in comparison to other firms, the labour conditions were examined and "good labour practices" are hereby seen as necessary condition for these positive impacts: *"(…) empirical studies have found a positive relationship between FDI and workers' rights. Low labour standards may, in some cases, even act as a deterrent to FDI (…)"* (OECD 2002: 20)

The findings about the Chinese activities were highly diverse, but the data entailed no findings about any systematic or severe labour rights violations in South Africa. This seems surprising in the light of the negative mainstream perceptions about Chinese employment standards (Wasserman 2012: 337)[92]. Nevertheless, evidence was found that some employment conditions in Chinese partnership entities in primary industries were comparatively bad. Especially platinum mines were found to make extensive use of marginal employment forms like sub-contractor work (Botterweck 2012). The Chinese companies seem to be hereby no exception.

For instance Aquarius Platinum, states that a great majority of direct employees are located in Zimbabwe, where only a small minority of the total workforce is represented. In South Africa, on the contrary, with the clear majority of employees almost all employees are contract workers, which face exclusion from many legal and social benefits (**SS_{1Cb}**). According to these findings it is likely that there is something different in Zimbabwe.

[91] For more detailed information see theory chapter

[92] E.g. *"China's support for corrupt African leaders in undemocratic regimes, Chinese companies' harsh labour practices and the importation of Chinese labour to the exclusion of local workers (Sautman and Hairong 2007)"* (Wasserman 2012: 337)

Two main explanations are possible: First, that it is not advantageous to employ via sub-contractors in Zimbabwe, or secondly, that direct employment here has less constrains from a company perspective. For the first assumption no evidence was found, but the latter seems likely, as Zimbabwe's labour regulations are estimated as less advanced, law enforcement is claimed to be inefficient and labour union activities seem less organized (Kalula et al. 2008: 36, Mpariwa 2012: 6). So the possibilities for workers, to enforce their rights appear comparatively poor and firms expect less constrains from direct employment. The outcome in this case seems extreme.

Besides the type of employment, also the local employment rates are crucial for the impacts of a foreign enterprise and here the investigated companies state a major focus on local employment rates. Companies like Huawei seem to have less local employees than what would be preferential for the national economy. It employs over 30,000 non-Chinese workers, which seems large, but appears less positive according to a total employment of almost 150,000 and operations in about 140 countries (Huawei 2013a); especially considering that its main overseas activities in developed countries have a higher national workforce percentage. However, it is claimed that low skill levels among the local population[93] would hinder companies to employ locals (**SS_{1Cb}**). Some companies seem to have changed their approach on local employment and labour rights just recently. **SD_{1Ar}** states that for instance Hisense used to try to circumvent labour union activities and local employment, but this seems to have changed and the strategy seems to be highly concerned about its local impacts (SA – The Good News 2013).

In many directly Chinese owned operations, local employment rates are comparatively low, but in South Africa within the legal frame. A Chinese workforce appears to be preferred (**SS_{1Ar}**, **SD_{3Mb}**, Rasool et al. 2012) and this is often interpreted as *unwillingness* of Chinese leadership to comply with labour standards, or claimed to be expression of existing mismatches in terms of work standards (**GS_{1Ad}**). Some observers claim additionally that specific administrative structures of Chinese companies would require, or at least benefit, a Chinese workforce (e.g. **SD_{3Mb}**).

Another possible interpretation for the less local employment is that the employment is simply complicated by the given language barriers. These can hinder intra-company communication, while large Western companies are generally communicating in English. Companies try to avoid challenging situations, so it seems rational that the Chinese firms might try to avoid this problem.

[93] *"According to the Harvard Group (2008), this loss of skills or human resource deficits are a major limitation to advancing economic growth prospects for the country"*.

Anyhow the circumstances, regardless of their cause, can be seen as hindering for positive impacts of the FDI. Therefore it can be assumed that in this regard Chinese companies have less positive impacts than comparable firms. Nevertheless it is crucial to point out that this seems not to be caused by negative intentions. However, it can be stated that it seems that labour conditions are determined by industry sector, rather than by the origin of a company.

Apart from working conditions are the wages relevant for the FDI impact, so it is important whether a foreign presence increases wage levels. This can be investigated in terms of salaries of firms and whether spillovers through competitive pressures are created.

This indicator was rather difficult to investigate, since in many cases reliable information was not accessible. But it became clear that manufacturing firms seem more interested in publishing (positive) wage statistics, whereby they usually claim to pay over the sectoral minimum wages[94]. The mining companies, on the contrary, are giving less information and for example Wesizwe justifies low wages by the necessity to stay globally competitive in terms of production costs (**SS_{2Cb}**). These pressures appear partly evident: *"South Africa, where production costs in the gold and platinum mining sectors already are high. Labour is a significant component of these production costs. Hikes in labour costs, (…) would further decrease competitiveness"* (STRATFOR 2012). This strengthens the assumption that it is a structural problem for primary industries[95].

So spillovers on wage levels appear unlikely, since it is already a great lack of qualified workers evident, which means that the competitive pressures already exist. On the other hand the possibility that the Chinese FDI might have a negative impact, whereby the competitive pressures harm local businesses (as for instance Lipsey (2002: 19) observed), was not found to be evident. So both, the negative and positive, assumptions about spillovers in terms of wages could not be observed and therefore could neither be confirmed nor evidently denied.

However it is crucial to state that some findings about Chinese labour engagement show, according to several sources, that some Chinese companies committed severe human rights and labour standard violations in other sub-Saharen countries (**GS_{1Ad}**). This seems to be especially evident where the governments lack institutional capacity which seems to lead sometimes to abuse by foreign investors.

[94] *"Huawei not only adheres to the local minimum wage laws and regulations but also implements a very competitive compensation system"* (Huawei, 2013f).

[95] Agriculture is with strikes and wage demands also engaged, but this would be out of the scope of the paper (Stanwix 2013)

This is coherent with the OECD (2002: 23) statement: *"In cases where domestic legal (…) frameworks are weak or weakly enforced, the presence of financially strong foreign enterprises may not be sufficient to assist economic development (…)"*. This accounts less for manufacturing firms like Huawei and seems more evident for primary industries or low cost manufacturing firms (e.g. textile or Chinese mines in Zambia ($\mathbf{GS_{1Ad}}$)).

In summary it can be said that the positive impacts on South Africa's labour conditions by Chinese firms are probably less than what could be expected from this investments; but they create work, which is, even though it might lack behind expectations, highly demanded, especially in a country where the unemployment rate is estimated about 25% (Cholet 2009, Lipton 2013). In regard to the introduced theory can be said that it could not be found that the Chinese companies influence the labour conditions or wages in South Africa in any significant structural manner. It is crucial to keep in mind that this is only an observation for South Africa and the defined industries, though even there might be some exceptions.

6.2.2 Human capital development: CSR and trainings

To examine the range of the Chinese FDI impact and to assess whether it has, like the hypothesis states "less" positive impacts, an investigation of social projects and skills trainings of Chinese firms is necessary to grasp the potential outcomes. It is stated that *"(o)nce individuals are employed by MNE subsidiaries, their human capital may be enhanced further through training and on-the-job learning"* (OECD 2002: 14). Several features of the "modernization approach" point out that the aspect of "human resources" can be seen as the main driver for a sustainable economic development of a nation (Gilroy et al. 2005).But it is stated that only nations with a certain level of development are actually capable to convert the outcomes in positive impacts on the national development. According to the theoretical concepts two main preconditions have to be given:

First, an existing basis of human capital (like public education) is needed to ensure that FDI can have positive effect on human capital. Here is to say that South Africa is a country with a comparatively low educational basis, what is a rather negative precondition and might not be appropriate to facilitate the effort of the firms[96] (OECD 2002).

Second, the legal conditions have to be implemented to ensure the occurrence of positive effects (Moran 2005). In South Africa a mandatory social approach for large companies is implemented to

[96] Whether the conditions are sufficient cannot truly be assessed because of not identified parameters.

promote their social engagement (tralac 2004). So it is to say that South Africa seems to fulfill at least the second of the minimum requirements.

The general information about CSR and trainings in Chinese firms is extremely diverse: As shown in the empiric section, some observers claim that Chinese firms would have no intentions towards social projects. Further is pointed out that this is caused by the underdeveloped social activism in China (**GS_{1Ad}**). Others describe the observation of dramatic changes in the Chinese CSR approach in recent years, driven by an increasing interest and engagement from many large companies. Many sources show national policy changes towards binding CSR regulations (**GS_{2Ar}**) and this paper's sample of firms' shows that many of them publish social responsibility reports (**$SS_{1\text{-}2Cb}$**). So it seems evident that the Chinese companies are aware and engaged in the topic of social engagement.

However, this does not account as assessment in terms of quality, or sustainability of the social projects and the pure existence is not enough to draw sufficient conclusions about effects. It is difficult to assess the real effectiveness of the Chinese projects, since their monitoring and evaluation processes are either not implemented or not published. For instance "Aquarius Platinum" and "Wesizwe Platinum" implemented several projects, but the information about these are not validated (for example through an independent institution) (**$SS_{1\text{-}2Cb}$**), what creates uncertainties about reliability, especially since the main goal of a reports is positive publicity.

However, many firms declare that their interest in trainings and skills development is in South Africa driven by self-interest, since they need to ensure an adequate workforce for their demand (**SS_{4Cr}**, **SS_{1Cb}**). These trainings can be assumed to be successful, since they need to ensure a certain degree of skills for own employees. Even though this is an important aspect for companies' impacts, the number of people reached by these trainings seems generally limited (**SS_{1Cb}**).

The reviewed reports show a lack of assessments about achievements and they often contain only numbers of participants and expenditures. Wesizwe Platinum for instance describes extensive CSR activities, but there are no publications about successes available and just statements about costs are found. The Hisense Group also appears less advanced or interested in the assessments (China CSR Map

2013) and among the investigated Chinese operations Huawei appears most advanced in evaluations of their CSR work and trainings[97].

Furthermore, it seems that trainings and CSR activities are sometimes more focused on positive publicity effects, what becomes evident when information regarding goals or sustainability are not stated (**SS_{1Cb}**), what is not a unique Chinese feature. It seems often not to be an integrated aspect of the company structure[98], what seems to be different for Western companies (**GS_{2Ar}**). Therefore it can be assumed that the actual impacts of Chinese entities might be lacking; but due to the increasing facilitation of social programs a development in their efficiency seems likely.

However, it has to be taken into consideration that, in today's globalized world, companies have several host destinations and focus in terms of social activities on specific regional areas. For instance Huawei is more active regarding CSR and trainings in other countries and not focused on the sub-Saharan region (Huawei 2013g). It is common that companies focus social engagement and this is of course less beneficial for South Africa, but this shows that the company's origin is not the main determinant for CSR. In the case of this study it became clear that especially the manufacture and service provider are socially engaged.

Additionally is observed, that often the affiliates in the foreign country are the implementing entities for the social projects, which is for example evident in the case of Huawei whereby the partner Telcom is carrying out the social projects (**SS_{3Ab}**). These activities are often not accredited to the Chinese companies, although these are often the main financiers. The statements, which claim that the Chinese companies are not engaged in technological or knowledge exchange, seem not valid. Findings show that Chinese companies might lack a bit behind in "the best practices", but are mostly engaged and increasingly developed.

The material and literature seems often to presume negative intentional behavior and does not take all information into consideration, which shows that the generalizing pictures of the social violating and irresponsible Chinese businesses seem inadequate.

[97] Even though many of these data are regarding other countries and not South Africa, this shows an advanced approach and sufficient methods.
[98] This is also evident when internal trainings are described as a part of the social responsibility and not as aspect of the usual working procedures.

However, also South Africa's basis of human capacity has to be taken into consideration: *"The factors that hold back the full benefits of FDI in some developing countries include the level of general education and health (…)"* (OECD 2002: 21). Hence it is crucial whether the country provides the necessary basis to facilitate the positive impacts and these conditions are in South Africa unequivocal, since the education is in average extremely low. So benefits of skills and knowledge transfers might be less effective due to limited absorptive capacities (Nunnenkamp 2004). There are no clear standards or benchmarks depicted, which would determine necessary minimum conditions; however regarding the theoretical description it seems that these cannot be taken for guaranteed in the case of South Africa.

Hence it seems possible that the real value of the Chinese activities cannot be sufficiently assessed, since the constraints might hamper the effects. So in this case the impact might not depend to a sufficient extent on a company's origin. However, it seems to be an important dimension for South Africa that Chinese firms provide basic education (e.g. Huawei), which has certainly positive impacts on human capacity (Moran 2005: 303).

On the national knowledge level evidence for knowledge spillovers, which imply new knowledge or technologies (not existing in the host nation) was not found, apart from Huawei's university program. Also the partner firms claim occasionally, that the Chinese affiliates are not expected to provide any knowledge transfer ($\mathbf{GS_{1Ad}}$: 136) and there are cases evident where the Chinese company simply has less knowledge than the host nation company: The Jinchuan Group, for instance, states that they are relying on the South African expertise and that they exclusively ensure the financing structures. In some industries Chinese superiority seems not given, which limits possibilities for knowledge transfers to the South African industry[99], but this cannot reasonably be correlated with an *unwillingness* to facilitate knowledge transfers.

So in summary it could be found that in terms of their social engagements and trainings the Chinese companies are certainly no role models, but seem to have adequate approaches and appear as rather positive addition. It seems clear that the degree of development of the activities is less advanced compared to Westerns standards, but the intentions to develop could be observed. Whether the Chinese companies will truly evolve their approaches remains to be seen.

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[99] Here is by no means said that the Chinese companies are not evolved, but it needs to be kept in mind that the South African industry is in many ways as advanced as developed industries and many so crucial technical advancements are often already in place.

6.2.3 Legal compliance

The legal compliance of companies is crucial since the legal frame often ensures the beneficiation of a host nation from foreign investments. It is claimed that a crucial precondition to ensure positive FDI impacts is a sufficient legislation and rule of law: *"In cases where domestic legal, competition and environmental frameworks are weak or weakly enforced, the presence of financially strong foreign enterprises may not be sufficient to assist economic development (…)"* (OECD 2002: 23). In the previous section of this chapter is already the legal compliance regarding labour laws and employment regulations partly examined. So additionally here the compliance to regulations is assessed.

Several different laws and regulations are included, since in South Africa investments are *"subject to domestic regulations in a number of spheres (…) such as capital controls, competition policy, labour policy, intellectual property, taxation, environment, privatisation and empowerment"* (tralac 2004: 4). Violations and/or circumventions of these regulations give evidence about companies' impacts, since it is crucial that foreign firms contribute to the development. It is important that South Africa to ensures a balance between a FDI promoting legislation and the national resources share for the society. In terms of these regulations is claimed that *"These (legislations) may pose challenges to foreign investors especially with regard to the availability of skills"* (tralac 2004: 7). This strengthens the assumption that Chinese firms might try to avoid the opening of own operations, to circumvent South Africa's these difficulties (**SD_{1Ar}**: 8). These findings, show according to the *"liberal"* streams of theories, that the avoidance strategy would lead to less direct engagement, which implies less advantages for the national economy.

The results regarding in specific Chinese investors were diverse and surprising, since contrary to expectations (emerging from several negative media statements and academic notes) no severe or systematic legal violations in South Africa were found and only single cases of complaints were evident. Nothing gives evidence for misbehaviors, especially none that could be correlated to the origin of a firm. This could imply first that either the legal frame or its enforcement might not be sufficient; or secondly, that no severe violations were committed. The legal structure in South Africa is commonly seen as rather advanced and therefore it seems likely that no systemic violations were committed.

The most legal conflicts were observed in terms of competition especially regarding public tenders and contract acquisition. Chinese firms were repeatedly accused to act against competition regulations and it is frequently claimed that the Chinese would be illicitly privileged when granted public contracts.

These legal conflicts are usually containing questions about unfair competitive advantages, which were, so far, mostly solved in favor of the Chinese enterprises (Stone, 2013). However these accusations are rather explicit and are mostly taken to court. So it can be said that, according to the findings, Chinese companies comply in South Africa generally with the legislation and national regulations.

According to the *"liberal economic"* theory concept, can these even lead to advantages for the national economy, since it in can be seen as sometimes seems to lead to a more competitive level of the South African companies (e.g. Wesizwe Platinum in $\mathbf{SS_{2Cb}}$).

They are found to be complying in the required frame and so it seems clear that Chinese enterprises are not *"resisting"* against the legal incentives and follow legal pressures as every company.

In summary, in terms of legal compliance it can be stated that the Chinese companies were not found to either severely violate any human or labour rights, nor that China seems to prioritize South Africa's economic development. This makes Chinese companies seem comparable beneficial to other foreign investments that comply with national regulations.

6.3 Analysis II

It is crucial that positive impacts of FDI are by no means given and even though the dominant notion about FDI describe it as important asset for development, it is noted that it can also imply negative features for a host economy (Lipsey and Sjöholm 2004). So this second part of the analysis investigates the hypothesis: "*The Chinese FDI has negative influences on South Africa, since it strategically facilitates dependencies and harms the local economy through "unfair" competition."*

To assess its validity an investigation of overall structures and linkages of the Chinese OFDI is inevitable. It is crucial to point out whether single-sided dependencies between the countries are evident[100] and if so, whether these are intentionally created by the Chinese actors. Especially the extent to which a strategic approach is evident is hereby important. So the investigation aims to assess observable strategic alignment and political influences. It finally concludes whether a neoliberal perspective could be limiting regarding China's activities and whether other concepts would be useful. Crucial is whether Chinese companies act in alignment to national power interests like as part of a strategic plan to gain power, a realism based theory might be an appropriate macro perspective[101].

[100] An extreme influence of one country in strategic sectors could lead to dependencies (Moran 2004)
[101] for more information see theory section

The first step is to assess empirical data in terms of FDI composition in the South African economy regarding its volume, sectorial distribution and finally to investigate inter-company competition among Chinese companies:

The findings regarding structure, volume and distribution of Chinese FDI are diverse and the official data sources were in several studies described as rather unreliable (so conclusions have to be drawn with this limitation in mind) ($\mathbf{SD_{1Ar}}$).

Nevertheless, information and especially academic statements describe the volume of Chinese FDI (stock and flow) as comparatively low in South Africa; it seems to be significantly less than the media attention would suggest ($\mathbf{SD_{1Ar}}$; $\mathbf{GD_{1\text{-}6P/A}}$). Almost certainly the constant media coverage seems to provoke international concerns and the presented view, about extensive Chinese activities might be reality for other bilateral matters, but apparently not for the FDI linkages. Furthermore seems the lack of differentiation between the African countries to generate a distorted picture of the reality, which appears to be extremely misleading.

Academic findings suggest, although the reliability of the data is limited, certain conclusions: The Chinese FDI is existent, but its volume is comparatively low, even though it appears to have strongly increased in the past decade. The Chinese plants and factories seem to make only a small percentage of South Africa's total FDI (Rosen and Hanemann 2009), so in terms of too excessive representation of Chinese FDI and hereby facilitated dependencies can be said that this seems extremely unlikely. The volume appears not significant enough to generate this kind of extreme impacts[102], but the rapid increase might change future pictures. It seems evident, that even if the growth of FDI continues it would take time to increase to a point where the volume could be seen as a serious dependency threat for South Africa's national economy. Most studies agree that China is a comparatively stable and valuable FDI source, but with no extensive influences yet ($\mathbf{GD_{1\text{-}6P/A}}$).

From the theoretical perspective can be said that the observations give no evidence for a strategic plan for power increase, especially seen the minor volume of FDI, since for a power increase a higher amount would be needed. The Chinese government is clearly supporting certain OFDI, but there is no evidence found that this is more than pure long-term security for the own economy.

[102] It is crucial to mention that here only the direct investment is taken into consideration, whereby other economic issues could come to different results.

6.3.1 Sectorial distribution

The academic investigations are often less focused on the FDI volume than on placement and distribution among the main economic sectors, which is in alignment with the theoretical concepts; but it is fundamental to keep in mind that the rather small volume of FDI in general also determines the impacts of FDI in different sectors. Nevertheless is a closer look on the distribution necessary to grasp the structure of Chinese engagement in South Africa.

The varying theoretical perspectives claim different relevance for the sectorial distribution of FDI. One notion suggests that some FDI locations, in terms of industries, are more beneficial than others; here is stated that manufacturing and service sectors are more beneficial for host countries than investments in extractive or primary industries (Alfaro 2003). This represents the current dominant notion, but the extent of these differences is not commonly agreed on.

The second perspective claims that investments in extractive industries are more damaging for a host nation than the actual benefits are (Re-Define 2008). This view is less commonly agreed; but in this concept are also dangers of strong dependencies described, which are seen as possible threats for a sustainable development (Asiedu and Lien 2011). The latter can be seen as a rather agreed aspect, since a clear need for diversification and the preferences for “advanced” industries, like manufacturing and services, is an agreed feature of most concepts.

Others, like Moran (2005), emphasize that countries, with low human capital basis, need to have a gradual shift from low skilled and labour intensive industries towards more advanced industries. This is certainly important for South Africa, since it has a comparatively low skilled workforce; but on the other hand the country has already advanced industry branches on the level of developed nations and can therefore also be seen as a developed nation, which has to facilitate the shift towards a more diversified industry.

After the research can be stated that, as $\mathbf{SD_{1Ar}}$ points out, official sources often provide implausible data and the information on sectorial distribution of the Chinese FDI in South Africa seems often not really reliable.

Several academic studies describe that the Chinese OFDI is mainly used by the Chinese government to secure the national raw material demand: *“As a consequence of the global financial crisis, China has taken advantage of lowered prices on overseas investment opportunities to extend its global reach,* *especially in the natural resource sector"* (Salidjanova 2011: 25). This would mean that the majority of Chinese investments are in the primary industries, which could have negative implications, or at least less beneficial implications for South Africa (Alfaro 2003). However, the data overview shows that, in contrast to the common notion, a high diversity in the sectoral distribution of the Chinese investment can be assumed. Davies (2012: 1) found: *"While the country's OFDI continues to go into tertiary and primary sectors, there are signs of gradual sectoral diversification."*

Especially an increase in the diversification after 2009/2010 is evident, and the distribution appears not as single-sided as often described. **GD_{5Pn}** & **SD_{1Ar}** identified an almost equal percentage of volume for the three sectors, even though the primary industries appeared slightly stronger. Gelb (2010) describes a great focus on extractive projects and he identifies that, apart from the Standard Bank investment, between 2007 and 2008 the six largest investments were undertaken in the mining industry. This features changed and today's new projects appear more focused on manufacturing industries and factory greenfield investments[103].

It seems evident that South Africa became a favorite destination for Chinese companies as foreign market as well as location for market access to other sub-Saharan nations (e.g. Hisense) (Burke et al. 2008, Cokayne 2012, SouthAfrica.info 2013a)[104]. These insights contradict the notion of pure extractive focus of the Chinese investments. So statements like *"most high profile Chinese investments in Africa are focused on resource extraction (…)"* (**GS_{3Ar}**: 8), seem today less valid and it seems that especially for South Africa the presumed strong raw material focus appears exaggerated.

So the findings show that there is certain diversity in Chinese FDI, but the question remains if the sectorial distribution might have "negative" impacts for the South African economy? Is there evidence that the enterprises are explicitly targeting industries to generate dependencies and to facilitate political power structures of China?

This has to be answered in causal context: So the first conclusion which can be drawn is that it seems to be true that the extractive industries are to a certain extend prioritized by Chinese investments, but are by far not the only investments and so different industries benefit from the engagement (**SD_{1Ar}**). There are clear policy statements from China, which declare that the resource security is one major aspect of

[103] Beijing Automotive Works (BAW) South Africa invested R196 million in a new facility in Springs (Cokayne 2013); or First Automobile Works begun construction of a car plant (Cezula 2012)
[104] *"Chinese vehicle brand Chery is making an assault on the highly competitive small car segment in South Africa and has given an indication it is targeting other markets in Africa"* (Cokayne 2012)

Chinas OFDI. It is also issue to preferential and supportive activities (Salidjanova 2011, Zhang 2005) and this resource driven strategy seems in fact rather direct than policies of other countries. Nevertheless it gives no evidence that the main interest would be political power extension and appears more driven by the need to secure the strongly demanded raw materials for the own economy; what is common for most nations, especially the ones depending on raw material.

So according to the theoretical notions the benefits out of the Chinese investments could be seen as less beneficial, due to the preference on primary industries; but the increase and diversification of the past years lead to the conclusion, that it has the tendency to become more heterogeneous and so also more beneficial.

Additionally, the other notion is that South Africa's developmental level primary industries might not be as favorable, but might be needed to increase the national level and to facilitate a shift towards more developed human capacity and industries (Moran 2005). This can according to the collected data not be confirmed, but it seems possible that labour intense industries with low skilled work benefit South Africa currently immense. South Africa is an extraordinary case and it is hard to draw a definite conclusion, since this country is unique in its developmental status (Maswanganyi 2013); but sure is that it would benefit more from advanced industries increasing the global competitiveness.

Given these insights it can be said that it seems like the sectorial distribution of Chinese FDI in South Africa is maybe not (yet) one of the most preferable constellations for inward FDI, but it seems also not more negative than other FDI. Regarding the theory it cannot be seen that the Chinese engagement is negative due to its sectorial contribution, but that China seems also not to put excessive effort to increase South Africa's benefits (what can hardly be expected). So statements that the Chinese FDI is extremely negative in its constellation seem highly exaggerated and furthermore, it has to be taken into consideration, that South Africa as country with great raw material resources is responsible to ensure beneficial conditions and that this is not a responsibility of any foreign firm (OECD 2002).

6.3.2 Ownership and loans: The "unfair competition"

The following section focuses on possible negative impacts on the South African economy through "unfair competitive advantages" of Chinese companies. Hereby the political alignment and apparent strategies for investments are investigated and, if existent, analyzed. Especially evidence for governmental influence is critically assessed, the exercise of influence on private companies through political regulations is examined and company ownership is in the focus. The channels of "unfair" advantages like monetary support, preferential loans, or advantageous conditions in the home country, like extreme low production costs, or a monopolistic status at the home market, are identified (for further details see chapter 5.1).

The main findings about the Chinese companies imply indeed some exceptional financial support, which seemed to have helped in certain cases Chinese firms to outbid other foreign investors (Prinsloo 2011) and here the main Chinese advantage are the preferential loans. This could harm local firms, but regarding the investigated firms most Chinese companies already profited from preferential loans from the policy banks; however in most cases this is not evident for operations in South Africa. Of course it could be argued that the governmental financial support, no matter for which project in which country creates misbalances, and would give advantages to Chinese companies. This might be true but the necessary correlations for this assumption seem not evident and no direct linkages could be found.

However, for instance the engagement of the Jinchuan Group in the Wesizwe project has been benefitting from Chinese financing (**SO_{2Ar}**) and the same is claimed for Huawei, but here neither the form nor the volume were published (**SO_{5Ar}**: 3ff). In these cases the main competitive advantages, that could be observed were towards other foreign companies and did not affect regional or local industries. This makes direct harm for South Africa’s industry rather unlikely.

Furthermore is often stated that the Chinese investments are in sectors, where no other investors were capable or willing to engage, which could be seen as major advantage; but this is most certainly not the case in the extractive industries. The only evident critiques were apparent in the context of public tender agreements, whereby especially doubts about the local content of production chains in Chinese firms were made (Stone 2013); but especially the high import rates and therefore less local manufacture in South Africa is criticized. However, it seems that most complaints came from other industry nations, losing tenders and projects to a new emerging counter player. This can be a fundamental issue, but cannot be seen as a problem truly regarding investments and is therefore rather one more bilateral issue and so unfortunately beyond the scope of this study.

However apart from preferential loans and the public tenders are also ownership structures of companies relevant, since these might help to identify political strategies, if existent. Details about the concrete ownership are often not published and only through deeper investigations and or other studies could be some structures identified (e.g. **SO_{1Ar}**). The majority of investigated firms is, as expected, SOEs or have at least close ties to the Chinese government. Most of them are even the so called Chinese “flagships”, what shows that they are successful businesses in China and appointed to be Chinas global players (Huawei and the Hisense Group (**SD_{1Ar}**)).

Influences seem not to appear directly in South Africa and appear only indirect on competitive issues and the linkages would become probably more evident on a global macro-economic scale if existent. Regarding the question whether the unique ownership structures imply negative effects for South Africa no direct evidence was found.

Nevertheless it is to say that it does not seem to have harmed local businesses to an observable extent and Chinese partners seem often to be favored affiliates by South African institutions and local companies, since they have been proven as reliable and less restricting in terms of incentives and demands. So South African companies seem to have many advantages in terms of joint ventures with Chinese SOEs and no clear negative effects could be detected.

To ensure a holistic perspective it is crucial to pay some attention to China’s “strategic approach” in terms of resources security and political power increase. Hereby is crucial, whether it can be claimed that China’s companies are used to ensure political or economic power in foreign countries and this would be evident, if unilateral dependencies would be facilitated. In this regard can be said that the governmental ownership of the Chinese companies does not seem to have a great impact on the overseas operations; of course support from the home country is evident, but a total strategic alignment could not be observed. The Chinese companies seem even to compete among each other (Mahlong 2013), which contradicts the assumption of a strategic unity.

Besides that seem the firms to operate under usual *hard* budget constraints, which would make them as vulnerable for costs and profits like other (Western) entities and all investigated projects are stated to be profitable and most of the companies are described as global successful players; for instance is Huawei claimed to be the second largest enterprise as provider for telecom equipment and the company had steady revenue growth rates, which are claimed to further increase in 2013 (Damuller 2013, Huawei 2013c).

Besides that, is stated by Cuñat (2010) that *“(l)ower production costs, a sharp increase in mineral production and ample access to financing are some of the key drivers behind the rapid increase in overall competitiveness for Chinese gold mining companies (…)”*. This implies financial advantages, but cannot be found to be extraordinary in today’s financing structures of companies, where frequently great loans and agreements shape the economic landscape.

Only the loan structure for the Wesizwe cooperation seems extraordinary beneficial and the statement that more finances could be supplied if demanded could fuel doubts about the limitations and competitiveness. This fact is rather exceptional, but there could be no evidence found that this would negatively influence the South African mining branch, nor that this is part of a strategy to gain and sustain political power. This would be the case if more similar investments could have been detected, but the parts the Chinese hold in South African mining do not yet appear extraordinary, neither from amount nor from location.

So it seems that the scope of investments is just partly determined through Chinese policies and direct negative impacts could not be observed. Also the intentional facilitating of single-sided dependency is not seen as evident and so another theoretical perspective could not be found to be beneficial.

7 Conclusion

This study has shown that the Chinese investments in South Africa are a complex topic and therefore the stated hypotheses could neither be finally confirmed nor denied. However, certain aspects and features could be assessed and in regard to the first hypothesis can be stated that, although it is evident that in some cases Chinese companies lack behind the expected positive impacts and might also be less beneficial than other firms, they are in no way not beneficial. The findings show that the industrial sector often plays a more crucial role for the positive impacts than the origin of the firm. Besides that became evident that the Chinese seem to comply with regulations as much as comparable companies and so have comparable impacts. Certain circumstances might be hindering the benefits, but the companies seem to undergo transition processes, which might change this in the future. The lack of human capital in South Africa is dealt with by Chinese companies, which apparently lack behind in this kind of engagement, what seems to become also an addressed topic.

The second hypothesis can only partly be denied conclusively; it seems evident that the Chinese government supports strategically the investments of its companies and most of them are even directly state controlled, but there is no evidence found that this had damaging or harmful impact on South Africa's local competition. Furthermore the strategic alignment seems driven by interest of the state and preferential circumstances are generated, but a "master plan", to increase dependencies or political influence of China, seems extremely unlikely. It became clear that in some cases the financial support made the competition for other foreign firms harder, but a systemic impact of this is not seen as evident. Seen in regard to the actual impacts can be stated that these depend less on the origin of the enterprise, than whether the notion of FDI generally is positive, or one that is determined by rather negative perceptions.

Especially when the intentional impacts are assessed, it has to be taken into consideration that China's tradition in FDI is extremely short and experience and knowledge is still improving. It appears that the expectations of observers do not take this into consideration. It can be said that the Chinese firms appear much more compliant and comparable to "Western" firms than expected. Anyhow, it is the South African government's task to create the structures which ensure further benefit. This is not the Chinese companies' duty.

Apart from the results regarding the hypotheses, some insights regarding conceptions and scope could additionally be generated. It became clear that the investment relationship between the two countries is still in its infancy and the exaggerated media attention draws a distorted picture of the reality.

It can be said that the unique context of South Africa as investigative unit reduces the transferability of the results immensely. This is crucial, since this indicates that the findings cannot be assigned problem-free to any other nation, or context. It seems that many findings are only valid in this specific context and that a different scope could have generated contradictory results. It would have been beneficial if this could have been a part of a more holistic study to generate a more general conclusion. Furthermore is doubtful, whether this paper could generate enough insights by only investigating the FDI and excluding other economic cooperation, like trade and aid and also current emerging political ties.

It can be said that in terms of the structure and approach this study should maybe have taken the formal limitations more into consideration, since it became clear that some additional background knowledge, like political circumstances and international affairs between the two nations would have generated a broader picture and the conclusions could have a broader scope. However, a more narrow approach cannot be seen as option, since this would even increase the risk to create a picture that reflects a distorted picture due to missing insight.

Finally can be stated that many sources seem to have great lack of reliable facts and the drawn conclusions and interpretations seem in many cases extremely driven by prejudgments and bias. This is truly negative finding for the academic field. It shows that more intense and reliable studies should be carried out to generate more reliable knowledge. It would be beneficial if these studies could entail the several aspects of the bilateral relationship.

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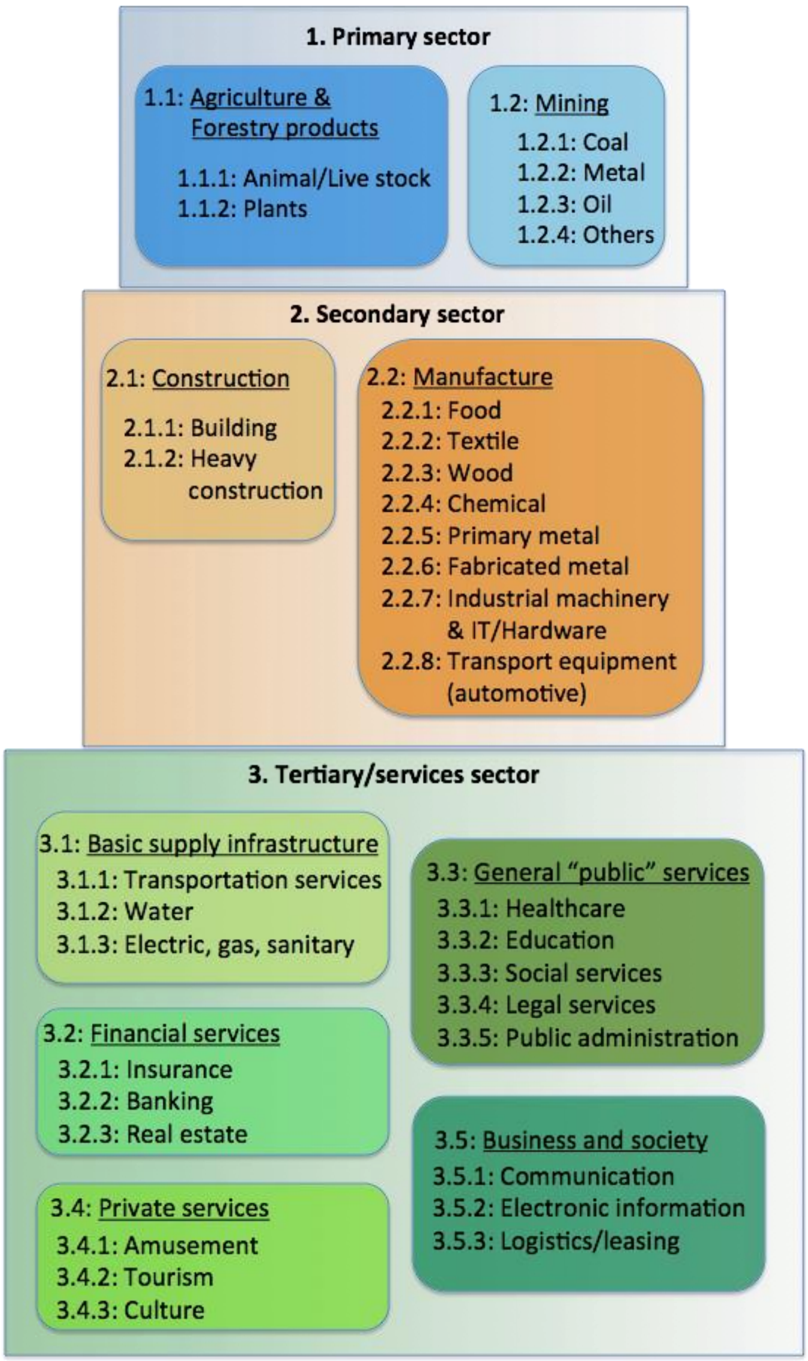
Annex

Annex I

Here the main sector industries of Figure 1 are named and the usual sectors national market economy are listed. It gives an insight in the structure and linkages of the several sectors. Additionally it provides a basis for further research to investigate strategically the different relevant sectors.



Annex II

Every source has a short cut standing for the section/feature it is describing (like GD, GP etc.); followed by an index number to make each individual source traceable. Further are the sources described with index variables: the first letter indicates the type of data source: P: public/official data; A: academic source; M: media Source; C: company surveys/data. The second letter indicates the reliability of the source: r: reliable; d: possibly doubtful; b: possibly biased, n: reliability not completely clear. (It is to clarify that the assessment of sources is based on the main findings of this study, which reserves the right for potential mistakes due to a short time frame due to the short period. It is further not a basis for academic critic on any of the used sources, which would require further investigation)

Table 1: **Dimension/Variable:**

I. **General FDI Data: (Code: GD)**

II. **General Policy Background from South Africa and China (Code: GP)**

(Including: Global trends, South Africa total Inward FDI, China Outward FDI Focus on volumes (flow and stock))

Source code/ relevance & reliability of source:	Indicator/ Topic	main information/ data	Source	Publishing date/ covered time frame
GD_{1Pr} **R: reliable** This source was found to entail reliable data, since UNCTAD is academically acknowledged as reliable source and are used in several academic contexts (this accounts in the following for all sources including UNCTAD data)	**World Investment Report 2012** (WIR12)	**Global Investment Data and outlook:** • **Confirmed key indicators** • **FDI inflows to sub-Saharan Africa recovered** 2010 /2011	UNCTAD (2012c)	released 2012; covering 2011
GD_{2Pr} **R: reliable** (see GD_{1Pr})	**"Investment Country Profiles: South Africa"**	**ZA company structure and investments and international monetary flows:** • ZA FDI flows by type of investment • Largest home-based TNCs, 2010 • Largest foreign affiliates of home-based TNCs • Statistics by sector focused on ZA companies and their largest affiliates	UNCTAD (2012a)	Released 2012; Covers mostly 2010
GD_{3Pr} **R: reliable** (see GD_{1Pr})	**"Country fact sheet: South Africa"**	Shows statistical data for ZA investments: • FDI overview, selected years; for selected economies • Country rankings by Inward FDI performance Index and Inward FDI Potential Index • Presence in the top 100 non-financial TNCs from developing countries	UNCTAD (2010)	Released 2010; data 1995- 2009

GD$_{4Pr}$ **R: reliable** (see GD$_{1Pr}$)		**Data base for statistics:** • ZA inward FDI in the past years; • Chinese outward FDI • in USD, or per capita etc.	UNCTAD (2012b)	Released yearly covers period 1970-2011
GD$_{5Pn}$ **N: reliability not clear** Generally can be said that the ZA government is acknowledged as reliable information source, but unfortunately were regarding the issue of FDI certain inconsistencies were reported (Gelb 2010, Rosen and Hanemann 2009); however these were declared between before 2010, but no new statements were found.	**"A review framework for cross-border direct investment in South Africa"** Focus: "Inward FDI in ZA"	**A review cross-border direct investment in ZA:** • Legal frame in ZA including existing policy framework for FDI in ZA including the sectorial legislation • ZA policy considerations • The role of cross-border investment in ZA • The volume of FDI in South Africa • Foreign direct investment flows from China • Sectoral composition of the FDI (stock) • Most common sectors for protection through governments	National Treasury (2011)	Released 2011 covering 2005-2009; focused on 2009
GD$_{6An}$ **N: reliability not clear** In this paper most of the data seem reliable but some sources are not named sufficiently and in some units are missing in tables are missing, what is leading to a certain degree of carefulness.	**"Chinese foreign direct investment in Africa: Making sense of a new economic reality"**	**Mainly collection of literature to the African countries that received FDI from China:** • Overview about actual studies; their methods; covert time period and conclusion/ findings • Basic numbers of volume and growth of Chinese FDI to Africa • Focus: Chinese FDI in whole Africa	Claassen et al. (2012)	Published 2012; covers between 2003 and 2008.
GD$_{7Ar}$ **R: reliable** In paper is a profound academic source based on data by acknowledged institutions like the Human Rights Watch and became published at LexisNexis known for reliable legal information.	**"Assessing the Reach of China`s Labour Protections to Migrant Workers in Africa"**	**Defines the labour standards in South Africa:** • gives evidence about Chinese employment in Africa • focuses on their legal compliance	Rodgers (2011)	

GP_{1Ar} **R: reliable** The International Institute for Sustainable Development (IISD) generated this article, and this institution is highly acknowledged and the findings are topic in several academic surroundings.	"**Chinese Outward Investment: An emerging policy framework**"	**Explains: The Chinese policy structures regarding Outward Investment:** • China's Eight Principles for Economic Aid and Technical Assistance • Going Global strategy • Nine Principles on Outward Investment • Guides on Chinese-funded Enterprises Overseas • Policies and Measures Relating to Overseas Investment in mining and in manufacturing and Processing **Framework Policies Relating to Economic Engagement** **Overview of Relevant Agencies and Institutions** **This paper contains useful background references**	Bernasconi-Osterwalder et al. (2013)	Published 2013 covering periods from mainly: beginning of 2000 till 2012
GP_{2Ar} **R: reliable** It is a statement from the South African government and confirms manly the reports made for the BRICS grouping. The department of trade and industry is generally known for reliable publications.	**"BRICS Trade and Investment Cooperation Framework"**	States the background of the BRICS grouping Frame and gives insights in cooperative matters.	Department of Trade and Industry (2013)	26 Mar 2013
GP_{3Ar} **R: reliable** This academic series is has many academic contributors and appears sufficient founded: ENS (Edward Nathan Sonnenbergs) the contributing institution is Africa's largest law firm and furthermore is one of the authors a member of the Stellenbosch University in South Africa, which has	**"Labour & Employment 2010"**	**Describes labour laws and rights in South Africa:** • It gives insights in the current legislation and answers several legal questions regarding employment. • It shows the advanced labour laws and the minimum requirements employment has to meet, regardless whether foreign or local employer. • Gives insights about the issue of labour brokers and that calls by the major trade union federation to impose a ban on them	Stelzner et al. (2010)	Covers till 2010

internationally an excellent reputation.

Table 2: Dimension/ Variable:

I. Sectorial Distribution Data of Chinese OFDI in ZA (CODE: SD)

Source code/ relevance & reliability of source:	Indicator/ Topic	main information/ data	Source	Publishing date/ covered time frame
SD_{1Ar} **R: reliable** This study was found exceptional and appeared reliable, since the author is an acknowledged expert for the issue and has been in several relevant positions: Stephen Gelb was Executive Director EDGE Institute (an independent think tank in Johannesburg) and is today working for the World trade Institute; his reputation is outstanding and the data basis he had access to(the Edge data basis) entailed many useful and reliable data.	**"Foreign Direct Investment Links between South Africa & China"**	**Sources for data** about volume and shows data unreliability; accordingly **valid**: The **EDGE Institute's FDI Database**: • largest in value Industrial and Commercial Bank of China (**ICBC**) acquisition **of 20 %** of South Africa **Standard Bank** • Next in size are Chinese mining companies, **Sinosteel** in two joint ventures, **ASA Metals** and in **Tubatse Chrome;** Zijin, Minmetals, and Jiaquan Iron and Steel (JISCO) • Other Chinese mining companies active in South Africa include: East Asia Metals Investment (subsidiary of Sinosteel);; MinMetals and PMG • out of foreign firms in South Africa, just about 1% are Chinese 2010 Suggests that MOFCOM's and SARB figures lack reliability. The number of firms is small in context of Chinese OFDI. **Chinese investment in South Africa sectoral distribution:** infrastructure, construction**,** mining, automobile, electrical machinery, financial services. **China has become South Africa's major trading partner but their FDI relationship is not as well developed.**	Gelb (2010)	Published 2010; covers mainly 2000 till 2008 (max 2010)
SD_{2Ab} **B: biased** This source seems to be biased since some of the statements are not sufficiently	**"Chinese Competition and the Restructuring of South African**	Give strong evidence that often the bilateral trade is seen as main problem and as "unfair" competition and not necessarily the FDI: • Decline of the manufacturing sector in GDP and	Jenkins et al. (2012)	Published 2012; End of 1990`s till 2010

explained and the full content of the paper including statistical evidence could not be investigated and so some of the conclusions appear somehow doubtable without access to the original data sources. This could be a problem of this research and so it is not stated that the source is unreliable more that the reliable evidence for it could not be validated. Therefore from this perspective it seems biased.	**Manufacturing**"	employment has been also attributed to the increasing competition from Chinese imports. • The share of Chinese products is over 40% in footwear and knitted fabrics, and over 30% electronic – and lighting equipment.		
SD_{3Mb} **B: biased** This is an interview and represents and opinion, of a chairman of a mining company; so he is active in the private economy and in this interview is assumed that he makes statements that are beneficial for his position. This does not mean that these are not valid or unreliable, but certain biases are here assumed. Nevertheless, Tito Mboweni is the current chairman of AngloGold Ashanti, and the former governor of the South African Reserve Bank, which makes him to a valuable source of knowledge and insights. However the interview is available as Video, therefore the statements can be validated.	"**Interview with Tito Mboweni"**	**Question**: China is actually a growing partner for South Africa so how do you see their companies going to South Africa? **Answer statement:** There aren't many Chinese companies in South Africa yet, but a number is taking strategic interest in the country. **Question:** The complaints of Chinese investment or Chinese goods in South Africa especially in the textile industry. Is Chinese involvement negative in that regard? **Answer:** "there are no Chinese manufacturers of, say, clothing and textile and so on in South Africa. The involvement is more from the trade side through the import of relatively cheap Chinese goods which do not compete very well with our domestically produced clothing and textiles (also described in other sources) Chinese can bring advanced production methods and if they produce locally and employ locals; but the average Chinese wage is below that of South Africa, and so Chinese firms are not able to meet their wage costs in ZA.	Xin (2012)	2012 includes predictions

Table 3: **Dimension/ Variable:**

I. **General Knowledge/ skill transfer Data of Chinese Companies (CODE: GS)**

Source code/ relevance & reliability of source:	Indicator/ Topic	main information/ data	Source	Publishing date/ covered time frame
GS_{1Ad} **D: doubtful** This source seems to be based on really reliable data from acknowledged institutions, like UNCTAD and the World Bank. However some of the drawn conclusions seem doubtable. Many statements about certain firms or insights seem in the face of later developments unlikely and some claims seem actually even false (e.g. when it concludes that CSR project are not in the firms scopes; or when it states Aquarius Platinum as positive employer).	**"Win-Win Partnership? China, Southern Africa and the extractive Industries"** Main section: "Caring Without Control: Corporate Social Responsibility"	**Focus on the extractive industries:** • Chinese investment as confidence booster for more FDI. • Labour conditions in South Africa raise concerns: the safety record at Aquarius mines in 2009 • Negative perceptions in mainstream debates were detected: The paper includes firms operations in many Southern African Countries makes comparisons possible. **South Africa examples:** • Zijin in form of Aquarius Platinum and Jisco Group procedures comply with (inter)nationally accepted standards and conventions • **ASA Metals** has committed itself to the prevention of injuries, property losses, responsible environmental management etc. **Legal compliance:** points out that South Africa's standards require a social responsible approach and Chinese investors are not resistant to regulations. Comparison to other countries. The limitations: only extractive industries and focus not mainly on ZA.	Shelton and Kabemba (2012) Main section: pp. 160-165	Published 2012; covers last decades through the review of long-term studies
GS_{2Ar} **R: reliable** The International Centre for Trade and Sustainable Development (ICTSD) is an	"**Social responsibility of Chinese investment in Africa: What does**	Definition of CSR: "CSR is the concept that firms can and should meet "the bottom lines" of economic development, environmental soundness and social progress". **Chinese regulations** for CSR • ***The Corporation Law of China*, 2006**	Cheng and Liang (2011)	Covers till 2011

acknowledged non-profit organization publishing and promoting development research. The study appears extremely balanced.	**it mean for EU-China Cooperation on development policy towards Afric**a?"	• **The *Guidelines for SOEs regarding Implementation of Corporate Social Responsibility*, 2008.** "A handful of successful companies are advocating CSR proactively, the ones operating internationally"; they are concerned to suffer from negative reputation of other misbehaving companies. CSR example in Africa: • **Huawei Technology** **Challenges:** • some Chinese companies have good knowledge and planning for CSR projects, the evaluation and monitoring is not adequate yet • Chinese prefer Chinese employees.		
GS_{3Ar} **R: reliable** Seems reliable but some data from official bases were used without critical reflection, which cover the same years which were identified as not reliable by (Gelb 2010); however due to the necessity to use some information just a bit more critical acknowledgement could have been sufficient.	**"CORPORATE RESPONSIBILITY IN AFRICAN DEVELOPMENT"**	**Biggest growth in South-to South** trade with Africa has been with China. • China becoming the third largest trading partner of Africa (after the US and EU). • Estimates of Chinese investments vary, but it is clear that they are growing rapidly. • The World Bank: Chinese commitments to finance African infrastructure projects grew Most high profile Chinese investments in Africa are focused on resource extraction. **Many investments are supported by China's development banks, especially Exim Bank.** **CSR:** • UN Global Compact push for CSR is being carried out by foreign investors. • **Surveys of CSR focus lays commonly on:** education, health and environment **Example:** Anglo American's HIV AIDs programme	Forstater et al. (2010)	covers from end of 1990 till 2009
GS_{4Ar}	**"Scoping Study on China's Relations**	**Focus areas form China towards ZA:** "**electronic goods and the mining industry with a particular focus on chrome"**	Burke et al. (2008)	

R: reliable This study seems reliable especially in terms of their used date basis like MOFCOM and Department of Trade and industry (DTI) and more; however the only restriction on the data is that it is published by the "*Centre for Chinese Studies*" (CCS) which exclusively China-oriented research and seems in many of its papers extremely China positive. Furthermore it concludes for example contradictory to **SD$_{\mathbf{2Ab}}$** (119).	**with South Africa"**	**Companies:** • Commercial Bank of China (ICBC) • Sinosteel • Hisense(TVs, VCDs ,DVDs etc.) • Sinoprima Investment and Manufacturing South Africa (subsidiary of Xiamen Overseas Chinese Electronic Co. Ltd (XOCECO)) • First Automotive Works (FAW) • Huawei Technologies Africa (Black Economic Empowerment (BEE) group Nulane Investments has a 31% stake) • Zijin Mining (bought a 20% stake in platinum producer Ridge Mining) • China Overseas Engineering Company (COVEC) (recently joined China Railway Engineering Corporation (CREC) and is one of the 167 SOEs)selected for preferential support by China as a flagship enterprise **CONCLUSION:** Various political exchanges have facilitated greater interdependence and cooperation,

Table 4: **Dimension/ Variable:**

I. **Specific Chinese Companies Skills and knowledge transfer (Code: SS)**

II. **Specific Chinese Company Ownership (Code: SO)**

Source code/ relevance & reliability of source:	**Indicator/ Topic**	**main information/ data**	**Source**	**Publishing date/ covered time frame**
SS_{1Cb} **B: biased** This is a company report and is therefore assumed to be used for publicity purpose and presents data in a most positive manner, and probably focuses on most positive information. However the numbers are assumed to be valid and mostly the context is questioned.	**"Aquarius Platinum Sustainable Development Report 2012"**	Employment data and statistics Total numbers: employees & contractors Mineral and Petroleum Resources Development Act (MPRDA) "Marikana"-the labour unrests and wildcat strikes in 2012 Legal compliance (BB-BEE and Indegenisation) CSR program and approach Local employment	Aquarius (2012)	Published: 2012 This report covers the 2012 financial year, from 1 July 2011 to 30 June 2012.
SS_{2Cb} **B: biased** (See SS_{1Cb})	**Wesizwe: "Annual integrated report 2011"**	**CSR:** including: • Promotion of human capital • Environmental activities • Community engagement • Local employment • sustainability	Wesizwe (2012)	
SS_{3Ab} **B: biased** Published by the Institute of Developing Economies Japan External Trade Organization, which is found to publish mainly studies that claim negative	**"CHINA IN AFRICA A STRATEGIC OVERVIEW"**	**Description of several Chinese Firms and activities in ZA:** **Telecommunication:** **Huawei Technologies,** **Zhongxing Telecom Ltd (ZTE):** • South Africa serves as head-quarters and logistics centre for ZTE & Huawei on the continent • Chinese companies can offer services and products	Executive Research Associates (2009a)	PCovers mainly before 2009 and starts in the end of 1990

impact of Chinese companies. However the data self were not found to be unreliable more the drawn conclusions and the contexts seem a bit inconsistent.		cheaper than Westerners • One of the top African telecom markets for Chinese companies is South Africa • Huawei is South Africa's MTN partner.		
See above	**ZTE Zhongxing Telecom Ltd**	ZTE entered the market through Vodafone Group, and became a 50 percent share-holder in ZA's; believed for access to low costs production and cheap subsidized funding sources (Note: Vodafone is also working with Huawei) • ZTE can obtain low cost money that it can then lend to its own customers	See above	
See above	**Huawei**	• Huawei first entered the South African market in 1998. • A training initiative with the University of Cape Town (UCT), • it will seek to supply basic and advanced product training to telecoms engineers. • Additionally Huawei has also set up an IP network training and certification centre in UCT • Huawei has focused on training programmes. Together with Telkom it supports South Africa's "Talent Plan" by funding Zululand University, and education funds and research subjects.	See above	
SS_{4Cr} **R: reliable** Seems for a company report reliable, since an independent institution was involved and verified the reliability and methods: "To ensure the reliability, fairness, and transparency of this report,	**"Huawei Investment & Holding Co., Ltd. Corporate Sustainability Report"**	**Legal compliance**: Compliance with applicable laws and regulations is a requirement and one of the priorities in Huawei's CSR strategy. It claims to be strictly aligned with the laws for all areas in which we operate. **Social Goal:** To contribute to improving the livelihood of local people and deve loping the communities in which Huawei operates **2011:** Huawei joined CSR Europe in and has leveraged its	Huawei (2012) paper with aligned content: Huawei (2013e)	2011/ 2012

Huawei engaged TÜV Rheinland to verify the report." But some relevant information is not provided (real wages; specific local employment rates or training assessment for South Africa and more).		experience sector to promote CSR in various areas. Employment of Overseas Locals 72% outside of China **Employee Trainings** in 2011 total: Number of participants: 60, 176 ZA programs are rather small in comparison to its other CSR investments **Healthcare:** free medical examinations, including medical examinations for overseas employees		
SS_{5Ar} **R: reliable** The data seem valid and the company specific investigations were found to draw logic conclusions including critical reflective acknowledgements.	**Chinese Companies in ZA: "Outward FDI from Developing Countries: A Case of Chinese Firms in South Africa"**	**Chinese manufacturers in television;** • Chinese firms in "Tariff-jumping" investments • Describe specific SEO investments • Points out relation between "home country Champion" and investments abroad • The top 100 firms in China ICT Industry 2011 • Explains the issue of semi-knockdown production (SKD) in order to avoid tariffs SKD as from to not really produce in the host country= low cost production chain sustained	Kimura (2013)	Published 2013; covers 1990 till 2011
SO_{1Ar} **R: reliable** Seems reliable since the study points out, when lack of data appears and it is quoted in many academic journals	**"The Party: The Secret World of China's Communist Rulers"**	**Huawei** never published a breakdown of ownership and most shares are believed to be hold by Ren Zhengfei (a former People's Liberation Army officer). Government loans	McGregor (2010)	Long-term investigation with historical approaches
SO_{2Ar} **R: reliable** Is here seen as reliable source since SAIIA is a scientifically highly acknowledged institution.	**"Chinese Financial Institutions and Africa"**	**Projects** between South African and Chinese Companies; **Financing** of several large bilateral projects; **Banking** structure; Investments by industrial **sectors** **Legal** determinants	Meyer et al. (2011)	November 2011 Focuses mainly on 2003-2010
SO_{3Cb} **B: biased** (See SS_{1Cb})	**Jinchuan Group International Resources Co.**	**Ownership structure** of the company Financial statements Strategic approaches	Jinchuan (2010)	Mostly 2009

	Ltd: "Annual Report 2010"			
SO_{4Cb} **B: biased** (See SS_{1Cb})	**Zijin Mining Group Co., Ltd.* First Quarterly Report**	**Ownership and balances** of the company Shareholdings of top ten holders	Zijin (2009)	Mostly 2008 and 2009
SO_{5Ar} **R: reliable** The Center for Strategic and International Studies (CSIS) is an acknowledged Institution and the used data gave no reason for doubts.	**China's Competitiveness-Case Study: Huawei**	**Huawei :** finances and loans Company history Home telecom market	Ahrens (2013)	Background of the company