The Political Economy of Indian and Chinese Foreign Direct Investment and Multinationals in Sub-Saharan Africa

by

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Declaration

I, the undersigned, hereby declare that the work contained in this research assignment/thesis is my own original work and that I have not previously in its entirety or in part submitted it at any university for a degree.

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Abstract

Africa's rising international profile and geopolitical significance as well as the continent's relatively 'under-exploited markets' have been pull factors for many emerging economies. Globally, the developing and emerging economies of the world for the first time captured more than half of all global FDI in 2011. Changes in the global investment regime are a clear indication of the changing dynamics in the global economy. Since India and China's FDI liberalisation processes began to gather steam in the 1990s, they have been amongst the most aggressive of the emerging economy investors. This study appraises the role of the government in facilitating investment by Indian and Chinese firms abroad, specifically Sub-Saharan Africa. The study analyses the motivations for such outward foreign direct invest flows, the sectoral trends, and the entry mode differences of Indian and Chinese firms' investments in Sub-Saharan African markets. Yet, there is a lack of studies that focus on both Indian and Chinese investments in Sub-Saharan Africa.

Drawing from theoretical constructs from political economy, International business /economics and International Political Economy - a framework is provided to assess the influence of these investments. The methodology is interpretive and qualitative and draws largely on secondary material from international organisations, government agencies, academic literature and the media. The study finds that the role of New Delhi and Beijing in facilitating and financing outward investments is strategic and pragmatic. These policies greatly influence firms, and the locations and types of their investments.

South-South cooperation provides India and China with a framework for long-term political and economic investments and development cooperation with African states. India and China's engagements in Sub-Saharan Africa share similar and dissimilar forms and motivations for FDI. Markets and resources are primary motivations for these two countries' firms to invest in the region. India and China's growing commercial activities in Sub-Saharan Africa provide the region with opportunities for further international market integration and development.

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Opsomming

Afrika se ontluikende internasionale profiel en geopolitieke belang tesame met die vasteland se relatief 'onderbenutte' markte is 'n trekfaktor vir baie ontluikende ekonomieë. Terwyl vloeie uit buitelandse direkte investering (BDI) na Afrika, wat 'n hoogtepunt in 2008 bereik het, in 2010 steeds afgeneem het, was die ontwikkelende en ontluikende ekonomieë van die wêreld vir die eerste keer in besit van meer as die helfte van alle wêreldwye BDI in 2011. Veranderings in die internasionale beleggingsregime is 'n duidelike aanduiding van die veranderende dinamika in die wêreldekonomie. Sedert Indië en China se liberaliseringsprosesse met betrekking tot BDI in die 1990's begin ontwikkel het, is hulle van die aggressiefste beleggers onder opkomende ekonomieë. Die gebrek aan streekstudies wat op Indiese en Chinese beleggings fokus, verg egter verdere aandag.

Die doel van die studie is om die rol van die regering in die fasilitering van Indiese en Chinese maatskappye om in die buiteland te belê te ontleed. Die fokus val veral op Afrika suid van die Sahara, en op die motiverings vir hierdie BDI-vloeie, die sektortendense en wyse van toetreding van Indiese en Chinese maatskappye se beleggings in Afrikamarkte.

Bestande uit teortiese konstakke uit internasionale sakestudie, internasionale politieke ekonomie en politieke ekonomie, word 'n raamwerk waarin die invloed van hierdie beleggings op wat assesseer word is interpritiet en kwalitatiet en stan op sekondêre materiaal en data van regeringsagentskappe, akademiese literatuur en die media. Die gebruik van 'n veelsoortige teoretiese raamwerk wat ekonomiese en politieke beleggingsverskynsels uitbeeld, illustreer die versoenbaarheid van politiek, ekonomie en sakegebaseerde akademiese gebiede en die moontlikheid om grondliggende uitkomste uitkomste vir navorsing oor beleggingstendense en -strategieë in ontluikende ekonomieë te bied.

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Die studie bevind dat die rol van New Delhi en Beijing in die fasilitering en finansiering van buitelandse beleggings strategiese en pragmaties is, en dat beleide maatskappye grootliks beïnvloed ten opsigte van waar hulle belê en watter soort beleggings hulle maak. Verder, verskaf Suid–Suid-samewerking, ‘n raamwerk vir verbintenis langtermyn- politieke en ekonomiese beleggings en ontwikkelingsamewerking met Afrikastate. Indië en China se betrokkenheid in Afrika toon ooreenstemmende en verskillende vorme en motiverings vir BDI, en markte en hulpbronne is primêre motiverings vir hierdie twee lande se maatskappye in die streek te belê.

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Table 1 FDI Motivations and Economic Determinants in Host Countries

Table 2 FDI Flows into Sub-Saharan Africa (2005-2001)

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List of Acronyms and Abbreviations

BRIC/S	Brazil Russia India China/South Africa
CIC	China Investment Corp
CNOOC	China National Offshore Oil Corporation
CNPC	China National Petroleum Corporation
COMESA	Common Market for Eastern and Southern Africa
DEFC	Department of Foreign Economic Cooperation
E&P	Exploration and production
ECC	Economic and Commercial Counselor
ECOWAS	Economic Community of West African States
EMNE	Emerging multinational enterprise
EXIM	Export Import
FDI	Foreign direct investment
FOCAC	Forum on China-African Cooperation
GAIL	Gas Authority India Limited
GDP	Gross domestic product
IB	International business
ICICI	Industrial Credit and Investment Corporation of India
IDBI	Industrial Development Bank of India
IE	International Economics
IPE	International Political Economy
ITEC	Indian Technical and Cooperation
M&A	Mergers and acquisitions
MFA	Ministry of Foreign Affairs
MNC	Multinational Corporation
MNE	Multinational enterprise
MOFCOM	Minister of Commerce
NDRC	National Development and Reform Commission
NEPAD	New Partnership for African Development
OFDI	Outward Foreign Direct Investment
OLI	Ownership, Location and Internalisation
ONGC	Oil and Natural Gas Corporation

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OPEC	Organisation of Petroleum Exporting States
OVL	(Oil and Natural Gas Corporation) Videsh Limited
RBI	Reserve Bank of India
SASAC	State-owned Assets Supervision and Administration Commission
SAFE	State Administration of Foreign Exchange
SAP	Structural Adjustment Politics
SBI	State Bank of India
SOE	State-owned enterprise
TEAM 9	Techno-Economic Approach for Africa-India Movement
TNC	Transnational Corporation
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNSTATS	United Nations Statistics Division

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Map of Sub-Saharan Africa

Source: (World Bank, 2011)

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Chapter 1: Introduction

1.1 Background

In the late 1970s and early 1980s scholarly debate and attention began to centre on the growth and driving forces of South-South economic relations, and their possible implications for the global economy (Pedersen, 2008: 613). A defining feature of the growth of South-South economic relations was the advent of emerging economy multinationals, such as those from India and China. Closely linked to the debate on the relations was "the political struggle by leading developing countries to establish a New International Economic Order with the prospects of achieving" collective development and economic independence (Pedersen, 2008: 613). India and China's economies have in the last decade grown exponentially, placing them as the leading emerging economies in the global economy (Deng, 2007: 71).

The last two decades have seen outward foreign direct investment flows from India and China increase significantly when both countries initiated new waves of OFDI in which accelerated from 2000 onwards (Hong, 2011: 5). The current economic activities that Africa and Asia have engaged in continue to be a defining feature of a changing global economic order. Increasing foreign direct investment (FDI) between Asia and Africa, while smaller than the increases in trade, remain one of the defining features of this growing economic engagement (Broadman, 2008; Winters and Yusuf, 2007: 2). India and China have emerged as Africa's most important contemporary economic partners and these powerful economies are having a significant effect on the continent's international relations (Cheru and Obi, 2011: 91). This has attributed to increasingly high external demands for commodities, mainly hydrocarbons and minerals. Market opportunities for trade and investment are expected to grow, despite the economic and fiscal crises in the global economy (Baldauf, 2011; Broadman, 2007: 1). India and China have not only opened and expanded their trade and investment activities on the continent, but their diplomatic and political channels too. Strategic objectives, resources, new markets, diplomacy and influence, development cooperation, energy and food security are some of the channels that Indian, Chinese and African states are engaging in (Pradhan, 2010: 140).

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1.1.2 The Region of Focus: Sub-Saharan Africa

Africa, home to 55 independent states that comprise more than a quarter of the United Nations membership, is a continent that is gaining more political and economic clout at the international level (Desai, 2009: 412). Sub-Saharan Africa, the focus of this study, geographically excluding 'North Africa,' is a region of 48 states. Africa's 'under-exploited markets' are a significant 'pull' factor for many emerging economies. As noted by Broadman (2007a: 2),

> "India and China have rapidly modernizing industries and burgeoning middle classes with rising incomes and purchasing power…the result is a demand not only for natural resource-extractive commodities, agricultural goods such as cotton, and other traditional African exports, but also more diversified, non-traditional exports such as processed commodities, light manufactured products, household consumer goods, food and tourism."

India and China's engagement in Africa is being solidified through new bi-lateral and multilateral forums, such as the Asia-Africa summit, the China-African Business Council, The Forum on China-African Cooperation (FOCAC), the India-Africa Project Partnership and the India Brazil South Africa (IBSA) Dialogue Forum (Cheru and Obi, 2011: 92). In the post – Cold War era India and China have continued to "articulate and pursue Africa *(sic)* strategies, hinged on South-South solidarity, win-win equal partnership and mutual respect and benefits" (Cheru and Obi, 2011: 95). Relations between African states and other emerging economies and regions are not only attracting a great deal of "academic and public attention" but are experiencing the effects of the global economic power shift (Mawsdely and McCann, 2010: 81; Alden and Davis, 2006: 83).

1.1.3 FDI Outflows and Emerging Market Multinationals

Outward and inward foreign direct investment is a mode by which emerging market economies and at times their government access new technologies, markets, know-how and strategic or other resources.

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At the end of 2009, 16 per cent of global outward foreign direct investment (OFDI) originated from developing or emerging economies (Ahearn, 2011: 22). The corporate transformation of India and China is characterised by the increasing internationalisation of India and Chinese multinational firms through substantial outward foreign direct investment flows across the globe (Athreeye and Kapur, 2009: 209). From modest beginnings in the post – World War II era, firms from India began to expand into foreign markets as early as the late 1950s (Pradhan and Sauvant, 2010: 1). While India would have only a fleeting group of outward investors in the formative years after independence, it would be in the post-economic liberalisation phase that a new wave of investments would materialise.

Through government support, ambitious management, low costs, home market profits and modern facilities, firms such as Haier Company, Lenovo, ZTE and Huawei from China as well as India's Infosys, Tata Group and Bharti Airtel are expanding overseas, transforming industries and markets in emerging and developed regions of the globe (Ahearn, 2011: 22; BCG, 2011: 6). India currently has eight multinationals in the Fortune Global 500 and China has sixty-one (CNNmoney, 2011).

1.1.4 Rationale

Large scale outward foreign direct investment by emerging economy multinationals from countries such as India and China have become an increasingly important feature of global business and reflect a changing orientation of economic power in the world (Luo *et al*., 2010: 68). Emerging economies, especially the Brazil, Russia, India and China (BRIC) grouping, illustrate the attention that these economies have been given by experts covering the change in global economic power.

An important part of the rising profile of emerging economies growing economic powers is their interest in Africa- with its untapped market potential and large reserves of sought after resources in hydrocarbons, minerals and metals. India and China are two Asian countries that have an increasingly visible presence in the continent- whether in trade, investment or aid.

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Many of India and China's top firms have invested into Africa, as they seek to acquire strategic assets, new markets and resources (UNCTAD, 2006). The research problem is set within the growing economic and political relations between India and China and Sub-Saharan Africa, which focuses on the flow of investments from India and China to the region, and detailing the types of firms

Studies focusing on India and China's outward investments and their various multinationals can be found in a variety of academic fields, from branches of politics and economics to business studies and finance. The breadth and the diffusion across many academic fields in which research on Indian and Chinese investments and multinationals in Africa is found, provides an opportunity to present a macro study. A macro study is geared towards analysing both Indian and Chinese investments and multinationals in Sub-Saharan Africa in an integrated study, drawing on a theoretical framework that provides explanations of the political and economic components that influence the outbound investments of firms, as they invest in host economies.

1.2 The Research Question

1.2.1 Background to the Research Question

The limitations of the availability of studies on Indian and Chinese OFDI and multinationals are not extensive, but there remain limitations in the approaches that contemporary studies have taken. There are studies that approached the research on OFDI and internationalisation of firms from a Chinese and Indian perspective such as Hong (2011) and Athreye and Kapur (2009). Others have focused primarily on China's OFDI and multinationals such as Peng (2003), Corkin (2007) and Alden and Davis (2006). Studies on India's OFDI and multinationals include Hattari and Rajan (2010), Nayyar (2008) and Pal (2010). While these authors contribute to the study, their research has illustrated limitations. Broadman (2011) notes that the majority of texts on emerging economies in Africa tend to be biased, focusing primarily on China, which presents a challenge to researchers as "serious methodological questions about the quality of these analyses' policy conclusions and trend prognostications" arise.

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These studies can be further complimented by better framing India and Chinese OFDI and multinationals in investment paths that account for push and pull factors in the home and host economy and the motives, sectoral orientation, business strategies and entry modes. The research question is set within the contemporary academic discourses on emerging economies and their growing political and economic interests in Africa. A key aim of the study is to narrow the scope of inquiry on the expanding economic interests and role of India and China in Sub-Saharan Africa to a macro-analysis, but broaden it within this scope that includes all the fundamentals of the internationalisation of Indian and Chinese firms in Sub-Saharan Africa. The research question that underlies the study is rationalised by the need to establish a research question that can address the limitations in the literature. The primary research question is:

"What motivates Indian and Chinese firms to engage in outward foreign direct investment in Sub-Saharan Africa and to what extent do New Delhi and Beijing's political and economic policies influence the internationalisation of these firms into Sub-Saharan African host economies?"

1.2.2 Secondary Research Questions

The following secondary questions are drawn from the primary research question and consider the broader questions of India and China's investments in Africa.

1. What forms of FDI are India and Chinese firms engaged in Sub-Saharan Africa and what is the sectoral orientation of these firms?
2. What advantages do Indian and Chinese firms exploit when expanding into Africa and are the motivations for such investments driven primarily by 'push' factors in the home economy or 'pull' factors in the host economy or possibly both?
3. What are the forms of ownership of Indian and Chinese firms investing in Sub-Saharan Africa?
4. What are the similarities and differences of Indian and Chinese investments in Sub-Saharan Africa?

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1.3 Aim of the Research

The primary aim of this research is to conduct a macro analysis of the political economy of Indian and Chinese multinational firms and foreign direct investment in Sub-Saharan Africa, incorporating the broader context of emerging economies and South-South cooperation, in which this occurs. The depth of the study calls for a macro analysis which can illustrate macro trends, motivations and strategies of India and Chinese firms. The study, while not wholly comparative, elucidates the 'differing engagements' of India and China in Sub-Saharan Africa. Furthermore, the aim is to analyse New Delhi and Beijing's commercial activities, the characteristics of these activities and their implications for the region.

1.4 The Theoretical Framework

The study focuses on the political economy of Indian and Chinese OFDI and multinationals in Africa. The central theoretical framework of the study is informed by political economy, International business/economics (IB/IE) and international Political Economy. The study is aimed at political and economic factors that influence the internationalisation of Indian and Chinese firms in Africa. Such a framework includes analysing the political and economic policies of the home economy that prompt firms to internationalise, and 'pull' factors in the host economy that influence the location of firms' outward investments. Political economy, IB, IE and IPE cannot in their own capacities provide such a framework, but can contribute to a broader framework, one that would be able to provide the necessary means to resolve the research question.

1.4.1 Political Economy

Political institutions play an important role as the authority on pursuing economic governance, providing incentives and place regulations on foreign investment (Kehl, 2009:3). Government and institutions "develop institutions to raise revenue and stimulate economic growth in response to political and economic interests" (Kehl, 2009:3). Furthermore, "political economy emphasises the importance of factors such as market access, trade practice, taxation, and the level of intervention in market forces" (Kehl, 2009: 4).

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Political economy provides a framework within which the political and economic aspects of the home economy of a firm can be assessed with the aim of determining the policy implications of the home economy's institutions and the extent to which political and economic policies influence the outward investment of firms.

1.4.2 International Business and Economics

While political economy focuses on the role that political and economic policy play in influencing firm's investments abroad, International business/economics provides an explanatory framework for the motivations, modes of entry, and types of foreign direct investment firms engage in to expand into markets or a host economy. The four main motivations for FDI that Cohen (2007) and UNCTAD (2006) list are market-seeking, resource-seeking, efficiency-seeking and created/strategic-asset-seeking FDI. IB has further contributed to the study, with the inclusion of Dunning's eclectic paradigm or ownership, location and internalisation (OLI) model which focuses on *advantages* that firm's require in order to internationalise.

Firms vs. Multinationals

The study differentiates between firms and multinationals. A firm that internationalises from a home economy into one or more host economies is considered to be *multinational*. According to Dunning and Lundan (2008: 3) a multinational "is an enterprise that engages in foreign direct investment (FDI) and owns or, controls value-added activities in more than one country." The firms that are mentioned in the India and China chapters are all considered to be multinational or transnational corporations or enterprises, depending on the context and reference as different authors and institutions use varying terms to describe such entities.

The prospect of seeking out new explanatory frameworks for emerging multinationals is suggested to be less than pertinent as the "observers of emerging economy multinational enterprises (EMNEs) remain sceptical that any new theory is required to explain their activities… the traditional theory of FDI is internationalisation theory" (Rugman, 2009: 60). This study does, where applicable, refer to Indian and Chinese firms as emerging market multinationals; however this term does not conform to the definition used in IB literature.

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1.4.3 International Political Economy

International Political Economy does not constitute a large portion of the theoretical framework but is included as the *perspective* that is used in this thesis, the manner in which actors such as states and firms are analysed, is done so within the economic nationalist perspective. The perspective views all economic activity has being defined by the state and that that change within the global economy is the result of state action and less the result of liberalisation. The economic nationalist perspective allows the political economy perspective to be more articulated in the research by better accounting for the role of states in the institutional realm of policy formulation and its influence on outward investment.

1.5 Research Methodology

The research question is: "What motivates Indian and Chinese firms to engage in outward foreign direct investment in Sub-Saharan Africa and to what extent do New Delhi and Beijing's political and economic policies influence the internationalisation of these firms into Sub-Saharan African host economies?"

The approach to this study is one which is exploratory and qualitative. The research question is exploratory, which is empirical in nature. In order to resolve an empirical question, the study can either collect new data or can analyse existing data (Mouton, 2001: 53). The research and data that this study draws on is informed by existing research on the political economy of Indian and Chinese OFDI and multinationals in Sub-Saharan Africa set in published academic literature, journals and handbooks, government statistical and policy reports, non-governmental organisations reports and print and electronic media sources. Key trends, facts and figures of FDI flows into Sub-Saharan Africa are drawn from published reports by the United Nations, such as the World Investment Report, The Reserve Bank of India Bulletins and the Chinese Ministry of Commerce (MOFCOM) Statistical Bulletins. Qualitative analysis "involves the continual interplay between theory and analysis" (Babbie, 2010: 418). The qualitative analysis of the existing research and its interpretation is guided by the theoretical framework outlined in the study, which consists of political economy, international business/economics and IPE. Through this analysis the study will provide the findings necessary to resolve the primary and secondary research questions.

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The findings of the analysis are presented in chapters in three to six.

1.6 Operationalisation of Key Terms

- *Africa:* The second largest continent, comprising 55 independent sovereign states.
- *Sub-Saharan Africa*: The geographical region of the African continent that lies south of the Sarah Desert, comprising 48 states, including Sudan and South Sudan. (UNSTATS, 2011). Referred to in the study as either *Sub-Saharan Africa* or *region.*
- *Sudan:* The Republic of Sudan (1956 – 2011), as it was prior to the schism of the state and establishment of the *Republic of South Sudan.*

1.7 Delimitations and Limitations

The study is delimited geographically to Sub-Saharan Africa and is geared towards a macro study of India and Chinese firms in Africa. The research scope is delimited to the period 1999 – 2011. India and China have both engaged in OFDI at one period or another since their independence in 1947 and 1949 respectively; however their outward investment drives only began to gain traction in the 1990s, when India began liberalising its economy from 1991 onwards and China implemented its Going Global Strategy in 1999 (Brautigam, 2009: 74).

The study is limited by the empirical research available on Indian and Chinese firms and FDI in Africa, especially empirical and sectoral specific statistical data on internationalisation and motivations for FDI. Furthermore, such empirical research is not wholly set within the realm of Political Science but extends into other more varied academic fields. This results in the study adopting a macro approach to the research question. A second key limitation has been the inability to wholly use a single theoretical approach to the research.

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Due to the literature on the investments of Indian and Chinese firms in Africa being spread across many fields of inquiry, the theoretical framework is limited to the available literature detailing Indian and Chinese investments and multinationals, resulting in a study that uses three fields of inquiry to account for the phenomenon of the expansion of firms and later multinationals and outward foreign direct investment.

1.8 Thesis Structure

Chapter 2: Theoretical Framework

Chapter 2 outlines the theoretical framework that is used in the study. The theoretical framework is discussed systematically, reviewing the contributions from political economy, International business/economics and International Political Economy to the literature on outward foreign direct investment and multinationals. Finally, the chapter describes the application of the theory to chapters four and five, which cover India and Chinese OFDI and multinationals in Sub-Saharan Africa.

Chapter 3: India, China and Africa: South-South Cooperation and the Global Economy

Chapter 3 contextualises the study by reviewing the nature of Indo and Sino-African relations, giving an overview of trends in FDI, trade and development, South-South cooperation and the contemporary global economy. A section contrasting the differing engagements of India and China with Africa is discussed, expanding on how India and China have developed their ties with African states. The final part of the chapter briefly discusses the implications of Indian and Chinese involvement in Africa.

Chapter 4: The Political Economy of Indian Outward Foreign Direct Investment and Multinationals

Chapter 4 reviews the political economy of Indian FDI motivations, drivers of internationalisation and multinationals in Africa in a macro analysis. The theoretical framework provides the construct in which these phenomena are be analysed. The first part of the chapter focuses on the political economy and the role of government in defining policies that influence FDI and multinationals. The second part of the chapter outlines the drivers for internationalisation and the motivations for FDI under which firm's expanded into host economies. A conclusion outlines the key findings of the analysis.

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Chapter 5: The Political Economy of Chinese Outward Foreign Direct Investment and Multinationals

Chapter 5 reviews the political economy of Chinese FDI motivations, drivers of internationalisation and multinationals in Africa in a macro analysis. The chapter reviews the Chinese institutional and political economy and business strategies of Chinese firms. The theoretical framework provides the construct in which these phenomena will be analysed to which a conclusion is presented outlining the key findings.

Chapter 6: Conclusion

The final chapter of the study presents the findings of the research. It addresses the primary and second questions that were asked in chapter 1 with the findings of the study. Suggestions for further research in the field of emerging economies, such as India and China in Sub-Saharan Africa are made. The final section provides a conclusion to the chapter.

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Chapter 2: The Theoretical Framework

2.1 Introduction

This chapter of the study provides a review of the theoretical framework, outlining the theoretical contributions of political economy, International business/economics and International Political Economy to the analysis of India and Chinese outward foreign direct investment and multinationals in Sub-Saharan Africa.

2.2 Review of the Theory

2.2.1 A Political Economy Framework

The term 'political economy' has been redefined over several centuries. According to Adam Smith (1723-1790), a pioneer of political economy, it was the "science of managing a nation's resource so as to generate wealth" (Weingast and Wittman, 2006: 3). According to Karl Marx (1818-1883), political economy focused on how "the ownership of the means of production influenced historical processes" (Weingast and Wittman, 2006: 3). In the last century political economy has fallen in and out of conflicting definitions, being seen at times as a study of the interrelationship of economics and politics while at other times a methodological approach to a given research problem which in itself was not a singularity but divided between an economic approach, a public choice and a sociological approach. (Weingast and Wittman, 2006: 3).

This thesis ascribes to the *Oxford Handbook of Political Economy*, definition of political economy as "a grand (if imperfect) synthesis of these various strands… political economy is the methodology of economics to the analysis of political behaviour and institutions… it is not a single, unified approach, but a family of approaches" (Weingast and Wittman, 2006). When applied to FDI and multinationals, a political economy analysis seeks to consider and draw conclusions on the political and economic aspects that either sustain or moderate such phenomena. Internationalisation from a political economy perspective provides an interesting scope as capital, represented by firms, requires a state-system in which to "defend its global interests" (Yeung and Liu, 2008: 61). The capital acquired through increasing internationalisation "tends to increase the relative power of transitional (firms) vis-à-vis the national states" (Yeung and Liu, 2008: 61). Firms are thus seen to "exploit spatial differences that transcend national boundaries" (Yeung and Liu, 2008: 61).

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This perspective is more critical than the one put forward in IB which largely views such phenomena as beneficial to home and host economies and is contrasted by liberal and economic nationalist perspectives in IPE. Nevertheless, in the field of political economy and its related literature, there is an understanding that economics alone is incapable of being able to explain the variances that exist between these nation states in economic growth, economic outcomes and policy choices (Alesina and Perotti, 1994: 351).

2.2.2 International Political Economy (IPE)

Introduction

"The study of political economy and international political economy requires an analytic approach that takes into account economics, Political Science, and other social sciences" (Gilpin, 2001: 40). IPE has been developed on three major contending perspectives or schools of thought. Each of the major perspectives differs in their explanations and interpretations of change within the global political economy. The three major contending perspectives as outlined by O'Brien and Williams (2010) are economic nationalist, liberal and critical.

2.2.3 IPE Perspectives

The Economic Nationalist Perspective

Gilpin (1987: 31) noted that in economic nationalism the central idea "is that economic activities are and should be subordinate to the goal of state-building and the interests of the state." The perspective focuses on the state's role and the critical nature of power in defining the nature of the global economy. This perspective sees IPE as one "constituted through the action of rational states… if international relations is the struggle for power, IPE is the struggle for power and wealth" (O'Brien and Williams, 2010: 19).

The state is seen as the primary actor in the global economy, placing the primacy of politics above "other aspects of social life" (O'Brien and Williams, 2010: 19). While this perspective recognises the importance of market-based actors, the multinational for instance, these market-based actors remain limited in power and at the behest of the state. The increasing power afforded or attained by multinationals in the contemporary global order is seen not as an evolution of liberalising and globalising markets, but the state affording this power, through reduced controls on capital mobility.

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Economic nationalism is similar to that of realism in International Relations Theory, in that it "recognises the anarchic nature of international affairs, the primacy of the state and its interests in international affairs, and the importance of power in interstate relations" (Gilpin, 2001:14).

The Liberal Perspective

The liberal perspective of IPE has a broader range of actors that it takes note of, whether it is the multinational, interest groups or the state. The state in this perspective is not static or monolithic, but more dynamic and being defined by external factors. The international system is seen as one of interdependence as opposed to anarchy resulting in a positive-sum game. The global economy of today is one in which liberalism is the guiding doctrine, economic liberalisation and a trade regime geared towards free trade are tenants of an increasingly shifting and globalising international economy. Multinationals are viewed as being positive actors in the global economy that are advantageous to host and home economies.

To the home state the multinational "represents an optimal mix of technology, managerial skill and capital" (O'Brien and Williams, 2010:22). To host states, multinationals enhance the domestic economy providing capital transfer, access to markets and technology (O'Brien and Williams, 2010: 22). The market is central in economic life and the liberal IPE perspective stresses the role that open markets will have in enhancing growth and wealth in the global economy and the role of the multinational in facilitating this wealth to proliferate in the global economy.

The Critical Perspective

Reacting to the liberalist perspective, a selection of 'critical' IPE perspectives emerged in the nineteenth century. Lacking preoccupation with the individual and the state, these theories considered "other units of analysis" (O'Brien and Williams, 2010: 24). These theories were termed 'critical' because they opposed traditional "forms of organisation" (O'Brien and Williams, 2010: 24). Critical theory is associated with three variants; Marxism, feminism and environmentalism. These specific critical theories identify and emphasise the "nature of oppression within and across societies and the struggle for justice waged by or on behalf of workers, women and the environment (O'Brien and Williams, 2010: 25). To critical theory, transnational production and the firm are seen as being oppressive and exploitative, especially towards the working class.

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The concentration and centralising of capital, visible in the form of multinationals, is seen as a key feature of imperialism. Through the dominance of these multinationals, this is expressed in the global political economy (O'Brien and Williams, 2010: 25). Marxism is a key variant of the critical perspective which is class focused, seeing dominance and exploitation as indicative of the global political economy. Marxists view international economic relations as unstable and conflict prone because of the tendencies of capitalism (Barone, 1985: 10)

Firstly, fierce competition amongst businesses and hence capital, place workers' wages at the behest of falling profit and reductions of costs to increase profits falls squarely on workers. Secondly, capitalism creates uneven development as various centres grow and others decline. Lastly, capitalism leads to "overproduction or under consumption, giving rise to fluctuations in the business cycle and undermining social stability" (O'Brien and Williams, 2010: 26). Scholars within the critical perspective, similar to economic nationalism, see the international order and economic relations as a zero-sum game; global capitalism does not harbour cooperation, but rather reinforces existing conflictual tendencies within the international order. Ultimately, Marxists see the drive for profit by capitalists at the centre of the class struggle within the state and the global political economy (Barone, 1985: 103).

2.2.4 IPE and the Firm

Lorraine Eden (1991: 197) wrote an article calling for "bringing the firm back" into International Political Economy (IPE). Eden's (1991) contributions to the firm are important to this study for the following reasons; firstly, Eden noted that firms in IPE literature were often "implicit rather than explicit" (Eden, 1991: 197). Secondly, that "IPE must come to terms with the globalisation of markets through multinational enterprises" (Eden, 1991: 198). Thirdly, Eden recognised the role that other fields of inquiry hold with regards to firms, specifically the contributions of IB.

Fourthly, Eden discounts the conflict of states and markets in IPE exclaiming "the concept of states versus markets is… flawed because the market is a structure, not an actor, and hence a poor counterpoint to the state…the appropriate counter point is the multinational enterprise…the key nonstate actor dominating both domestic and international markets" (Eden, 1991: 197).

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2.3 Foreign Direct Investment

2.3.1 Background

Foreign direct investment is "an international capital flow recorded in the balance of payments in which an MNC establishes control over and a lasting interest in corporate assets in a host country" (Walter and Sen, 2009: 191). FDI is a critical component of the global economy and is increasing alongside emerging economy firms who have begun to constitute larger portions of global FDI flows.

The forms of FDI all share a common denominator; the motivation of firms to invest abroad because "prospective financial rewards outweigh the projected costs of launching and overseas subsidiary" (Cohen, 2007: 66).Cohen (2007: 37) notes four ways in which the term FDI can be used. Firstly, as a "corporate activity that confers the status of multinational on certain firms… it is what MNCs *do* to become MNCs." Secondly, FDI is a financial activity that consists of a capital flow from a home economy to a host economy with the purpose of "acquiring partial or full ownership" of a business, which could be a manufacturing plant, an extractive facility or a wholesale distribution system (Cohen, 2007: 37). In international finance, FDI has effects on the balance of payments of both home and host economies (Cohen, 2007: 37). Thirdly, FDI can be used as a generic term to "designate the economic policies toward MNCs and international investment flows maintained by governments" (Cohen, 2007: 37). Finally, FDI can be a general term used by agencies to gauge in monetary terms yearly incoming and outgoing flow and cumulative value of inbound investments "on a country-by-country basis" (Cohen, 2007: 37).

A majority of FDI, as a means of expanding into a host economy, can be found in *greenfield* and mergers and acquisitions (M&As). More than three-quarters of global FDI is located in M&As of existing firms, as opposed to 'greenfield investments' (Walter and Gautam, 2009: 191). Greenfield investments are when FDI constitutes the development of a new company in a host economy; hypothetically it involves the construction of new facilities (Cohen, 2007: 27). M&As are investments in which a foreign firm concludes the acquisition of an existing firm or company in a host economy. This is done through the purchasing of "voting stock in the local corporation" (Cohen, 2007: 73).

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According to Walter and Sen (2009) there are two forms of FDI: vertical and horizontal. This differentiation falls in line with Cohen's (2007) varieties or motivations as forms are not motivations. Vertical FDI "entails the production of intermediate inputs in more than one location for the manufacture of a final product and is associated primarily with the search for lower costs via global supply chain management" (Walter and Sen, 2009: 198).Horizontal FDI "involves the production of final output in different national locations and is motivated primarily by the desire for proximity to the end market" (Walter and Sen, 2009: 198).

2.3.2 Drivers of Internationalisation

Firms in a home economy may be driven to internationalise due to certain 'drivers' that prompt firms to internationalise (UNCATD, 2006: 155). There are three types of drivers; *push*, which originate in the home economy, *pull* which are found in the host economy and *policy* in the home and host economy (UNCATD, 2006: 155). These drivers will prompt firms to exploit their competitive advantages, as outlined by Dunning's eclectic paradigm, to internationalisation. The motivations and strategies for this internationalisation manifest in the types of FDI that firms engage in.

Home Economy Drivers

Home economy drivers refer to conditions that prompt the domestic firm to internationalise and include market and trade conditions, production costs, government policy and local business conditions. Emerging economies will have growing economies, but these economies could be limited in terms of scale and opportunities pushing firms abroad. Production costs in the home economy may increase due to rapid expansion, as has occurred in China, where labour costs have increased as the middle class grows. This would push firms to seek out host economies with lower production costs (UNCTAD, 2006: 155). Many firms, especially those from India and China stress the importance of governmental policy in the home economy as a push factor and as a pull factor in the host economy (UNCTAD, 2006: 157). Local business conditions trigger internationalisation in many ways but often competitive pressures in the home economy by either domestic firms or multinationals are primary reasons. China's rapid increase in OFDI is partly attributed to competition in the domestic economy (UNCTAD, 2006: 156).

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Host Economy Drivers

Market factors are often the most important determinants of FDI in host economies. Developed economies are attractive due to their large markets, highly-skilled labour and technology (UNCTAD, 2006: 155). Developing economies are attractive for different reasons, as their economies expand and the demands for new goods and services increase, market dynamism will attract firms to capitalise on new business opportunities (UNCTAD, 2006: 155). The location and diversification of the host economy will also prove important for firms when gauging possible outcomes of their investments (UNCTAD, 2006: 155).

2.3.3 Motivations of FDI

The previous section on drivers of internationalisation outlined why firms may choose to internationalise and invest abroad through either or both, push and pull factors (UNCTAD, 2006: 157). However, push and pull factors "are not sufficient to explain the final choice of host locations: an understanding of TNCs' (firms') motives, strategies and context is needed" (UNCTAD, 158: 2006).

Table 1: FDI Motivations and Economic Determinants in Host Economies

FDI Motivations	Main Economic Determinants in Host Economies
Market-seeking	• Market size and per capita income • Market growth • Access to regional and global markets • Country specific consumer preferences • Structure of markets
Resource-seeking	• Availability of natural resources (natural gas, oils, minerals • Endowment of cheap unskilled labour • Presence of adequate skilled labour force • Level and quality of infrastructure
Efficiency-seeking	• Lower cost of resources and intermediate inputs, adjusted for productivity of labour resources • Membership of a regional integration agreement conducive to the establishment of regional corporate networks
Created/Strategic asset-seeking	• Technological and other created assets (e.g. brand names), including as embodied in individuals, firms and clusters.

Source: Adapted from (Pradhan, 2010a)

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Market-Seeking FDI

Market-seeking FDI is the most common strategy of FDI for emerging economy multinationals in the internationalisation process, and this is no different India and China in Africa (UNCTAD, 2006: 158). The establishment of a firm abroad to either protect or expand a market is considered market-seeking FDI. The core motivation behind market-seeking FDI is one that is both "defensive and proactive" (Cohen, 2007: 68). The firm is motivated to expand into another economy, a host state, in order to better serve existing and potential clientèle by establishing facilities that are proximate to these customers. The defensive strategy is found in the mitigation of such factors as rising local competition, import barriers, and appreciation in the home economies' currency. Proactive reasoning would see the firm reduce transaction and transportation costs of its goods and/or services.

Host economy advantage will be established when the firm can adapt to local trends, perceive change and market itself as a 'home' business, providing employment and economic stimulus to the local economy. "Market-seeking FDI has the potential to provide more benefits to host countries than any other form of incoming direct investment" (Cohen, 2007: 68).

Efficiency-Seeking FDI

Efficiency-seeking is different from resource-seeking or market-seeking FDI and "produces distinctive behavioural patterns and economic effects" (Cohen, 2007: 69). It is a form of FDI often undertaken by "advanced developing countries" (UNCTAD, 2006: xxvii). Reduction of costs is a common motivation for firms to invest internationally. There are two rationales for this motivation; one is the establishment of a subsidiary in a low-wage economy. The second rationale is to "achieve economies of scale" (Cohen, 2007: 69) Pressure to reduce per unit costs of capital-intensive goods that have "high upfront and manufacturing costs" encourages the multinational to sell "these goods in every national market of any significant size" (Cohen, 2007: 69). "Whether the objective is highly skilled labour, very cheap labour, or strategic geographic location, this form of FDI has an above-average likelihood of generating increased foreign exchange earnings for host countries" (Cohen, 2007: 70). Multinationals seeking to cut production costs are attracted by differences in factor endowments, most notably an ample labour supply.

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Efficiency seeking FDI is largely unimportant for Chinese firms and only marginally more important to Indian firms who see efficiency as "primarily the synergies to be gained through the international integration of production and service" (UNCTAD, 2006: 160).

Resource Seeking FDI

Following the Second World War, in a recovering and restructuring global economy, resource-seeking FDI constituted the majority of total global FDI. Resource-seeking multinationals were thus the dominant business actors in the post-war era. These multinationals sought non-renewable resources, minerals and metals such as oil, gas, gold and copper as well as renewable resources such as fruit, coffee and rubber. The determinant as to where this FDI is directed is paramount. There are two primary determinants in such FDI; namely location and climate. The physicality of mineral location and whether climatic conditions are favourable for sufficient crop yields. The other determinants are location based; infrastructure, accessibility to such mineral resources, the accommodation of the host state and its governance, "favourable tax and regulatory policies, and the rule of law" (Cohen, 2007: 66).

Resource-seeking FDI and associated multinationals' operations in the primary sector have been largely criticised, unlike those of the manufacturing and services and majority of resource-seeking FDI can be found in lesser-developed countries. A distinguishing characteristic of resource-seeking FDI is that the extracted resources are not procured for sale into other economies, instead these resources are exported back home to meet home economy demands (Cohen, 2007: 69). Many of the emerging economy multinationals involved in resource-seeking FDI are state-owned enterprises, illustrating the importance of accounting for the institutional environment and needs of the state as the key actor in policy governing outward investment flows.

Created / Strategic Asset-Seeking FDI

Strategic asset-seeking is a specialised and uncommon form of FDI which is often orientated toward developed economies, not emerging ones (UNCTAD, 2006: 163). It is FDI that is motivated by the acquisition of part or all of a foreign firm to either enhance that firm's competitiveness, by creating greater corporate cohesion or to reduce competition. This form of FDI is not motivated by cost reduction or market protection, but rather the acquisition of assets.

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These assets once acquired will strengthen the competiveness of the acquiring firm as well as "weakening… competitors" (Cohen, 2007: 71; Dunning, 1993: 60) The acquisition of strategic-assets can stifle competition, diversify a firm's product line, acquire and embed new technologies or block a third-party from acquiring those procured assets. Strategic asset-seeking FDI holds no significant advances or disadvantages for the home or the host economy and benefits of this 'strategy' will ultimately lie with the acquiring firm who in the event of a successful transaction will gain further competitive advantage through the procurement of more strategic assets (Cohen, 2007).

2.4 The Firm and the Multinational

Gilpin (2001: 278) refers to a multinational as the "firm of a particular nationality with partially or wholly owned subsidiaries within at least one other national economy." The expansion of a firm beyond its territorial base can occur through M&As, 'greenfield' investments, takeovers or "intercorporate alliances with firms of other nationalities" (Gilpin, 2001: 278; Gomes-Casseres, 1996 cited in Gilpin, 2001: 278).

2.4.1 International Business Economists and the Multinational

Business economists' contributions to the research and literature on multinationals do not go unnoticed and scholars of IPE often refer to these contributions to the field of study on foreign direct investment and multinationals.

The most notable contribution to the general explanatory framework on multinationals was Dunning (1988; 1993; 2008) (Eden, 1991). Dunning's liberal eclectic or Ownership, Location and Internationalisation (OLI) paradigm or model centres on the decision to invest abroad, with emphasis on ownership characteristics and the desirability of the foreign location. The paradigm is widely cited not only IPE literature, but across other related fields illustrating the dynamism of its relevance (O'Brien and Williams, 2010: 191).

2.4.2 Dunning's Eclectic Theory: The OLI Paradigm

A "permissive economic regime" is usually needed in order for firms to internationalise, but that is often insufficient (Athreye and Kapur, 2009: 213). Dunning's eclectic theory or OLI theory of the internationalisation of multinationals provides an explanatory framework in which it purports that FDI allows firms to exploit firm-specific advantages (Athreye and Kapur, 2009: 213).

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Initially the IB literature employed a macro approach, examining "substitutability of FDI and international trade, the effects of FDI on host countries, and the composition and location of FDI" (Eden, 1991: 204). "The OLI paradigm argues that MNEs (multinationals) form and grow because they possess three sets of advantages relative to other firms" (Eden, 1991: 204). These advantages are ownership, locational and internalisation. The advantages are used in conjunction to "explain the existence of multinationals and the reasons for their growth and success in certain sectors or countries" (Eden, 1991: 204).

Dunning includes an array of possible benefits of "concrete examples of FDI including (O) size, capital, technology, and management advantages; (L) energy, labour, and transportation costs; and (I) company attitudes, control needs and the functional nature of production" (Pedersen, 2010: 59). What arguably remains largely absent from Dunning's OLI paradigm is the further consideration of the role of government and the influence they may possibly have on "each set of company advantages" while Dunning does mention them, it is not considered "significant enough to merit further consideration in this framework (Pedersen, 2010: 59). Acknowledging the shortcomings has allowed the OLI to be framed in a broader politically relevant framework as has been done by Eden (1991) and subsequently this study.

Ownership Advantages

Multinationals have ownership advantage when they can earn 'rents' in a host economy. This allows the multinational to succeed in reducing cost disadvantages associated with operating and producing in foreign economies (Eden, 1991: 205).These advantages however are often intangible and can relate to "knowledge or oligopoly" (Eden, 1991: 205). Knowledge advantages include "product and process innovations, marketing and management skills, patents and brands (Eden, 1991: 205). Oligopolistic advantages can include "economies of scale and scope, and privileged access to various resources" (Eden, 1991: 205). The ownership advantages can be due to one of three foci; firstly the size and the access to markets, second, the multinational's ability to coordinate manufacturing and distribution and third, the ability of the multinational to exploit variations between countries (Eden, 1991: 205). These key competences are seen as providing potential wide market access.

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Locational Advantages

These advantages relate to country-specific advantages and determine which states will become host to multinationals (Eden, 1991: 207). Locational advantages can be divided into three categories: economic, social and political (Eden, 1991: 207). Economic advantages such as labour, capital, management skills, natural resources and technology stem from the host economy (Eden, 1991: 207). Markets size and infrastructural capabilities can also aid the host state in being more attractive to firms. Social advantages are drawn from the differences that exist in culture, language and business ethics (Eden, 1991: 207).

Political advantages can be a definitive gauge to firms of a state's openness to foreign direct investment and foreign firm operations. Factors such as the hosts' policies on foreign investment and trade are crucial and create either a favourable or unfavourable environment in which business can be conducted.

Internalisation Advantages

Internalisation advantages stem from the exploitation of the disparities of "exogenous imperfections faced by multinationals" in foreign economies (Eden, 1991: 205). Eden (1991: 205) notes two types of "exogenous imperfections."

The first are unique to differing types of markets "from the public good aspect of knowledge, from uncertainty and from the existence of transactions costs in all external markets." The second type that Eden (1991:205) notes is "state-generated imperfections such as tariffs, foreign exchange controls and subsidies." Internalisation advantages can also be gained through the exploitation of "oligopolistic rivalry among competing multinationals." "This may be because of market possibilities for the output of the foreign ventures 'market seeking FDI', because the country possesses scarce natural resources 'resource seeking FDI', or because the country has low operating costs "cost reducing FDI," which make it an attractive export platform" (Kaplinsky and Morris, 2009: 562).

2.5 Application of the Theory

The theory that frames the analysis of the internationalisation of Indian and Chinese firms in Africa is informed by the three academic fields, political economy, IB/IE and IPE.

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In explanations of the role of government as the primary actor in economics, political economy and economic nationalist perspectives are drawn on. In the study of FDI and multinationals, literature pertaining to these two is drawn from the work done in IB and IE. The choice of including business and economic based theory is pertinent due to attention that IB and IE has afforded FDI and multinationals and motivating factors of FDI; which is greater than IPE or that of political economy.

In studying the role of the government in the regulation and the process of Indian and Chinese firms' internationalisation, political economy centres the role that the government plays in legislative and regulatory frameworks where business is conducted, which impacts on the home economies investment paths (Luo *et al.*, 2010: 79). The inclusion of IPE in this thesis, drawn from the contributions that Eden (1991) and Strange (1988, 1992) have made to the literature on accounting for global economic shifts and the role of multinationals. In terms of perspectives from IPE, the study is framed within an economic-nationalist perspective, as it is the most fitting perspective to adopt in the study of the outward investments of India and Chinese firms. The economic nationalist perspective argues that the expanding presence of multinationals in the global economy is not due so much to liberalisation in the global economy as it is to governments allowing more capital mobility. In the case of India and China the research will illustrate how the policy environment has had a positive effect on increasing outward investment flows in the last several years, in comparison to prior eras in which the state regulated and controlled OFDI from the home country.

Chapters 4 and 5 begin with an outline of the political economy and the policies that regulate outward investments by India and Chinese firms, providing an overview of how these policies would eventually define a new era of investment by India and China. The structure of the research in the chapters on India and China is further informed by the structure that Deng (2003) utilised, describing the core motivations of FDI, using case specific firms to illustrate the motivation for FDI in Sub-Saharan host economies. Not all the motivations listed in the theory are applied or discussed to either India or Chinese firms, as the UNCTAD (2006) notes in their research on motivating factors for FDI, some forms of FDI are more or less important to Indian and Chinese firms. Motivations that are clearly applicable to Indo-African and Sino-African investment are however discussed and examples of such firms that have been motivated by such FDI are reviewed.

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2.6 Conclusion

The chapter outlined the three contributing fields of inquiry, political economy, International business/economics and International Political Economy that create the theoretical framework. In Chapters 4 and 5 the theoretical framework will be applied to the study of Indian and Chinese OFDI and multinationals. The focus is to review the institutional and political economy of Indian and Chinese investments, outlining key investment motivations, drivers for internationalisation abroad and the sectoral and entry mode types of multinationals in Africa.

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Chapter 3: Background and Contextualisation: India, China and Africa.

3.1 Introduction

This chapter reviews the main developments within contemporary India, China and African political and economic relations. The first part of the chapter covers Africa's changing position in the global economy as a nexus for emerging economy investment. A brief discussion on the global financial crisis follows, as it significantly altered FDI flows in the world. The latter part of the chapter covers South-South cooperation which is a form of cooperation that both India and China have invoked as a framework within which to conduct their individual relations with Africa. The final section provides a brief look at some of the implications of these contemporary engagements.

3.1.1 Background

Contemporary relations between African states and India and China are by no means one-dimensional. The multifaceted nature of Sino – African and Indo – African relations and its place in a greater sphere of actors and relations makes this chapter crucial in establishing the contemporary nature of the political economy of these actors and relations. Africa is crossing new terrain as its international relations and geopolitical orientation in the global economy fundamentally change "against the rise of a number of large and influential developing or emerging states" (Cornelissen, 2009: 6).

The relative flux and alteration in the international system is according to Cornelissen (2009: 5) part of two enduring legacies of the Cold War (1946 – 1991) which has seen the "influence of economies over politics in determining the trends and tenor of international relations, and second, the entities-state, but more so, non-state-which increasing are leaving their imprints on the global political landscape… the rapid economic ascendance of some states – and their multinational firms – from the South, and the growing influence they appear to have in the international system has prompted a justifiable interest among scholars/analysts about their implications for the international economy and politics alike." Governments are primarily seen as the drivers of increasing economic interaction in emerging economies with the private sector at times only holding a minor, albeit increasing role in assisting these relations (Schoeman, 2011: 37).

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The changing dynamics on the continent and the forging of new partnerships with other emerging economies has created “new impulses in Africa’s external relations” (Naidu *et al.,* 2009: 2). The competitive nature of India and China’s role and their expanding global presence is creating alarmist tones in Western discourses on Africa’s new relations. The classifying of these new relations falls into two broad understandings of these new strategic Indo and Sino-African partnerships. One is a rigid cynical view that posits that Indo-African and Sino-African engagements are of an exploitative nature, based on self-interest and preservation, driven by addressing pressures in the their home economies . This places Africa in another inequitable period of economic disempowerment and political disenfranchisement (Naidu *et al*., 2009: 2). The second, less cynical approach to these new engagements is that these emerging economies could not further threaten an already fragile African developmental path. Proponents of increasing South-South interaction and specifically that of African – Asian relations suggest a positive outlook on Africa’s development and the partnerships that states like India and China are offering the continent (Naidu *et al*., 2009: 2).

Moeletsi Mbeki (2009) writing on what he terms ‘Africa’s Malaise,’ Mbeki outlines the developmental challenges that African economies face, illustrating the vulnerability of capitalism, the dangers of donor dependency, donor created democracy, de-industrialisation, long term underinvestment and failure of regional integration. The 1980s and the 1990s in Africa were a period of immense economic stagnation, continuous humanitarian disasters and perpetual conflict that seemed to engulf entire governed regions of the continent. ‘Afro-pessimism’ became part of the discourse, a term that has come to describe what Martin (2008: 339) identifies as “the (pessimistic) commentary on Africa by Northern scholars, policy makers and media.”

While Mbeki and other experts’ views on the political economy of Africa may be rather strident and bleak, they highlight important facts about Africa’s underdevelopment. Indian and Chinese government officials have often publicly stated their intentions that their country’s investments seek to address these developmental challenges, not exacerbate them. However, Desai (2009) along with Broadman (2007a), while noting the shortcomings of Africa’s political economy are swift to magnify and defend the last decade or so of what Desai (2009: 414) calls an ‘African Resurgence.’ Africa’s “global focus is an important development of the twenty-first century” (Desai, 2009: 414).

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The commodity boom saw increased investments during the beginning of the millennium after what were for many African states decades of 'post-independence economic stagnation' (Arieff *et al.,* 2010: 5). Africa experienced sound economic growth in the pre – crisis era. Growth between 2002 and 2007 was averaging at 6.5 per cent annually. African trade was boosted by increasing demands which has largely been due to the exceptional demands of the Indian and Chinese economies (AFDB, 2011). "Africa's top five emerging trade partners are now China (38 percent), India (14 per cent), Korea (7.2 per cent), Brazil (7.1 per cent) and Turkey (6.5 per cent)" (AFDB, 2011).

3.2 The Global Economy and Crisis

It began with the bursting of the US housing market bubble and later distended into a global financial and economic crisis leading to the most severe global recession since the Great Depression of the 1930s. Commencing in September 2008 with the collapse of Lehman Brothers in New York City, "credit flows froze, lender confidence dropped, and economies around the world dipped toward recession" (Arieff *et al.*, 2010: 2). "At the beginning of 2009 it was clear that the global economy was facing a major recession" (Gamble, 2009: 36). Having begun in the most industrialised countries in the world, the financial crisis began to spread to emerging markets and developing economies, like those of Africa. India and China are, alongside perhaps Brazil and the Asian tiger economies perceived to have weathered the brunt of the global financial crisis with only slight slowing in gross domestic product (GDP) growth (Broadman, 2010: 6).

The recession has affected most African states through an array of mechanisms, "including a decline in global trade, a drop in investment, falling remittances from overseas workers, and possible cuts in foreign aid. These channels are largely connected to Africa's "real" economy, rather than its financial sector" (Arieff *et al.*, 2010: 7). Initially, analysts were cautiously optimistic that the global financial crisis would not affect Africa like many other regions of the world (Arieff *et al.*, 2010: 3). This analysis was based on the premise that African economies are some of the least exposed to the global financial system relative to other regions. African banks did not have such 'toxicity' in their assets, an attribution of the current crisis (Arieff *et al.*, 2010: 3). However, as the global financial crisis expanded into a global economic recession or slowdown, Africa began to experience the negative effects of global economic contraction along with stricter financing conditions abroad as FDI and capital flows began to decline (Arieff *et al.*, 2010: 3).

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Broadman (2010: 6) notes however that despite contraction and the crisis indeed taking a toll "Sub – Saharan Africa's resilient economic performance… has proven to be far more robust" than analysts had previously thought. Broadman (2010: 10) speaks of Africa's "roots of resilience." Similar to other emerging economies, many African states have had varying economic growth in the last decade which Broadman (2010) argues is due to African policymakers finally laying better suited macroeconomic mechanisms to their economies. The global financial crisis may have shrunk or reduced growth in countries across the globe; even so, Africa was still able to experience levels of positive growth (BCG, 2010: 1). These mixed developments in the global economy brought varied but generally positive signs for Africa. Increasing commodity prices, public spending and foreign direct investments in extractive sectors, despite total decreases in FDI flows to Africa, increased and supported some level of economic recovery (UNECA, 2011: 11). The response of Indian and Chinese firms to the global economic crisis was quite different, elaborated on in the following section. Indian OFDI declined at the beginning of the crisis whereas China's OFDI doubled. This is argued to be because Chinese OFDI "is crucially determined by political security and economic interest of the Chinese state rather than by market forces" (Pradhan, 2011: 143).

3.3 Current Global and Regional FDI Trends

Global foreign direct investment (FDI) flows increased by 5 per cent, going up to $1.24 Trillion in 2010, in comparison to the FDI contraction in 2008 and 2009; this figure is still 15 per cent below the levels of the pre – crisis average. The most discernible disparity is between the 2007 FDI flows and contemporary figures with a difference of nearly 37 per cent from when global FDI flows peaked in 2007; pre-financial crisis (UNCTAD, 2011: xii). The fall in global FDI in the period 2008 – 2009 recorded a 15 per cent contraction. During the 2008 – 2009 period, the inability of firms to invest as they would have, caused by shortfalls in financial resources and access, due internally to marginal corporate profits and externally by uncertain economic prospects, especially in the developed world. All major types of FDI, market-seeking, efficiency-seeking, and resource-seeking were affected, but some locations of these forms of FDI fared better than others. However, despite global downturns of FDI, the *World Invest Report* predicts investment flows to recover and normalise by 2013 at an estimated US$1.9 trillion annually, on par with 2007's figures (UNCTAD, 2011: xii).

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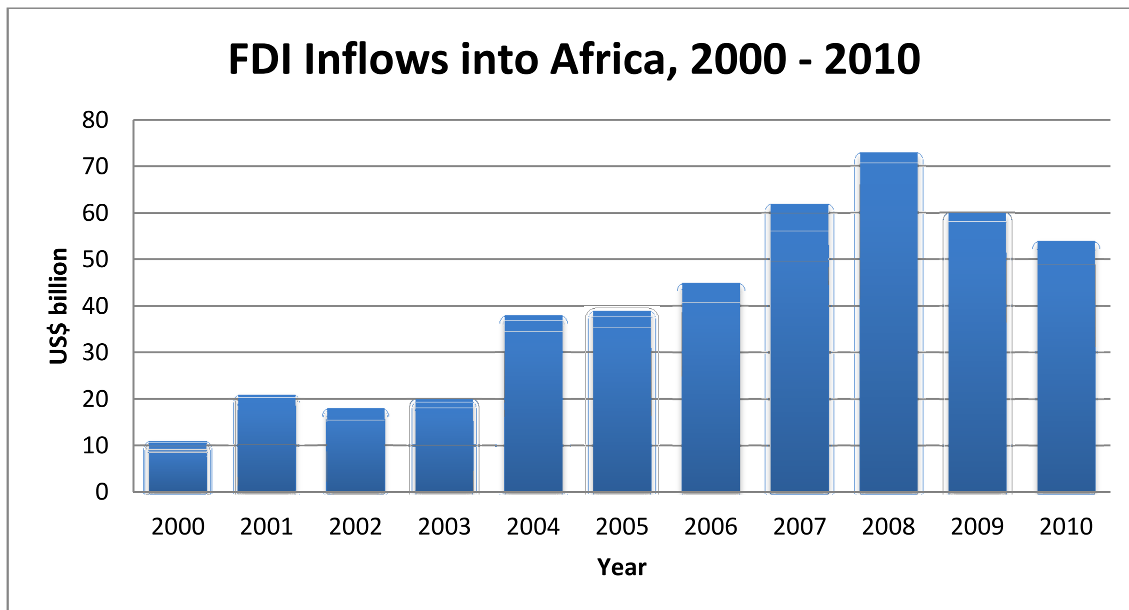
Figure 1: FDI flows into Africa (2000 - 2010)



Source: Adapted from (UNCTAD, 2011)

Emerging economies continue to increase their presence as "both recipients and as outward investors" (UNCTAD, 2011: xii). While FDI flows to developed countries further contracted in 2010, emerging economies came to capture more than 50 per cent of total global FDI flows, rising by 12 per cent (UNCTAD, 2011: xii). This was due in part to quicker recovery, the strength of domestic economic demands and amassed South-South flows. The share of developing countries in the total flows of FDI to Africa, based on home economy reporting was averaging 17.7 per cent in the period 1995 - 1999 (UNCTAD, 81: 2010b). That number increased to 20.8 per cent for the period of 2008-2009 (UNCTAD, 81: 2010b).

Industry specific distribution of FDI in Africa was predominantly found in the primary sector of which hydrocarbons are the most important totalling 43 per cent, manufacturing accounted for 29 per cent and services sector 28 per cent of total incoming FDI (UNCTAD, 2011: 41). Angola and Nigeria and were the top recipients of FDI flows in Sub-Saharan Africa, being the only states on the continent within the US$3 Billion and above range. They are followed by states such as the Democratic Republic of Congo, Republic of the Congo and Ghana in the US$2.0 billion to US$2.9 billion tier (UNCTAD, 2011: 32). Of these top recipients one common denominator emerges and that is the presence of sought after natural resources, whether they are hydrocarbons or minerals.

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While not covered in this study, it is important to note that approximately a third of total FDI flows into Africa go to North Africa, a region with large proven oil reserves (UNCTAD, 2011: 43). The continuing drive for resources and markets, in particular by Asian firms, will likely sustain FDI flows to Africa. Concerns over the United States and its debt crisis alongside uncertainty and volatility in developed markets and business spheres have kept firms cautious, and wary of incurring further risk.

Table 2: FDI Flows into Sub-Saharan Africa (2005-2011)

Sub-Saharan Africa	2005	2006	2007	2008	2009	2010	2011
Inflows (US$ bn)	15.2	12.2	13.4	13.9	16.1	17.1	18.1
% of world total	1.6	0.9	0.9	1.0	1.1	1.1	1.1
% change, year on year	34.3	-19.6	10.3	3.0	16.3	6.3	5.7
% GDP	**2.7**	**2.0**	**2.0**	**1.9**	**2.1**	**2.1**	**2.0**

Source: Adapted from (Economist Intelligence Unit, 2007)

The increasing lack of faith in global economic governance and overheating or unsustainable domestic demand relative to production capacity in some emerging economies, could delay FDI recovery (UNCTAD 2011: 2). While much of the Indian and Chinese foreign direct investment in Africa is found in the extractive sectors, such as oil and other mining related industries investments in telecommunications, commercial real estate, transport, energy and construction have increasing shares of total OFDI (Boardman *et al.*, 2007: 2). Between 2004 and 2008, India recorded an annual OFDI growth rate of 87 per cent while China recorded an OFDI growth rate of 81 per cent, far higher than their BRIC partners Russia and Brazil, 68 per cent and 35 per cent respectively (Hong, 2011: 2). The infrastructural backed deals that have garnered so much attention, where Chinese loans are "backed by natural resources extracted through FDI projects" continue without signs of slowing (UNCTAD, 2010b: 37).
With emerging and transitional economies strongly increasing their FDI, 21 per cent, accounting for 29 per cent of global FDI flows, Africa despite declining FDI after a booming 2008, will remain a key investment focus for emerging economies in the years to come (UNCTAD, 2011: 40).

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3.4 South-South Cooperation, India and China.

3.4.1 South – South Cooperation

India and China's economic engagement with African states is often done within the spirit of South-South cooperation. South-South alliances are playing a key role in the "economic and social development of the region" (UNCTAD, 2010a: 10). Complimentary advantage is the governing track of South-South cooperation. Africa needs "external capital, technology and technical expertise" while Southern partners need "natural resources, markets and support on global issues" (UNCTAD, 2010: 10). Yet South-South cooperation is a concept that is often used without proper clarification, instead assuming the reader understands what is being inferred. To clarify South-South cooperation, it "refers to the processes, institutions and arrangements designed to promote political, economic and technical cooperation among developing countries in pursuit of common development goals" (UNCTAD, 2010: 1).

It is multidimensional in scope, encompassing cooperation in areas such as trade, finance, investment, as well as the exchange of knowledge, skills and technical expertise between developing countries. Pradhan (2008: 9) infers that South-South cooperation is "a broad-based political and economic consensus" that was established between the countries of the developing or 'South' during the 1970s to 1980s. Geographically, it covers bilateral, intraregional and interregional cooperation as well as collaboration among developing countries on multilateral issues designed to enhance their participation and integration in the world economy" (UNCTAD, 2010a: 1). Africa's relations with the encompassing 'global South,' or simply 'South,' can be found in the formal involvement of African and Asians states; most of whom had recently acquired independence and those still seeking it like most of the African states. These states held a conference in Bandung, Indonesia from April 18th to the 24th, 1955. The conference sought to establish Afro – Asian links with the aim of economic, political and cultural cooperation as well as stand against colonialism. At this point in time Afro – Asian links were predominantly of a political nature.

However as time passed through the decades, crises after crises these links would soon transcend politics and begin to involve military support to various armed groups involved in the struggles for political dominance, a case of Cold War proxies. In contemporary times, the state of Afro – Asian relations have become far more economical in nature as African states come to view the South as "a mechanism for enhancing growth, reducing poverty and integrating into the global economy" (UNCTAD, 2010a: 1).

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To Africa, South-South Cooperation is an alternative to that which has over the course of the last sixty or so years been offered by the West chiefly when it comes to mechanism of aid and loans, which states like China provide to African states with little or no 'conditionality clauses.' International Monetary Fund and World Bank structural adjustment polices (SAPs) which were offered to developing nations with conditionality clauses were widely criticised for being more detrimental than beneficial to African economies. Africa's interactions with the South generally are of three cooperation forms.

The first form of these cooperation forms is *bilateral*; which is cooperation between African state and a developing state from another region. Such bilateral partnerships can be seen in those between African states or a single state and either India or China. The second of the cooperation forms is *trilateral*; that being an African state and a developing state from another respective region. The most prominent of the trilateral cooperation bodies is the IBSA partnership or India, Brazil and South Africa. The third of the cooperation forms is *inter-regional*; which is between Africa and other developing regions of the world. Such inter-regional bodies include The Asian–African Strategic Partnership, the Africa-South America Initiative and the Afro-Arab Cooperation Initiative (UNCTAD, 2010a: 12-13).Within the international system, South-South cooperation and the reliance on large states such as India and China, who too seek reform, not just in the structure of the United Nations Security Council of which China is a permanent member, but in the global discourses that take place on a regular basis with regards to security, environmentalism, finance and the world economy. The very discourses which Africa often feels neglected from and unable to "influence the agenda, pace and decisions" made within these discourses. To Africa, these growing interactions with the South extend beyond historical ties and centres on the continent's desire to find partners in development. These partners could aid Africa "revitalise the continent's frail developmental project…within the context of increased trade and investment linkages and new forms of development assistance" (Naidu *et al.*, 2009: 2).

South-South cooperation and the symbolism of the reciprocal nature of these relations are seen as cornerstones to India and China's strengthening involvement in the continent. It forms part of the broader strategy of the two countries to differentiate themselves from Africa's traditional Western trading, aid and investment partners.

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3.4.2 Indo-African Relations

India has had strong ties and relations with Africa for several decades. India is gearing up to globalise a lot of its efforts and to play a more key role in the future of the world. Through the engagement of regional trade agreements, strengthening bilateral relations and its activism in previous and contemporary political associations in Africa, the country is set to play to the shifting geographies of power (Mawdsley and McCann, 2010: 89). This has been seen by some scholars like Mawdsley and McCann (2010: 468) as a largely unreported part of India's developing contemporary African engagement noting "that there is now a more pronounced *realpolitik* to India's Africa endeavours." Liberalisation policies in India in the 1990s, while generally considered being mainly concerned on opening up the economy, created complimentary political considerations too.

The ambitious Indian private sector and its entities, spent years waiting for more liberal reforms in the economy, began to see great opportunities abroad. It was only in 2008 that India made a leap in creating a "new architecture for its engagement with Africa" with the inaugural India-Africa Summit in New Delhi (UNCTAD, 2010a: 16). The summit will now be held every three years with the attendance level being rather high with heads of state and government as attendees. In the 2008 India-Africa Summit, firm commitments to cooperation in economics, politics, research and development, social development and capacity building, along with energy and infrastructure, were some of the key talking points. At the 2011 India-Africa Summit in Addis Ababa, Ethiopia, energy, investment and diplomatic relations topped the agenda, reflecting the evolution of India's interactions with Africa as it steers its policy towards a firmer political and resource and investment orientated engagement (Tao and Shanggang, 2011).

Over the course of the last twenty years the Indian government began to develop and nurture a more expansive and guided foreign agenda. This agenda can be seen in the notable regional and international cooperative bodies within Africa, from the Techno – Economic Approach for Africa-India Movement (TEAM 9), to the Focus Africa and the Indian Technical and Economic Cooperation (ITEC) programme (Mawdsley and McCann, 2010: 84, 87). It was not until recently that India established a platform for cooperation in the region. The first India – African Forum summit was held in New Delhi in April 2008.

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The Forum is guided by the idea of reciprocity, social development, energy and environment amongst other interests and is held at the head of government and state level. India is active in supplying developmental loans, debt relief, technical assistance, academic scholarships and programmes abroad as well as peacekeeping (UNCTAD, 2010a: 17). Africa is "strategically and geopolitically important to India" as the Eastern African seaboard from the Horn of Africa to the coasts of South Africa fall within "India's maritime strategic neighbourhood" (Desai, 2009: 413).Similar to China, India's reliance and access to these resources in Africa is similar, as are African markets' demand for Indian manufactured goods. The nomination of India as a dialogue partner to the African Union is seen as recognition by African states of the role India plays in the economic development of the continent (Desai, 2009: 418). India is also a regular contributor of troops to United Nations peacekeeping missions in Africa, a commitment by New Delhi to support security related and global multilateral efforts (Mawdsley and McCann, 2010: 89).

Economic Interests and Engagements

The Focus Africa programme was established as part of an Indian EXIM bank driven policy that encouraged Indian bilateral trade and investment in Africa. The programme was targeted at sub-Saharan Africa, primarily Nigeria, South Africa, Mauritius, Kenya, Ethiopia, Tanzania and Ghana. The policy now covers all of Africa. The Indian EXIM Bank has extended lines of credit to some of Africa's regional blocs such as the Economic Community of West African States (ECOWAS), the Common Market for Eastern and Southern Africa (COMESA)and the New Partnership for African Development (NEPAD) (Cheru and Obi, 2011: 100). The TEAM-9 Initiative, launched in 2004 was created in the hopes of broadening relations with energy and resource endowed West African states which India had largely neglected diplomatically and foreign policy wise over the last few decades (Desai, 2009: 422). TEAM-9 Initiative includes various levels, governmental, institutional and the private sector involved in sharing expertise such as "intellectual and physical resources" including social programmes, "education and training in crucial sectors" technology transfers, and specific projects in small-scale industry, pharmaceuticals, information technology (IT), telecommunication, energy and transportation (Desai, 2009: 422; Mawdsley and McCann, 2010: 84). India will draw on its expertise in these fields, since many of these sectors have Indian firms that have internationalised into Africa, to support access to markets and resources in West Africa.

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3.4.3 China

Historical Background

In the formative years of the People's Republic, China from independence to its economic opening in 1978 was primarily ideologically driven. Focusing on politics, the China's policy supported independence movements and creating relations with African governments. By 1978, China had diplomatic relations with 43 African countries. In the early 1990s, China and Africa's relationship evolved from being primarily on "ministry-sponsored development aid" towards a market orientated approach focusing on bilateral trade and OFDI (Yin and Vaschetto, 2011: 45).

Political Interests

China is strengthening its presence in Africa through bilateral and multilateral forums like the Asia-Africa summit, the Forum on China-Africa Cooperation (FOCAC), China-Africa Business Council and possibly in a new commission with India and Africa (Cheru and Obi, 2011: 90). China's interests in Africa are however not purely economic. Contemporary Sino-African relations also contain important diplomatic and political considerations (Gill and Reilly, 2007: 37). History continues to play an important part of China's African relations which has been rooted in 55 years of supportive and respective support for African states (Gill and Reilly, 2007: 37).

In 2006 the leading paper on Sino – African relations entitled *China's Africa Policy* was released. Outlined in six key sections the document establishes the precedents that guide Chinese policy in Africa. These precedents include strengthening strategic partnerships, enhancing political equality, economic cooperation and cultural exchange.

Economic Interests

Resource security is one of the most invoked reasons scholars and the media have suggested when exploring Chinese economic interests in Africa. The securing of resources is very much a strategic concern, especially oil. As Corkin (2007: 317) suggests; "unsurprisingly all of China's oil companies are state-owned." Resources are one of China's key motivations for expanding its engagements on the continent. Africa has an abundance of natural resources and increasing oil output on the continent has led China to make massive investments in hydrocarbons over the years.

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The demand for oil can be quite well established by the close ties that have developed between China and resource rich states like Angola, Nigeria and Sudan (Cheng and Shi, 2009: 103). The Chinese government promotes business opportunities in Africa by providing its "corporations with information, coordination mechanisms and financial assistance to Chinese companies" (Gill and Reilly 2007: 39). China, employs an array of economic mechanisms to capture resources on the continent through "financial assistance, prestige construction projects and arms sales to cement ties with these oil-producing states" (Alden, 2005:148). China's economic interests are not solely focused on resources. There have been substantial investments and projects in mining, construction telecommunications and agriculture. Large infrastructural backed deals, which will be touched on later, have seen many Chinese firms "involved in road and railway rehabilitation" (Corkin, 2007: 316). Telecommunications companies like ZTE and Huawei are actively involved on the continent having signed deals in Nigeria and Angola as they seek out new markets (Corkin, 2007: 315). Africa is a particularly good economy for marketing low-cost consumer goods where consumer power is largely weak.

3.4.4 India and China: Differing Engagements

India and China were welcomed to Africa amidst a shift in the economic power of the world. India and China may be big economic players in Africa and the globe, but that does not mean that either their foreign policy or broader economic and fiscal policies; and their expanding influence regionally and globally, or on continents such as Africa is a homogenous one. Both India and China represent themselves to Africa as partners in South-South solidarity and strengthen this partnership by continually invoking historical ties and a common goal of transforming the international order into one which is economically more equitable. India and China may be drivers of change in the global economy, but the two engage it quite differently.

The contemporary economic activity of these two states in Africa is exceptional and overshadows former prominent Asian powers on the continent, South Korea and Japan (Boardman, 2008: 95). New Delhi and Beijing are actively involved in the process of developing public programmes of trade and investment finance to provide the necessary means for its firms to expand into foreign markets. While such government intervention is usually associated with China, New Delhi continues to create mechanisms geared at promoting and facilitating outward investment.

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Whether such actions are done so as to drop the veil over a nefarious new age 'scramble for Africa' is not the subject of this study, but what is of importance and substance is how these differing engagements impact and mould the role of India and China's business interests on the continent. The histories and processes that have led India and China up to this point in the 'contemporary' engagement with Africa are of course the product of a lengthy historical interaction. Beyond the speculation within the literature on India and Chinese African interactions lie subtle variances and not so subtle engagements that require more attention, such as political systems, economic and fiscal policy, cultural and business practices (Broadman, 2008: 95). The ownership of Indian and Chinese firms is one such factor. Chinese firms that have internationalised tend to be, up to two-thirds, state-owned or state-controlled. The remainder of the firms are of mixed-ownership, state and a fraction being privately owned (Pal, 2010: 266). Indian firms are predominantly run or owned by "private investors, strategic investors, and the general public" (Pal, 2010: 266).

While India does boast competitive SOEs, the ownership structure of many of India's firms according to Sáez and Chang (2009: 276) can be misleading. While Indian firms that have internationalised are mainly private, India's "state sector involvement" in private firms can be indirect, mainly through state financial institutions that provide support for Indian firms, such as the Unit Trust of India, Industrial Credit and Investment Corporation of India (ICICI) or the Industrial Development Bank of India (IDBI) (Sáez and Chang, 2009: 276).

State policies by the Chinese government have been more accommodating, more diplomatically supported, equating to more a multi-faceted push for its firms to internationalise (Pal, 2010: 266). Thus the internationalisation of Chinese firms has been top-down, their investment objectives being reflected by Beijing's political objectives (Hong, 2011: 21). Despite India's global economic standing it, along with many other comparable states like Russia, Brazil, South Africa for instance lack instrumental tools, such as strong finance, that the Chinese government holds (Pal, 2010: 267). Indian and Chinese firms perceive commercial risks differently, which in turn influences their business strategies (Broadman, 2009: 95).

India and China differ when it comes to sectoral distribution of their outward investments. Non-financial services and primary sectors like mining accounted for large a percentage of Chinese investments.

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It is in the energy sector that China has made its mark in Africa and where the government has shown the most amounts of support and interest in aiding (Corkin, 2007: 315). Non-financial sectors include business services, wholesale and retail, transportation, storage and related logistical services and building and real estate. Manufacturing only captured a small percentage of total Chinese investments (Hong, 2011: 17). India's sectoral distribution however sees manufacturing as its major sector. Similar to China, India's second largest investment sector is in agriculture and mining activities followed by non-financial services (Hong, 2011: 19). What can be deduced from the literature currently available on Asian investment expansion in Africa is that the surge of FDI from emerging economies can be attributed to the aforementioned change in global economic and political dynamics. It is also attributed to government policy; the government encourages local firms to 'go global,' shaped by home institutional factors that through necessity, set "the trajectory of emerging market enterprises" (Luo *et al.*, 2010: 68).

The rise of companies from emerging economies are not only new or increasingly competitive entities, but also ones that are backed by increasingly powerful states, such as those of India and China (BCG, 2011: 6). Established and well-known brands like *Jaguar* and *Land Rover* are now owned by the Tata Group, an Indian multinational. Huawei Technologies and ZTE, from China are the second and fifth largest companies in mobile telecommunications. Such businesses are capturing markets across Africa as they grow (BCG, 2011: 6).

3.4.5 The Implications of the Emerging Presence of South Multinationals in Africa

With any new form of international engagement there will be advantages and disadvantages. According to Collier (2007) most African states' development and growth are hindered by four *traps*. These traps are exacerbated in the poorer of the African states, but apply to more developed ones too, the four traps are: the conflict trap, the natural resources trap, bad neighbours and poor governance. These four traps can lead to a further three traps, namely the trade trap, the investment trap and the self-confidence trap (Pal, 2010: 268). What all these traps essentially culminate in is the inability of many African states to effectively do business let alone run efficient governments and stable environments. Conflict disrupts political economic activities, rule of law and governance.

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China, through infrastructural backed type deals have at least attempted to provide poor, resource rich countries with preferential access to developmental projects that probably would not have come to fruition without the help of Chinese skills and financing.

Resources lead to a 'curse' whereby "resource rents make democracy malfunction" (Collier, 2007: 42). What Pal (2010) and Collier (2007) are illustrating is that general instability, the presence of resources and poor governance causes increasing risk to investors. Investors that are willing to mitigate the risk or engage in African states regardless, find themselves in tougher bargaining positions with the home economies and multinationals resulting in "suboptimal outcomes for the host country" (Pal, 2010: 268).While much of what Collier says is well known about investing in Africa, nonetheless this arguably cannot be employed that effectively as the dynamics are changing, in the context of emerging economies and their interactions with the continent. Southern investors, unlike their Western or Northern counterparts not only create more employment but are also better suited for the environment in which such economic activities take place.

African states find themselves in better bargaining positions with Southern multinationals. Indian and Chinese investors and the home governments have created expansive reforms to the relations in which these economic activities take place; they are founded on good will and reciprocity (Pal, 2010: 268-269). Broadman (2007a) suggests the engagement is beneficial going further to suggest that India and China, due to their active role in aid and investment on the continent, can be credited for Africa's weathering of the global financial crisis (Pal, 2010: 269).

Indian and Chinese firms are "…helping African countries move up on the production chain, this is enabling African countries to participate in the global trade networks that had previously been difficult for their domestic firms to access" (Pal, 2010: 269-270). Knowledge spillovers from Indian and Chinese multinationals to African firms are evident and will possibly provide many significant advantages to Africa's industrialisation (Broadman, 2007, 2010; Pal, 2010: 270). Pham (2010) suggests that Africa should continue to strengthen its position in the global economy through the increased level of attention it has received; in aid, trade, and investment. Historically, African leaders have not embraced FDI as a crucial feature of economic development.

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African leaders have been wary of the possibility of the political and economic implications that investing firms' can have on the domestic economy. Highly competitive foreign multinationals are often seen not to contribute to long term economic and development growth in countries, instead becoming competitors to local firms and exacerbating socio-economic challenges. Dupasqueir and Osakwe (2006: 258) concur with Pham and furthermore add that provided host economies in Africa continue to endorse FDI and create and sustain stable investment environments, African economies can capture the promised potential benefits.

3.5 Conclusion

The role of Indian and Chinese multinationals in Africa does pose challenges but it also has prospects for the continent. India and China record exceptional economic growth and global economic clout, the global financial crises created a recession that retarded global FDI. India's FDI took a far greater knock than China's but investment flows are slowly starting to gain traction.

The continent, aware of its growing importance in the global economy, will need to continually work on "continental, political and economic capacities in order to better manage relations with emerging and traditional powers" (Kornegay and Landsberg, 2009: 190). At this stage of the engagement between India, China and African states it is too early to draw conclusions as to whether or not this is "a new dimension of South-South relations" (Cheru and Obi, 2011: 106). There are a lot of moving parts in India and China's engagements with Africa. In the last decade several leaps have been made by these states in their outward investments and soft-power projections in Africa (Cheru and Obi, 2011: 104). The long term implications of the strengthening of political and economic ties and the internationalisation of Indian and Chinese firms on the continent cannot be fully accounted for at this point.

While China has a policy for Africa, India does not and is still in the process of developing a 'total' strategy for the continent. What can be said at this point though is that India and China's growing engagement in Africa is without a doubt transforming Africa's political economy. In their own capacities India and China and their investment motivations in Africa will impact the host economy. The next two chapters detail these investments and the institutional environments that have aided these investments to flow into Africa.

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Chapter 4: Indian Outward Foreign Direct Investment and Multinationals

4.1 Introduction

The chapter presents a macro analysis of Indian multinationals and OFDI in Sub-Saharan Africa, expanding on their sectoral orientation, current FDI figures, characteristics and the role of the Indian government in "influencing the process of outward expansion of local capital in the form of OFDI" (Pedersen, 2010: 62). The chapter establishes that the 2nd wave of investments (1995 -) abroad were linked to the liberalisation of the Indian domestic economy and primarily market-seeking but have become increasingly resource-seeking as India struggles to meet its economy's energy requirements.

4.2 Background

India is the fourth largest economy in the world by purchasing power parity terms with a GDP that sits over US$4 trillion; with GDP growth expected to be over eight per cent in 2010/2011 (World Bank, 2010; Cambell, 2011). Rapid and sustained economic growth is attributed to a competitive Indian economy, having implemented economic reforms in 1991, which was seen as a response to a fiscal and a balance of payments crisis (Cambell, 2011). Most of the expansion into Africa by India is led by the private the sector although the presence of state firms is increasing, as Indian SOEs are motivated to emulate their private-sector and Chinese SOEs counterparts by seeking opportunities in Africa (Cambell, 2011). Africa's share of Indian FDI was US$243 million in 2000, to US$2.4 billion in 2008. India's FDI is mostly driven by the private sector, the exceptions being a few large SOEs in the energy sector, as such Indian OFDI has largely driven by growth, competition and business opportunities (Pradhan, 2010b: 77).

Indian firms are investing on a larger scale in Africa than in the *first wave* of investment, which took place from the initial investment at the end of the 1950s to 1995, when the lessening of the regulatory investment regime began, resulting in a the *second wave* of investments. Investing billions of dollars to "tap the potential of its growing market and increasing its footprint across the continent" (Pasricha, 2011). Partly in response to the increasing presence of competitor firms from China and other emerging economies; but also the motivation to seek out new markets.

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While investors in the continent recognise the growing markets of Africa, they also are mindful of the large disparities between the opportunities offered in different regions and countries. However many Indian firms believe that notwithstanding such vast differences lie macro trends within the African economy that cannot be ignored (Pasricha, 2011).In the last five years, Indian firms have either acquired or invested approximately US$16 billion in several businesses and industries in Africa (Pasricha, 2011). The thrust into Africa by old and new Indian firms alike is similar to China, as Indian firms become increasingly backed by a more pragmatic and financially accommodating New Delhi, pledging large investment and trade in the immediate future to Africa (Pasricha, 2011).

While state-owned firms make large investments in hydrocarbons, the Indian private sector, of which many Indian firms in Africa are, boast industry specific advantages, such as those firms involved in pharmaceuticals, electrical power, automobiles, information technology, mineral extraction and consumer goods continue to tap the markets in Africa. While the Indian economy is growing, corruption and increasingly tougher rates on borrowing are prompting firms to exploit firm advantages and raise capital beyond the Indian domestic economy (Lamont, 2011).The Reserve Bank of India (RBI) estimated that total OFDI by Indian firms reached almost US$44 billion in the 2010/2011 fiscal year, compared to the substantially smaller US$18 billion in the 2009/2010 fiscal year (Lamont, 2011). In the 2007/2008 fiscal year outward investment stood at US$21 billion. The decline in the 2009 investment figures, and general decline in global FDI, was largely due to the global economic downturn. India's interests in Africa share many similarities with those of its greater comparative state, China and India has responded, interacting with African states and markets in new strategic and economic ways. While Indo-African relations are founded in long historical interactions, new attempts at strengthening these relations are indicative of a new era of Indian relations and international power. The Indian presence on the continent may be rather inconspicuous next to China, but it's certainly no less important. From telecommunications, automobiles, to hydrocarbons and mining, Indian firms invest in most of the major economic sectors in Africa (Afrique Avenir, 2011; Sparks, 2011: 72).

4.2.1 India's Liberalisation and Outward Investments

"Indian firms expanded outward in two waves, the first occurring in the 1970s and 1980s, and the second occurring after 1995, shortly after India had opened up to the global economy in 1991 following economic reforms.

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The second wave was not only bigger in terms of the scale and speed of outward FDI, but the firms involved used a broader range of strategies" (Ramamurti and Singh, 2009: 110).India's investments in Africa are interesting because it was the first wave of investment, not so much the second that India invested in developing economies. The first Indian firm to internationalise, the Birla Group, established their first plant, a textile mill in Ethiopia in 1959. In the following year, Birla would expand into Kenya, establishing an engineering firm in Kenya (Athukorala, 2009: 130).

India's liberalisation process of the early 1990s was a significant watershed for the domestic economy and provided strong motivation for India's firms to expand into other markets. India currently has eight companies in the Fortune Global 500 listing, which ranks the world's largest corporations by revenue. In descending order on the list these firms are *Indian Oil Corporation Ltd* (98)*, Reliance Industries Limited* (134), *Bharat Petroleum Corporation Limited* (272)*, State Bank of India (292)*, *Hindustan Petroleum Corporation Limited (336)*, *Tata Motors Limited* (359), *Oil and Natural Gas Corporation* (361) and *Tata Steel* (370) (CNNMoney, 2011). While not far behind, India placed third behind United Arab Emirates and Egypt as having the highest OFDI growth between 2000 – 2008 (Pattanaik and Bhargavi, 2001: 5). Between 2000 and 2009, 38 Indian multinationals completed a total of 52 mergers and acquisitions in Africa amounting to almost US$3 billion (Pal, 2010: 255).

The second wave of foreign investment by Indian firms began in the mid-1990s which gained traction well into the 2000s as restrictions on capital flows for foreign acquisitions liberalised (Athukorala, 2009: 130). A bulk of India's initial investments abroad, in the first wave were in developing regions of the world, Africa and Asia. While this has not changed as Indian investments continue to increase in Africa, more contemporary flows of Indian OFDI have been directed at more developed regions of the world (Hattari and Rajan, 2010: 503). Prior to the liberalisation of the Indian economy, FDI flows to Africa from India were minuscule at best. Indian firms began to invest abroad since independence but in amounts barely measurable. It was only twenty years later that New Delhi began to create policy on outward investment flows (Pedersen, 2010: 63). Between 1961 and 1989, Indian firms made total investments of a paltry US$79 million into African host economies.

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The investment drive of India into Africa has undergone a structural change in this decade. Previously, once relatively small to medium sized firms engaging in OFDI flows are now being overshadowed by much larger and ambitious Indian firms with significant investments in extractive industries in African states (Pederson, 2010: 257). Big-ticket mergers and acquisitions deals like Bharti Airtel's US$10.7 billion acquisition of Kuwait's Zain's Sub-Saharan operations make India one of the largest investors in Africa and the 21st largest outward investor in the global economy (Chandra-Mohan, 2010; Pattanaik and Bhargavi, 2011: 5).

4.3 The Political Economy of Indian OFDI and Multinationals

The Guidelines for Indian Joint Ventures and Wholly Owned Subsidiaries Abroad were amended in 1992, 1999 and 2002 which granted automatic approval for OFDI proposals; increasing from US$2 million in 1992 up to US$100 million by 2002, a remarkable 500 percent increase in ten years (Kumar, 2007: 3). Policy and legislation governing outbound investment from India are attributed to the "rapid growth in FDI flows from India that began in 2000, and the boom in foreign acquisitions by Indian firms that began from around 2005 (Nayyar, 2008: 125). The ceiling rate of investments abroad were eventually scrapped in 2004, automatically allowing Indian firms to invest up to 100 per cent of their net worth, (Kumar, 2007: 3). The policy regime and its significant changes made Indian firms' internationalisation possible through access to financial markets (Nayyar, 2008: 125). Political considerations, in the home and host economy of transnational production have and remain important variables. The scrutiny of politics however has often fallen in the host economy. Risk of appropriation, conflict, corruption and so on that can undermine a firm's expansion.

The following section provides an overview of India's OFDI and the role government in outward investments. Having understood what FDI entails and what one understands of political economy, government interventions in the economy, especially those of the emerging economies need to be better clarified as such characteristics and practices are indicative of a broader government consensus on policy. During the era in which these forthcoming policies found their roots, Indian multinationals had been investing in a very limited capacity from the late 1950s. It was only in the 1970s that the Indian government began to formulate policies that would guide the outward investments.

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Initially these policies were rather restrictive and conservative. Indian expansion abroad would be limited to joint-ventures as minority partners (Pedersen, 2010: 63). Pederson (2010), writing on the role of the Indian government in promoting OFDI, notes four key ways in which the Indian government has accomplished this; creating a supportive environment and institutional facilities, shaping the domestic development of ownership advantages, direct regulation and direct regulation in OFDI.

4.3.1 Creating a Supportive Environment

Since its independence India has retained friendly diplomatic relations with many of the countries in the world. India's role in the Non-Aligned Movement and its ardent support for South-South cooperation, aid support and role in United Nations peacekeeping operations indeed create an atmosphere of good will that allowed Indian multinationals to internationalise with confidence in many host economies and furthermore allowed these multinationals and other interests in Africa to go largely unscrutinised, especially in comparison to those of China. But its diplomacy has been strained by grave domestic challenges; tense regional relations with Pakistan and China, and a history of avoiding taking sides in international disputes (Economist, 2011). India's diplomatic presence in the world and Africa remains modest next to China. China is represented in almost every African state, a level of representation that India can at this point only strive to have but India is aware of its diplomatic shortfalls in such areas knowing full the importance it will play when it comes to creating a supportive environment for its businesses in Africa. The expansion and enlargement of India's state-owned banking institutions is well placed to play a greater role in providing many of the privately owned firms from India the means to overcome the shortages they have faced when attempting to access financing for prospective investments.

4.3.2 Shaping the Domestic Development of Ownership Advantages

New Delhi's domestic industrial policies have been instrumental in the "creation of capabilities…and…characteristics of Indian multinationals" which were gained in the last several years (Pedersen, 2010: 65). New Delhi's policies relating to investments in higher education and research and development (R&D) have facilitated the technological and managerial skills that one sees today in Indian firms (Nayyar, 2008: 126; Pedersen, 2010: 64). Some Indian firms possess diverse companies and activities in many industries like the Tata Group. Such firms are often seen to have internationalised due to some of the mentioned restrictive policies in their home economy.

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Pedersen (2010: 66) argues that the Indian policies on investing, pre-liberalisation, indirectly prompted companies to exploit their advantages and internationalise. Relative to the domestic economy and its development, the number of sizable Indian firms that engaged in OFDI has expanded largely at the time of what were new industries; this is the case for India's information technology firms, like Infosys.

4.3.3 Direct Regulation

Crucial political influence in the investment flows of firms can be seen by New Delhi's policies focused on approving "individual OFDI projects" (Pedersen, 2010: 66). While the previous mentioned government involvement in OFDI facilitated and encouraged Indian firms capable of internationalisation to invest abroad. Policy guidelines regarding approval of OFDI had been in place since 1970 and before the 1990s, all investment projects were subject to governmental approval. Policies restricting OFDI, while motivated in the interest of the home economy, were also subject to balance of payments and foreign exchange reserves and rates. When the balance of payments were perceived to be worsening, OFDI approval was more restrictive, as it was deemed that less foreign exchange was available for investments abroad.

4.3.4 Direct Participation in OFDI

Hindustan Machine Tools is considered to be India's first SOE to internationalise when the firm was greenlit to expand into Kenya with the establishment of a machine tool project in 1978. Hindustan would later expand into Nigeria in a similar effort. By 1982, only four SOEs were involved in on-going investments, accounting for only three per cent of total Indian OFDI. A few years into liberalisation of the Indian economy, very few SOEs were actually multinational. Overseas investment remained small, but one project in particular, a fertilizer and phosphoric acid plant in Senegal set up in 1984 illustrated that government investment decisions were positive to overall levels of OFDI (Pedersen, 2010: 68). In the beginning of the 2000s, New Delhi's outlook on SOEs began to evolve to what one is witnessing now, a more fervent push by the state to motivate large hydrocarbon firms such as Gas Authority India Ltd (GAIL), Oil and Natural Gas Corporation (ONGC) and Oil India to internationalise into other developing regions of the world like Russia, Central Asia and Africa (Pedersen, 2010: 68).

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4.3.5 Role of the State in Outward Investments

Strong regulation governing industry and corporate activities of outward investments either directly or indirectly prompted possibly even coerced Indian firms to internationalise. The most direct of these influences is noted to have been seen in the role of OFDI and private firms when it came to the processes of granting them investments abroad which was relative to foreign exchange in the state. While Dunning (1993, 2008) notes that advantages are necessary for firms to internationalise, in the 1970s, during the policy flurry that would regulate investments abroad, Indian firms were capable to invest abroad and compete globally, but were restrained by New Delhi and its concerns of balance of payments and the domestic economy at large. The rise in Indian multinationals abroad and levels of OFDI "imperfectly reflects the growing capabilities of Indian multinationals… it also reflects the more comfortable foreign exchange situation and the consequent easing of investment restrictions… evident for the latest rise in investments, after the almost complete removal of the remaining OFDI restrictions in 2003" (Pedersen, 2010: 69).

4.4 Determinants, Drivers and Motivations of Outward Investments by Indian Firms

The internationalisation of India's firms was historically conducted through greenfield investments, prior to the liberalisation of the economy in the early 1990s. In the later or second wave of OFDI, M&As would become the prominent method of entry into new economies (Buckley *et al.*, 2009). Institutional factors and their role in driving firms abroad are widely studied in IB. In a broad understanding, institutional factors either create or reduce barriers. Firms tailor their strategies relative to institutional frameworks. This can be seen in by the thrust of Indian firms abroad following liberalising policies such as in 2007 when the overseas investment limit was 400 per cent of net worth per annum, this limit coincided with the largest reported acquisitions by Indian firms to the value of US$18.8 billion (Buckley *et al.*, 2009).

Key motivations for Indian firms in their overseas acquisition drives have been to capture new markets and to "sustain top-line growth to strengthen business value propositions" (Bakunina, 2008: 42). The motivations of Indian firm internationalisation are quite diverse and include market, efficiency, resource and technology seeking driven OFDI. Of course these motivations vary between regions, sectors and firms but are general motivators for Indian firms regardless.

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Indian multinationals' competitive advantages have of the years been defined by their technological and skill intensity, which one can see in their information technology and pharmaceutical firms (Tolentino, 2010: 103).

4.4.1 FDI Motivations

Resource Seeking

Until recently, India had failed to formulate a strategic energy security policy. It was only in 2005 that New Delhi began the creation of the *Energy Co-Ordination Committee.* The objective of the committee was to "enable a systematic approach to policy formulation, promote co-ordination in inter-departmental action and function as a key mechanism for providing institutional support to decision-making in the area of energy planning and security" (Dadwal, 2011: 6). In 2006, the committee published its final report, the *Integrated Energy Report*, which has since release been the cornerstone of India's energy security policy (Dadwal, 2011: 6).

One of the policy recommendations is the "encouraging of Indian state-owned and private energy companies to acquire assets, through the purchase of equity in oil, gas and coal blocks or stakes in exploration and production (E&P) companies abroad" (Dadwal, 2011: 8). The policy is guided by the position that "India's energy security, at its broadest level, is primarily about ensuring the continuous availability of commercial energy at competitive prices to support its economic growth and meet the lifeline energy needs of its households with safe, clean and convenient forms of energy, even if that entails directed subsidies" (IEP Report, 2006: xxiv). India is currently the third largest energy consumer in the world after the United States and China (Enerdata, 2010). Africa currently supplies 20 per cent of India's oil (Pham, 2007: 344). India and China have similar strategies when it comes to resource capture in Africa, although China has often outbid India and at times simply through aggressive lobbying won over contracts. The internationalisation of India's SOEs in oil and gas are vertically integrated, similar to Western firms (Ramamurti and Singh, 2008: 124). As late-movers, Indian firms struggled to internationalise at first, as investment opportunities in the resource sector can be difficult to acquire in the face of increasing global demand and competition from rival emerging economy multinationals. In the wake of disinvestment in Sudan by Western firms, the country became an attractive investment opportunity for hydrocarbon firms from India and China who were not barred from investing in the country (Ramamurti and Singh, 2008: 124).

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Videocon Industries, a publicly traded Indian conglomerate involved in several industries, is one of only a handful of private Indian firms involved in the hydrocarbons sector of Sudan, having a US$100 million oil prospecting investment in the country. The remainder of the large oil acquisitions in Sudan were completed by the ONGC, which has production and refining operations. One of the largest publicly declared investments was ONGC's acquisition of oil refinery facilities totalling US$1.2 billion (Naidu 2008: 120). Resource-seeking, a key motivation identified in the literature on Indian and Chinese firms' investment in Africa, is one of the most important and prominent forms of FDI for emerging economies as their firms seek to acquire and more importantly secure the necessary resources to fuel the domestic economy. India is not a resource rich country and requires large exports of energy resources; Africa on the other hand is a resource rich region. While Africa does have many conflict prone regions in which oil is produced, the instability in the Middle East has been a perpetual thorn in the side of many states.

The Organisation of Petroleum Exporting States (OPEC), of which only four African countries are members; Nigeria, Algeria, Libya and Angola, regulate pricing on barrels, has used oil pricing in the past for means beyond profits. Africa's oil is more open to outside investment and is not governed in the way the OPEC states are. This has proven attractive to new investors. India's investments can be found in exploration and production in states such as Sudan, Nigeria, Angola, Gabon and Congo (Desai, 2009: 424). "Oil related equity abroad" by Indian firms is a strong motivation for acquisitions by state-owned firms such as the Oil and Natural Gas Corporation (ONGC), known as ONGC Videsh Limited (Ltd) internationally and the Gas Authority of India Ltd. (GAIL) (Hattari and Rajan, 2010: 507). At the end of 2004, India's ONGC Videsh Limited (OVL), failed to complete the acquisition of a 45 per cent stake in the Akpo oilfield in Angola. New Delhi, citing ownership of the oilfield as problematic, failed to back the OVL deal, resulting in China National Offshore Oil Corporation (CNOOC) acquiring the 45 per cent stake (Wysoczańska, 2011: 195; Indiatimes.com, 2011).

India's African Mining Push

Hydrocarbons are not the only sector of natural resources that Indian firms are currently attempting to access in Africa. Africa accounted for only four per cent of global metal and mining deals in 2009 and 8 per cent in 2010; a 50 per cent improvement (Cambell, 2011).

Last year, 86 mining related details were completed either in African firm outbound investments, 4, interregional firm investments, 11, and inbound non – African investment, 71 (Cambell, 2011). Vedanta Resources, a public conglomerate specialising in metals, has invested US$750 million in Zambian copper mines. Zambia's copper dominated and undiversified economy is an attractive region for resource-seeking firms. Vedanta expanded into Namibia in 2010, acquiring Skorpion Zinc from Anglo-American in a deal worth US$707 million (Cambell, 2011). Liberia too has completed a twenty – five year deal that will see Arcelor Mittal establish a US$1 billion iron ore project that is set to employ some 20 000 Liberians (Pham, 2007: 344).

Coal India Limited, an SOE, saw the firm request the Mozambique government to extend their coal exploration by five blocks in addition to the current two blocks (Cambell, 2011). The deal is set to see the SOE begin the establishment of mining operations on the blocks with a five year plan of producing ten million tons of coal and the employment of 3000 Mozambicans. The India Coal deal in Mozambique is an interesting development. This type of deal, while an SOE and controlled by the state, represents Strange's (1988, 1992) argument, that large firms would increasingly engage and negotiate with governments and vice versa. The delegation that petitioned the Mozambican government for further blocks was India's Coal Minister, Skripakash Kaiswal. The delegation and the targeting of Mozambique was part of a large plan to "acquire more coal assets" which will see the delegation explore further opportunities in Australia, Canada, the USA and Zimbabwe (Cropley and Mahlich, 2011). Two motivations of the delegation that were outlined include the acquisition of strategic coal assets with the aim to address the "serious shortfall in terms of supply" (Cropley and Mahlich, 2011).The investments of India Coal as an SOE are motivated by resource and strategic-asset seeking, illustrating the state-backed firm, under the auspices of the Indian government negotiating for rights with a government.

Market Seeking

Market-seeking, the search for new markets or the consolidation of existing markets is an important investment motivation. Increasing competition in the home economy, whether by other domestic or foreign firms create scenarios where firms seek out new markets in which to expand. The banking sector of India is becoming less regulated in response to increasing domestic and international competition.

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The State Bank of India (SBI) has expanded into Mauritius and Kenya to seek out new markets; recently acquiring a 51 per cent share in the Mauritius-based Indian Ocean International Bank Ltd. (Hattari and Rajan, 2010: 507). Access to "large developed-economy markets will likely result in increasing investment activity by Indian firms to finance further and larger acquisitions aboard" such as developing regions (Hattari and Rajan, 2010: 507). In 2010, Indian telecoms giant Bharti Airtel Limited signed a US$9 billion deal to acquire Kuwait's Zain's "mobile operations in 15 African countries" (Tripathy and Goma, 2010). This is India's second largest overseas acquisition since Tata Steel bought the British based Corus Group in 2007 (Tripathy and Goma, 2010). By 2012, Bharti is expected to have over 100 million subscribers in Africa. Facing increasing competition in the Indian domestic economy, Bharti expanded into Africa despite the risks of investing on the continent, to capture new markets as it struggles to maintain a lead in the home economy (Tripathy and Goma, 2010).

Looking at locational advantages, Bharti was aware of the pitfalls it may face operating in countries that have higher risk than others, but the granting of access to these markets and their size were advantageous to Zain, as they will be to Bharti Airtel and its subsidiary. One of the key financiers of the deal was SBI, which is an SOE. SBI, as a key investor in the Bharti deal, is an example of the role the state can assume in aiding Indian firms to go global. By financing the deal, Bharti Airtel has now acquired mobile operations in markets it would have struggled to access without such state banking finance. Airtel Africa, Bharti Airtel's subsidiary in Africa, now operates in 16 African states and places Airtel as the fifth largest mobile phone operator in the world. In August, 2011, Bharti Airtel won a licence to operate 2G and 3G in services in Rwanda with an initial investment over US$100 million over three years in a market that is projected to increase from four million subscribers in June 2011 to a projected six million by 2012 (Holliday, 2011).

Between 2000 and 2009, Indian pharmaceutical firms completed five M&As totalling US$95 million and accounted for 14 per cent of Indian pharmaceutical exports, which in 2008/2009 was worth US$8 billion (Pradhan, 2010a: 18; Barka, 2011: 6). In the pharmaceuticals industry Indian firms have been expanding into new markets, Dr. Reddy's Laboratories entered into a joint-venture with GlaxoSmithKlein in 2009 (Stanton, 2009). The joint-venture has seen Dr. Reddy's manufacture up to a 100 branded drugs while Glaxo would do the licensing and marketing in Africa (Stanton, 2009).

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The joint-venture sees the two companies form a business alliance that is geared toward expansion into "a range of high growth emerging markets" (Staton, 2011). This type of alliance sees Dr. Reddy making use of Glaxo's ability for product development as Glaxo has been one of the most active companies of its time in emerging markets (Staton, 2011). In 2008, the Indian pharmaceutical multinational Cipla, entered into a joint-venture with the government of Uganda and the Ugandan pharmaceutical manufacturer, Quality Chemicals Industries Ltd (Barka, 2011: 6). Along with being a joint-venture, a US$38 billion greenfield plant was built in the capital Kampala to manufacture anti-retroviral and anti-malarial drugs (Barka, 2011: 6).

Indian automakers have invested heavily in Africa as they seek out new markets. Tata Motors and Mahindra & Mahindra have been exporting vehicles to Africa for over 30 years. But the revival of the African economy and the new levels of infrastructural development and the need for transport to meet industry demands, has provided new opportunities for Indian automakers. Tata Motors is a prime example of an Indian firm and automaker that has expanded its footprint in Africa. Since 2006, the Indian motor industry has been increasing its "number of plants, subsidiaries, and greenfield investments abroad" (Ruet, 2010: 89). Tata Motors is raising its company profile through the creation of smaller more environmentally friendly vehicles like the Nano which is targeted at consumers in the developing world. Tata Motors South Africa, a joint-venture with Tata Motors and Tata Africa recently completed the opening of a new plant in Johannesburg, South Africa (Naidoo, 2011). Tata Motors' largest export market is South Africa and to better serve the market and to expand capacity, has localised production in South Africa (Venter, 2011).

Market-seeking theory posits that this form of FDI is not simply to seek out a new market; in this case the market had already been established in South Africa. Rather this form of joint-venture was one motivated by the expansion of business opportunities and to better serve the existing market through a more proximate plant. The establishment of the plant can also be motivated by Tata Motors' ambition to protect the large market it has captured from new or existing competitors that may too invest in economies like South Africa; where the demand for affordable commercial and personal vehicles has increased (Naidoo, 2011).

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4.5 Conclusion

This chapter presented a macro overview of New Delhi's role in facilitating OFDI, the drivers of internationalisation and motivations of India's firms in Sub-Saharan Africa. Hansen (2010) notes that since 2000, India's motives for OFDI have undergone a period of change, with Indian firms investing abroad "due to pull factors" listing market and resource-seeking as primary reasons. Push factors in the home economy are less influenced by overregulation, such as the period prior to the relaxation of capital controls and more of a supportive type whereby the Indian government actively promotes outward investments by its firms. While India has developed a strategic energy policy had clearly defined its energy requirements and projections of future use, resource-seeking is clearly a strong motivation for Indian firms, especially SOEs to invest in a continent known to contain highly sought after resources. Having stated this, it must be stressed that two-thirds of India's OFDI has been market-seeking (Ramamurti and Singh, 2008).

Tata Motors and Bharti Airtel were two studied firms that were motivated to expand into Africa primarily for market-seeking reasons. The other strong motivation was resource-seeking, similar to China and typically emerging-economies as they capture resources to address shortfalls in demand in their economies. Limitations of available research made it difficult to find Indian firms that are motivated by efficiency-seeking and strategic-asset in Sub-Saharan Africa. Although, as UNCTAD (2006: 160) note, Indian firms that are motivated to internationalise or outward invest in a host economy to seek out markets have efficiency-seeking closing tied to market-seeking as Indian firms see efficiency as "the international integration of production and service activities." So while Tata was motivated to seek and protects its market in South Africa, the establishment of the plant is an example of efficiency-seeking as well as market-seeking.

The last decade of Indian investment into Sub-Saharan Africa has been primarily driven by larger conglomerate firms of India, such as the Tata Group, in comparison to the small to medium enterprises that invested in Africa in the past. While China is often associated with being a hybrid economy, one which engenders market orientated policies with state control, India's political economy of internationalisation seems to be growing into one similar to that of China's, albeit with slight variations. New Delhi, while lacking strong directed policies over the last decade have, pushed to create policies that favour internationalisation.

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The reduction on outward investment caps, the growing presence of Indian SOEs in the global economy and the creating of cooperative mechanisms and India's thrust for further diplomatic representation and engagement with African states are indications of India's desire to expand outward politically, diplomatically and economically in Africa.

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Chapter 5: Chinese Outward Foreign Direct Investment and Multinationals

5.1 Introduction

This chapter presents a macro analysis of Chinese OFDI and multinationals in Africa. The first part of the chapter outlines the political economy of China and the impact that state policies governing investments have had on the outward investment of Chinese firms. The latter part of the chapter focuses on the drivers of internationalisation the motivations for Chinese outward investments. The motivations for Chinese outward investments are outlined along with an analysis of Chinese multinationals that either internationalised or invested abroad because of the respective motivation, establishing whether it was strategic, resource or market-seeking. The chapter establishes that China's "Go Global" policy has been a definitive aspect of the country's sizeable and growing presence in Sub-Saharan Africa.

5.2 Background

China has become the leading emerging economy and outward investor in the global economy (Buckley *et al.*, 2008: 107; Deng, 2003: 113). China overtook Japan at the end of 2010 to become the second largest economy in the world behind the US (Monahan, 2011). Since the end of the 1970s, when then Premier Deng Xiaoping began the opening of the Chinese economy to the world in the "Reform and Opening" policy; China, an economically reserved state, began its powerful four decade economic expansion which has spanned the globe (McDonald, 2011). In 2000, Chinese OFDI was relatively small, equivalent to US$916 million (Kaplinsky and Morris, 2009: 554). According to the Ministry of Commerce (MOFCOM) 2010 Statistical Bulletin of China's Outward Foreign Direct Investment (2010: 79), OFDI for 2010 was US$68.8 billion. In 2010, Chinese OFDI was sitting at US$2.1 billion in Africa, the second lowest OFDI destination, ahead only to Oceania (MOFCOM, 2010: 83). It was from the year 2000 and onwards that China's OFDI began to grow to the levels that one can account for today. The developmental process, the industrialisation and liberalising of the economy had matured China's investment competences. General skills as well as technical and managerial, scientific and physical infrastructure and skills were honed during the period preceding the expansion and thereafter even more so (Hong, 2011: 4).Chinese firms that have internationalised are highly competitive and their operations firmly supported and often financed through China's state run banking institutions.

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The large scale acquisitions of these firms are motivated to secure new markets, resources and strategic assets (Alden and Davis, 2006: 83). Beijing's intervention in Chinese OFDI can be viewed in four differing aspects, firstly the widely known role of state owned enterprises involved in African investment projects; secondly Beijing's resource seeking and backing of such FDI; thirdly the general political economy framework of China and fourthly the rigorous control and regulation of Chinese OFDI, attributed to China's economic and developmental objectives and ideological obligations (Buckley *et al.*, 2008: 107). China 61 corporations listed on the Fortune Global 500, a staggering 13 per cent of the top earning global corporations are Chinese. Compared to India's 8, one can see the highly competitive and lucrative corporations that hail from China. According to Hong (2011: 31), "Chinese firms are now among the world's most respected as a result of their rapid internationalisation and growing importance in world business." While China is one of the largest recipients of FDI from other economies in its economy, its own firms are becoming significant players in outward FDI (Yeung and Liu, 2008: 58).

With more than a trillion dollars in foreign exchange and the increasing economic power to utilise these funds, China's 'flagship' firms invest abroad acquiring new technologies, resources, brands and better or new access to global markets (Morck *et al.*, 2008: 337). The foreign acquisitions of Chinese firms like Lenovo, Haier, CNOOC and Sinopec regularly grab the attention of the media. The nature of the Chinese political economy distorts "capital allocation in ways that generate FDI in certain sectors" (Morck *et al.*, 2008: 338). Historically, of the Chinese-owned investment projects in Africa from 1979 to 2000, and in value terms, manufacturing especially spinning, weaving textiles and agro processing accounted for 64 percent, while resource-based industries, timber, and mining accounted for 28 percent. The volume and share of Chinese OFDI in resource extraction; mining and petroleum industries, has increased parallel with the country's resource needs.

The country specific location of Chinese OFDI in Africa is "highly diversified" with important destinations being Zambia, Sudan and South Africa (Zafar, 2007: 123). Chinese multinationals in Africa are said to number over 700 and operate in fifty out of fifty-four African states (Zafar, 2007: 123). African investments in China however are meagre, with the exception of SABMiller, a South African brewer and Sasol, which has expanded its mining activities in China's coal regions (Zafar, 2007: 123).China's contemporary relations with Africa are found in three key forms of cooperation; trade, investment and aid.

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A portion of Chinese resource seeking FDI in infrastructure has an aid dimension, a business strategy that China has successfully used in other key economies like Angola (UNERA, 2011: 57).

5.3 Political Economy of China and its Institutions

The "political economy perspective conceptualises the nation state as a capitalist institution whose existence ensures the reproduction of the capitalist mode of production" (Yeung and Liu, 2008: 60). The Chinese political economy is the sole force in shaping not only the entire domestic economy, but its relation with the global economy.

Comparisons have been made between the established multinationals of the North and those of the South and the differing motivations of OFDI and drivers of internationalisation. China has for over four decades shifted from a command economy to a more market-orientated, albeit heavily state influenced form of capitalism. Alden and Davies (2006: 85) acknowledge that the strategy, motivations and operations of Chinese multinationals abroad are the result of a single government's control over an economy that has for several decades' experienced sound economic growth. The Chinese government's "Going Global" strategy is certainly one of a political dimension, founded within the framework of Beijing's national interests and the drive to continually make Chinese firms more competitive and efficient (Luo *et al*., 2009: 3). It wasn't until the late 1970s that China's entry into the global economy became a policy, as the state embarked on a new economic path following the death of Mao Zedong. Mao Zedong was a founder of the modern People's Republic of China and the architect of China's industrialisation. In the wake of his death, his successor Deng Xiaoping, guided a new economic path, transforming China into "a market economy open to international competition (Renard, 2011: 27). China, in the liberalisation of the 1970s, was focused on attracting inward FDI, with little attention paid to outward FDI.

In contemporary times, increasing globalisation has placed Beijing in an advantageous position whereby it can exploit globalisation in order to project its political and economic power beyond its borders, with Africa being a target of such power projection. Beijing realised it could solidify its influence regionally and globally in globalisation, which would see China integrate further into the world economy and engage in increasingly political economic transactions with other developing regions and economies in the world.

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Creating changes to outward investment policies, Beijing began to create incentives for OFDI, decentralising and "streamlining administrative procedure, lower restrictions on capital controls, providing provision and information of investments as well as reducing political and financial risks of investments (Luo *et al.,* 2009: 3). Institutionally, there are a handful of bureaucracies that manage China's OFDI; the National Development and Reform Commission (NDRC), Ministry of Commerce (MOFCOM), Ministry of Foreign Affairs (MFA), the State-owned Assets Supervision and Administration Commission (SASAC), Ministry of Finance, the State Administration of Foreign Exchange (SAFE) and China's various banking institutions (van der Lugt *et al*., 2011: 37).

MOFCOM is the primary government body through which outward investments are coordinated and is tasked with formulating development strategies, drafting of laws and regulations; which govern domestic and foreign trade, investment and economic cooperation. MOFCOM is as such a warden, approving the internationalisation process of domestic firms and later supervising their operations abroad (van der Lugt *et al*., 2011: 38). Two separate departments within MOFCOM are actively involved in the regulation of the Chinese outward investment regime. The Department of Foreign Economic Cooperation (DFEC) is accountable in governing all Chinese OFDI and Chinese labour abroad (van der Lugt *et al.*, 2011: 38). Chinese firms which have FDI above US$ 10 000 are requisite to the DFEC before pursuing outward investment. The second of the two departments is the office of the Economic and Commercial Counsellor (ECC) which is placed abroad at Chinese embassies whereupon they, under the jurisdiction of missions abroad, monitor Chinese firms and their investments in host economies (van der Lugt *et al*., 2011: 38).

5.3.1 Going Global

China's engagement with Africa is not one dimensional, as Beijing has woven together several elements that compose its strategy of corporate engagement with Africa (Gill and Reilly, 2007: 38). Chinese diplomats and members of the political party use diplomatic, economic and developmental policies to woo African leaders and to further pave the investment paths between China and other African States. The economic brass of the country and the various bureaucracies motivate domestic firms, mainly state owned-enterprises to seek trade and investment in Africa. China's "going global" strategy is to a large degree being driven by their SOEs and firms, which produce affordable consumer goods, engage in resource extraction, transportation, and infrastructure and development projects.

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Chinese firms are able to expand into Africa as many domestic economies have become less competitive with many local and international firms lacking competitive advantages (Kragelund, 2009: 480). Chinese outward investment is well endowed with access to cheap capital. There is the "preferential access to capital at preferential rates" which is supplied by Beijing and its banks to non-state firms. Non-state firms often find themselves further supported by the government; if Beijing has confidence that these firms either serve a national interest and/or the necessary advantages to compete on an international scale (Shenkar, 2009: 155).

5.3.2 Evolution of China's Policies on OFDI

China is currently in the fifth stage of outward investment (Yeung and Liu, 2008: 65). Stage four, which was from 1999 – 2002 was the genesis of what is considered China's contemporary investment path. Having recognised the potential and importance of domestic firms and their status in the global economy, Beijing implemented policies that that encouraged firms to invest in markets abroad. (Yeung and Liu, 2008: 65). Beijing furthermore back Chinese firms through favourable tax, financial and foreign exchange assistance (Yeung and Liu, 2008: 65). Stage five, the going global or *Stepping Out* strategy is the period in which analysts place contemporary Chinese investments. These new policies are seen as a continuation of the liberalisation of the Chinese economy which spans over forty years now. Beijing and the business interests that are at stake in SOEs and other forms of ownership firms aimed to move beyond creating large trade and investment margins, but the creations of competitive brands with 'world-class' edge that could compete without more established brands and companies (Yeung and Liu, 2008: 65).

The new policy changes in Chinese FDI include, sustaining and tailoring incentives that are not only practical, but cost-effective, reducing bureaucracy and 'streamlining' administrative procedures which includes greater transparency and the decentralisation of economic planning to local government levels (Yeung and Liu, 2008: 65). Chinese financial institutions are gearing to ease capital controls, provide Chinese investors with viable investment options acquired through state – level interactions with other states and the diversification of investments with the aim of risk reduction (Yeung and Liu, 2008: 65).

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5.4 Overview of Chinese Multinationals and Business Strategies

5.4.1 Background

China's presence in Africa illustrates a departure from what occurred in the post-colonial era where "aid, trade and FDI vectors were increasingly separated" (Kaplinsky and Morris, 2009: 561). Strategic integration of Chinese inputs in Africa is particularly notable in "large scale infrastructural and mining projects" (Kaplinsky and Morris, 2009: 561). The so called Angola-mode is an interesting framework that China, specifically its SOEs, has utilised as a business strategy on the continent.

It is package that is extended to African states in which the Chinese EXIM bank provides lines of credit to an African state, at a subsided interest rate, to which large Chinese firms then engage in tenders for resource or infrastructural, in some cases both, that could include railways, hydrocarbons are mining. These funds are then linked to Chinese inputs; aid is then transferred from the EXIM bank to the Chinese firms that have been awarding contracts. These funds are not grants, but are rather repaid by the host economy as a "drawdown" on the commodities that are exported back to China. Since 2004, China has used these deals in 7 resource-rich African states with a total of almost US$14 billion (Brautigam, 2010). The idea behind such projects, in the spirit of goodwill and developmental cooperation that China attempts to exude on the continent, resource-backed deals create "an agency of restraint" ensuring that some of the wealth generated from natural resources is placed in projects that will benefit the host economy (Brautigam, 2010).

Backward and Vertical Integration

Chinese firms involved in extractive industries like hydrocarbons "are acquiring upstream assets in order to secure resources and commodities (Alden, 2006: 86). Upstream assets refer to those parts of the industry which are "responsible for the exploration and recovery of oil and natural gas reserves" (BusinessDictionary.Com, 2011).Sinopec's large investments in oil rich states such as Angola and Sudan are examples of this. Sinopec in 2010 announced it would acquire more upstream assets to "boost capacity and reduce reliance on its volatile refining business (Lau, 2010). Downstream activities are those that include sales and delivery (BusinessDictionary.com, 2011). CNOOC for instance is investing in downstream activities, such as retail, petrochemicals and power generation.

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State Resources and Energy Security

Through their preferential access to state capital Chinese firms are engaging in acquisitions not only in Africa, but in South America and the Middle East too (Alden and Davies, 2006: 86). Beijing supports and oversees the purchasing of many "international energy assets" through financing and development projects tied to such investments (Alden and Davies, 2006: 87).This form of investment is common in Africa and is found to entice leaders in these states as the prospects of such investments that Beijing offers are highly competitive, relative to those offered by other competing states.

Partnerships and Joint Ventures

Joint-ventures have become a corporate strategy for Chinese firms when investing abroad. Such joint ventures and partnerships that Chinese firms are engaging in are of Western and non-Western origin and provide technological and managerial gains as well as creating possible connections to the political establishment in states China may has only limited ties to (Alden and Davies, 2006: 87).

Parent Satellite Investments

China's firms are establishing a global presence and some of these firms are attempting to move towards creating an "independent presence" which can be challenging, as many remain under the "control of the parent company in China" (Alden and Davies, 2006: 87). Lenovo for instance, which bought out IBM in 2005 is a subsidiary of Legend Holdings Ltd, whose majority shareholder is the Chinese Academy of Sciences, which is an institution of the State Council of China (Alden and Davies, 2006: 87; Legendholdings.com.cn, 2011; cas.cn, 2011).

OLI Paradigm

Dunning (1980: 4) states "the advantages or disadvantages of particular locations are treated separately from ownership advantage of particular enterprises, and the market for these advantage are internalized; the decision on where to site a mine, factory or office, is not independent of the ownership of these assets, nor of the route by which they or their rights are transacted." Even so, Chinese foreign policy and its Africa policy are key determinants of Beijing investment, as firms "are not necessarily independent of the Chinese government" (Adisu *et al*., 2010: 6). Chinese investments in Africa are usually advantageous due to little domestic and foreign competition, although the latter does differ, especially when it comes to natural resources.

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Chinese firms still compete for resources alongside Northern and Southern firms. Increased risk however on the continent due to political instability, threat of conflict and so on alongside the absence of public goods create competition gaps for Chinese firms to exploit, regardless of how extensive their OLI advantages may be (Adisu *et al*., 2010: 6). Sizeable amounts of inward FDI into China brought technological and organisational skills into China, adding to firms' ownership advantages that once transferred, strengthened the capabilities of Chinese firms wanting to expand abroad.

Along with support from Beijing, the internationalisation of these firms was dualistic, with factors in the home economy being favourable and the advantages that could be exploited in a host economy being advantageous too. Chinese OFDI however could not expand into regions like Africa wholly on its firms' ownership advantages. There are a few reasons for this; chief amongst them is that FDI must be chosen a channel in which to do business. Trade and licensing are two viable alternatives for firms to do business when transaction costs are high and financing for firms to expand is weak. However, provided ownership and internalisation occur, locational factors such as market size, resources, favourable policy, political risk and so forth in a host economy exist, FDI will occur.

Advantages can increase in a host economy when Chinese firms have through acquisition or greenfield investments established manufacturing output abroad to serve markets and in it developed further competences that would strengthen the firm. Haier experienced this as white-goods suppler in Africa as well as other smaller Chinese firms who established in Africa to source and produce in local economies, taking advantage of their innovative capacity for mass scale production (Deng, 2003: 121). Locational advantages in Africa have improved and this is can be seen in the trends of investment and presence of emerging economies looking to invest and also compete in the region. The liberalisation of the regulatory regimes in South-East Asia along with prime natural resources and a Chinese diaspora was a major motivating factor for Chinese investment in the 1990s second only to proximity (Deng, 2003: 122). This occurred within the years preceding the African policy, but nevertheless establishes a level of continuity in Chinese investments abroad. What the paradigm illustrates is that no matter the pull of the host economy and the push of the home economy or the firm advantages that grant them the ability to invest abroad or the motivations of this FDI, provided a firm that is internationalising can exploit its advantages, the firm will invest.

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5.5 Drivers of Internationalisation and Motivations for FDI

5.5.1 Introduction

This section provides a macro overview, citing specific firm's investments as context, of the "mix of factors and motivations that drive the outward FDI of mainland transnational firms" (Yeung and Liu, 2008: 68). Increasing FDI flows from China to African countries occurs alongside increasing political, economic and diplomatic ties. South Africa is the leading recipient of China's outward FDI flows in Africa accounting for 40 per cent of all Chinese FDI stock valued at US$3 billion (UNTACD, 2010b: 84). The reasons and motivations for Chinese firms to enter foreign markets are somewhat consistent with firms from other emerging economies, but differences do exist. On a national level these motives can either be financial, political or nationally strategic (Shenkar, 2009: 155). Corkin (2007: 311) regards the motivations amongst SOEs to be related to maintaining of production levels, additional sources of raw materials and the acquisition of new foreign technology.

Chinese firms, like those of over emerging economies, have five primary motivations to expand into foreign markets. These motivations are primarily, resources, technology and markets as well as diversification and the acquisition of strategic assets (Corkin, 2007: 311). As Deng (2003: 115) illustrates, while industry specific firms like China National Offshore Oil Corporation (CNOOC) will be motivated by resources and hence engage in resource seeking OFDI, motivations can become varied and firms may be motivated by a multitude of factors. Chinese telecommunications firms for instance are unlikely invest in Africa to seek out new technologies, but rather markets or strategic assets so as to increase competitive advantages. Market-seeking is the most prominent and prevalent form of FDI in internationalisation strategies of emerging economies' firms with 51 per cent of these firms stating it as their motivation to invest abroad (UNTACD, 2006: 158).

5.5.2 FDI Motivations

Resource-Seeking FDI

Energy security is becoming as much a strategic issue as it is an economic issue, especially for countries like China. China is the world's largest energy consumer and second largest consumer of oil after the US and finds itself in a precarious position when it comes to securing resources (Lai, 2007, 519). In a world of finite resources, the acquisition of resources and the removal of competitors to ensure access to hydrocarbons, minerals and metals are paramount.

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China has a mere two per cent of the world's reserves of oil and only one per cent of world gas reserves (Dorraj and Currie, 2008: 70). The "Going Global" policy has encouraged the three top Chinese hydrocarbon firms CNOOC, Sinopec and CNPC to expand abroad to secure energy supplies (Dorraj and Currie, 2008: 74). China's drive for resources continues to be a key talking point in the discourses of Chinese involvement in Africa and this no different in the literature pertaining to emerging economies' investments in Africa. The reason Deng (2008: 115) suggests that unfair attention is awarded to such investments is anecdotal in that while China does have natural resources "it's per capita availability of such resources is very low, particularly for such resources as iron ore, aluminium, copper, petroleum, timber, and fish" prompting many of its SOEs to engage in resource-seeking FDI and other modes of entry (Nolan and Zhang, cited in Deng 2008: 115).

Firms will establish foreign subsidiaries in various locations in a region or host economy in order to ensure adequate supply of sought after natural resources. Large investments in such projects are usually completed through M&As (Deng, 2003: 115). The M&A route allows Chinese firms to swiftly gain access to new markets acquiring exiting firms so as to "obtain local network(s) of distribution and suppliers (Deng, 2003: 115). In 2010, 20 per cent of global M&As in the oil and gas industry were completed by Chinese firms PetroChina, China National Petroleum Corp (CNPC), the parent company of PetroChina, CNOOC and Sinopec. As a method of entry, China's rising M&A activity on the continent has resulted in an oil and gas footprint in Africa that is growing (Pretorius, 2011). However, M&As as mode of entry into a host economy is not always the primary mode as this differs from sector to sector and state to state.

Regulatory regimes in a host economy can be less than accommodating for foreign firms, especially in an era of increasing environmental awareness, habitat spoliation and broader human security issues. Increasing competitiveness on the continent over resources has also made the concept of 'easy oil' a fallacy (Pretorius, 2011). Chinese firms, despite what many regard as ones that are willing to take more risk than some other firms, too want stability and security for their investments. Africa is risky place to invest and the presence of resources often exacerbates these risks whether geographically or politically (Pretorius, 2011). Joint-ventures as a mode of entry are seen to be less risk adverse than M&As or greenfield projects.

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African states are aware of the need to ensure their firms too share in such finds and later their extraction, which has resulted in Chinese firms entering into joint – ventures with other state-owned enterprises in Sudan, Nigeria, and Angola (Pretorius, 2011). As Alden notes (2006: 87) "linking up with existing firms, both Western and non-Western, is increasingly part of the Chinese corporate strategy abroad."

Earlier this year, CNOOC partnered up with Total S.A, a French firm and Tullow Oil plc, a British firm in Uganda (Pretorius, 2011). Chinese resource FDI is large scale and "involves a majority of Chinese foreign assets" (Deng, 2003: 115). Chinese firm Sichuan Hongda recently inked a US$3 billion deal with Tanzania for mining of coal and iron ore (Ng, wanakilala, 2011). The investment includes the construction of the Mchuchuma coal mine, a 600MW thermal power station and the Liganga iron ore mine located in the south of the country (Ng, wanakilala, 2011). This joint-venture is considered to be the single largest investment in East Africa and will see Sichuan Hongda owning an 80 per cent share, the remaining 20 per cent stake will be held by Tanzania's state-run body the National Development Corporation (NDC), although this could increase to 49 per cent after the Chinese firm recovers the cost of the investment (Ng, wanakilala, 2011).

Market-Seeking

Arguably one of the most crucial motivations for firms to invest abroad is to seek out new markets in which to do business. This form of FDI or activity is especially important for emerging economies for a number of reasons. Unlike some of the established firms from the developed countries who have expanded into foreign markets decades earlier, emerging markets and their firms find themselves looking for new opportunities beyond their domestic economies. Chinese firms are then put into a position whereby they seek out new markets for their products. This type of investment sees Chinese firms internationalise to "protect or sustain existing markets or to explore or promote new markets: (Deng, 2003: 116). This is especially true of Chinese manufacturing which has reached surplus in the domestic economy, "limiting effective demand" (Den, 2003: 116).

Another sector which is gaining traction in Africa as it continues to seek out new markets is the telecommunications sector, with such Chinese firms as Huawei and ZTE being big players (Gugler, 2008).

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Huawei, one of the world's largest suppliers of telecommunications to service providers has recently moved into the smartphone and tablet arena. Huawei, unlike many other Chinese multinationals in Africa has no government stake and is one of the rare cases of such Chinese private multinational that is so globally competitive. Huawei is a wholly- owned subsidiary of Shenzhen Huawei Investment & Holdings Co which "is solely owned by employees of the Company, without any third parties, including government bodies, holding any of its shares" (Huawei.com, 2011).

In a continent where cellular phone usage and sales are growing drastically, Huawei has targeted Nigeria's economy for the release of its US$100 Ideos smartphone (Connors and Maylie, 2011). Through exploring new markets, Huawei is targeting a figure of US$6 billion in revenue from device sales (Pila, 2011). ZTE likewise is expanding into Sub-Saharan Africa to seek out new markets. The Chinese firm recently won a 1900 kilometre fibre project by three independent investors in South Africa (Globaltelcomsbusiness.com, 2011). Between 2007 and 2009, ZTE signed contracts that almost totalled US$1.5 billion with Ethiopia Telecom for network projects across the country. These projects were funded by the China Development Bank, an SOE. The result of the contracts by ZTE in Ethiopia saw the number of mobile phone users increase by 3.1 million between 2007 and 2009 (FOCAC.org, 2011). As the demand for mobile, wireless and fixed-line internet services increases in Africa, such firms as Huawei and ZTE will seek out such markets which exhibit growth. Telecommunications will use such new markets as proving grounds for further expansion, as is occurring in Nigeria, but also to establish dominance in these new markets before they become too competitive.

Strategic-Asset Seeking

Strategic-asset seeking is a form of FDI whereby firms "tap into or develop strategic resources in a foreign market, and exploit such assets as market intelligence, technological know-how, management expertise, and reputation for being established in a prestigious market" (Deng, 2007: 74). Chinese firms, while attracted to Sub-Saharan African markets for a variety of reasons do exploit those where competition is weak but at times also where it is strong. Some Chinese firms will invest in markets that are known to serve competitors (Deng, 2003: 118).

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The motivation for this is to increase global stature and competiveness by directly competing with other firms "as part of their global production and marketing strategies" (Deng, 2003: 118). A good example of such a firm is the Haier Group. Haier, founded in 1985, set forward an ambitious globalising strategy in 1999 that saw the firm competing with established brands and firms from Japan and Korean in foreign markets. Part of this globalising strategy has been to engage in localising manufacturing in economies to which it is targeting. Haier have done this through joint-ventures in North Africa as well as manufacturing plants in South Africa (people.com.cn, 2005; China.org.cn, 2007). The Chinese government has influenced the strategic decisions of Haier and has provided necessary support and assistance to Haier through the China Investment Corp (CIC); a sovereign wealth fund that was mandated to assist Chinese firms in acquisitions abroad (Duysters *et al.,* 2008: 19). While such financing was done through a fund, Haier was directly financed, along with six other large Chinese firms, with US$ 3.1 million to fund initial costs of its globalising strategy (Duysters, *et al.,* 2008: 19). Haier's success at being able to build a global brand and service markets in Sub-Saharan Africa through its greenfield manufacturing plants illustrates that Beijing, has been a "supporter and facilitator of firms" (Duysters *et al*., 2008: 19).

Haier is an example of a firm that has engaged in a globalising strategy by localising manufacturing in key regional markets "to promote their long-term strategic objectives" and not simply rely on the exploitation of existing resources, but also to "accumulate new knowledge and skills" (Deng, 2003: 119). This strategy has evidently worked as Haier now competes with multinationals like Whirlpool Corporation, from the United States, which internationalised several years before Haier did. Haier has been since 2009 been the top appliance manufacturer in the world with a market share of 6.1 per cent (Jones, 2010).

5.6 Conclusion

China's global economic strategy is largely shaped by its national development objectives (Osei and Mubiru, 2010: 1). Large foreign exchange reserves and the needs of securing resources and knowledge were instrumental in the formulation of China's "go global" policy. China had for many years been a target of large inward FDI in the last decade has become a source of large OFDI flows in the global economy. Resource capture by Chinese firms in Africa has been one of the forms of outward expansion that has garnered the most academic and media attention. This is exemplified by the high-profile operations of SOEs in the hydrocarbon sector like Sinopec and CNOOC.

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Understandably as the implications of hydrocarbon extraction is not only capital intensive but impacts the local environment far more than say market-seeking or strategic-asset seeking forms of investment. The necessity of the Chinese government to address the inadequacies of their energy resources is exemplified in the role of directing its SOEs to invest in Africa to address shortfalls. China has over 800 SOEs in the African economy, a testament to the strategy that Beijing has employed in their outward investment drive in Africa, one which is state guided and financed. Resource diplomacy has been a prominent feature of the modernisation programme (Cheng and Shi, 2009: 111). In order for China to keep its modernisation programmes on track it will need to maintain and possibly expand its various strategic and diplomatic partnerships in Africa and abroad.

As the UNCTAD (2006: 160) noted efficiency-seeking FDI is largely unimportant to Chinese firms, instead being motivated by resources, markets and strategic assets. It was for this reason that efficiency-seeking was absent in this chapter. Telecommunications firms such as ZTE and Huawei expanded into Africa to seek out new markets, similar to Haier although Haier was driven to establish a world brand too. While different to the 'central' SOEs of China, mainly the hydrocarbon based multinationals, ZTE and Haier are not privately owned, leaving Huawei as one of the largest privately owned Chinese multinationals operating in Africa.

In economic nationalism it is held "that economic activities are and should be subordinate to the goal of state-building and the interests of the state" (Gilpin, 1987:31). Arguably, what can be deduced from preliminary assessments is that Chinese investments in Sub-Saharan Africa and abroad are as strategic as they are pragmatic and that the hand of government has aided Chinese firms to exploit their advantages and invest in markets abroad correlates to economic nationalism. The measures taken within the government to reduce bureaucracy, increase incentives and provide finance for firms to expand in order to either seek out new markets or resources is part of Beijing's centrally planned strategy to geared toward prompting key sectors in the economy to access international markets (Corkin, 2007: 310). This level of state-planned capitalism has afforded China and its firm's competitive advantages and global reach as China expands in Africa and abroad, with a supportive, politically and economically engineered strategy of competing globally with established multinationals.

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Chapter 6: Conclusion

6.1 Introduction

This chapter reviews and concludes the primary question that was asked at the beginning of the thesis "What motivates Indian and Chinese firms to engage in outward foreign direct investment in Sub-Saharan Africa and to what extent do New Delhi and Beijing's political and economic policies influence the internationalisation of these firms into African host economies?" Key secondary questions included:

1. What forms of FDI are India and Chinese firms engaged in and what is the sectoral orientation of these firms?
2. What advantages do Indian and Chinese firms exploit when expanding into Africa and are the motivations for such investments driven primarily by 'pushing' factors in the home economy or 'pull' factors in the host economy or possibly both?
3. What are the forms of ownership, private or public, of Indian and Chinese firms investing in Africa
4. What are the similarities and differences of Indian and Chinese investments in Africa?

This chapter provides an overview of the findings made within the chapters and presents recommendations for possible future research in the field of emerging economy investments in Africa and outlines the implications that these findings may have on the theory and the literature.

6.2 Key Findings and Implications

Multinationals have had operations and trading relationships with African states for decades (Broadman, 2007a: 349). However the increasing presence of multinationals from emerging economies investing and servicing the markets of the continent has begun to change. Africa will have to "leverage the newfound investment and trade interest of India and China so that the continent can become a more proactive player" in the global economy (Broadman, 2007a: 350). The changing dynamics on the continent and the forging of new partnerships with other emerging economies has created "new impulses in Africa's external relations" (Naidu et al., 2009: 2).

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While the implications for Africa were not a core question, it has been briefly mentioned in the study as it is an important aspect of the long term aspects of increasing investments by emerging economies in the continent. The rise of competitive multinationals from emerging economies is "part of a profound shift in the world economy" (UNCTAD, 2006: 245). The globalisation of firms from emerging economies in the international economic system may not be a new phenomenon, but it's certainly a growing one (Yeung and Liu, 2008: 58). The past two decades have seen the level of FDI from firms and multinationals of emerging economies expand exponentially. Developed economies share of global GDP is falling, which is had an effect on patterns of international trade, finance and investment flows (UNCTAD, 2006: 245).

India and Chinese firms have benefitted from state support in their investments in Sub-Saharan Africa; state support is thus one of the key advantages Indian and Chinese firms, at the host economy level have exploited. Two such firms that have had an advantage when investing in Sub-Saharan Africa as outlined in Chapters four and five were multinationals such as India's Bharti Airtel and China's Haier who have in the last decade become highly competitive in markets in Sub-Saharan Africa, with either direct or indirect government support or finance. Financing of outward investments by New Delhi and Beijing's state-owned banks has afforded firms the funds necessary to capitalise on their firm-specific advantages and internationalise, or simply expand into new markets. Bharti Airtel's acquisition of Zain was financed primarily by the State Bank of India. Haier was able to seek out strategic-assets and become a global brand through the funding and guidance of acquisitions abroad by China's many finance and commerce institutions.

Liberal reforms in the investment regime of Indian and Chinese OFDI has allowed their firms to expand abroad in M&As as well as greenfield investments (Athreye and Kapur, 2009: 216). To Indian and Chinese firms, an important motivation to expand into host economies has been to seek out new markets, protect existing markets from competitors and to have more proximate access to these markets. Another important motivation has been to secure access to raw materials and natural resources (Athreye and Kapur, 2009: 215). In both India and China, restrictive policies on OFDI prohibited initial outward expansion of its firms and the liberalisation of such regulatory regimes has seen the presence of Indian and Chinese in the global economy and Sub-Saharan Africa grow.

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Push factors were certainly present in the first decades of outward investment by India and to a far lesser extent, China, where those firms that had the necessary advantages to expand did so, although their success in being granted the opportunity to do so was not widely shared. Firms that managed to internationalise were the exception, rather than the norm, an example being the Birla Group of India. Pull factors do appear to be more important to both India and China in the contemporary wave of investments abroad, as opposed to push factors when both economies had strict regulatory regimes on outward investments. This is backed by research completed in the World Investment Report (2006: 155) which postulates that "market pull factors are likely to be the foremost determinants of FDI in particular host economies" furthermore firms "invest in host countries because of their resources; these refer to a wide variety of potential factors inputs including natural resources, labour and infrastructure."

The contemporary expansion of Indian and Chinese investments in Sub-Saharan Africa is thus dualistic, favourable government policy in the home economy and 'pull factors' in the host economy result in a favourable investment regime for Indian and Chinese firms in the region. India and China have notable differences in the ownership structure of their firms. While India's thrust into Africa has primarily been one led by the private sector, unlike China's which has been primarily driven by SOEs, most of India's resource seeking firms in Africa are state-owned. The linkage of resource security to India and China's hydrocarbon SOEs, in the form of promoting a going global agenda illustrates how strategic these investments are.

The internationalisation thrust of China is viewed as being more top-down that India's, as China's OFDI is considered to be a reflection of Beijing's political objectives, not simply driven by profit-maximisation like India's firms (Hong, 2011: 21). Hence, China's Sub-Saharan investment strategy, which is far more politically orientated than India's, is largely shaped by its national development objectives. South-South economic engagement has been a key component of India and China's relations with Africa. South-South co-operative engagement includes an array of alliances that are geared towards creating environments in which African states can gain necessary capital, infrastructure and developmental expertise of Indian and Chinese programmes. Building on the historical ties of non-alignment and solidarity during the Cold War, India and China have done well to build on these historical legacies and forge new strategic partnerships in the developing world.

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To Africa, this helping hand is one in which the chance at actual development and the creation of sustainable economic growth is more tangible and progressive than that which was offered to African states in the post-colonial era by the North. The hand that is being extended by India and China to Africa seems to be pragmatic, motivated by long-term goals of developing strategic alliances with African partners instead of short – term exploitative links. Both India and China appear to be committed to a long term plan in Africa. Not only have they strengthened the resolve of their presence in Africa through the different programmes and preferential loans, but also worked to solidify Africa as an integral part of the changing dynamics of the global economy within the South-South framework.

Africa will have to leverage India and China's growing presence politically and economically if African states are intent on diversifying their economies and not simply promote and continue relying on primary industries. Exposed competition to multinationals in Africa is arguably perceived to be a zero-sum game with foreign multinationals undercutting domestic firms and exploiting firm advantages with which African firms cannot compete. Broadman (2008) argues that home economy regulation and good governance as well as creative conducive investing environments or "world-class FDI policy regimes" is what African leaders should be focusing on. If African states can draw in investors, not purely because of the abundance of resources or unexploited and uncompetitive markets, but because the environments in which these factors exist are favourable to investors and "basic market institutions" commercial activities in these host economies will be beneficial to foreign and local investors alike (Broadman, 2008). If African states wish to push the developmental agenda that so many governments on the continent speak of, Africa best focus on attaining economic growth through long-term rather than short term gains and strategies.

6.3 Suggestions for Further Research

Further research in which this study is set is not without potential, with research potential in comparative, state to state and state to region investments of Indian or Chinese OFDI and multinationals. Studies that assess the home to host economy movement of investments from emerging economies to emerging regions such as Sub-Saharan Africa or emerging regions to developed regions would be greatly beneficial as such research would not be wholly centred in factors resulting in outward expansion in a home economy or the pull factors in a host economy, but the linking of how the regulatory factors in both home and host economy create a symbiotic environment for investment.

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While this study attempted to bridge the home and host economies, 'home' being either India or China and 'host' being Sub-Saharan Africa in general, a more specific possibly even sectoral specific study could prove to be remarkable in accounting for the investments of emerging economies and the locations of these investments. Building on this suggestion, a study that focuses on Sub-Saharan countries and their institutional frameworks, policies and openness to investment, relative to their market or resource endowments, could better explain the 'pull factors' that draw investors to some Sub-Saharan countries and not to others. A key focus of such a study could hinge on researching political stability and investments' exposure to risk due to inept political and economic institutions, policy and legislation.

Finally, there is potential for studies that consider future developments and the long term implications of increasing investments in Sub-Saharan Africa by emerging economies. From this perspective, trends in the last few years could provide the researcher with key data in completing research on long term investments and the presence of emerging economy multinationals. Such future studies could account for whether or not the mechanisms of South-South cooperation that India and China have sought on the continent have brought any long term developmental prospects for countries or simply perpetuated Africa's underdeveloped and undiversified economies.

6.4 Conclusion

The study has outlined some of the key areas of interest; assessing the political economy of the outward expansion of Indian and Chinese firms in Africa. Part of India and China's outward investment expansion on the continent is the goal of being an equal partner to African states, and leaders of the developing state bloc. It is also part of India and China shaping their investment strategies and objectives within this cooperation with strong state-backing and regulatory regimes that have liberalised and streamlined. India and China have created supportive institutional environments for their firms, both private and state-owned. India and China both are thus argued, from an IPE perspective, economic nationalist, as the state through reduced controls on capital mobility has prompted their firms to invest abroad to address inadequacies in energy supply, seek out new markets or become global brands and competitors.

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The surge of FDI from emerging economies can be attributed to the aforementioned change in global economic and political dynamics, which are also be attributed to New Delhi and Beijing, as they encouraged local firms to 'go global,' shaped by home institutional factors. The changing global economy and the reconstituting of their institutional environments are indicative of the change each state wishes to engender in order to successfully execute their foreign policies, foreign policies that are becoming more determined by economic interests, as both India and China move towards addressing strategic energy requirements in their economies. India and China are by no means similar countries, both countries are complex, vast and diverse with populations that constitute over a quarter of the world's populace, but their behaviour and actions as emerging economies are at times difficult to differentiate.

Both countries became economic powerhouses after decades of restrictive state controlled economic policy in the post-independence era. In the new era of global flux and financial crises, India and China retain high growth rates, remaining highly motivated to trade and invest in foreign markets. With continued economic growth rates, growing populations and demanding economies, competitive firms and even more competitive multinationals, the presence of India and China in the global economy is increasingly moving to one of solidification, not emergence.

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