Chinese and Indian Economic Links with Sub-Sahara Africa

Abstract

Because of their cultural, historical and geopolitical differences, Chinese and Indian businesses have exhibited noteworthy differences in their modus operandi in sub-Sahara Africa (SSA). Drawing on theories on dynamic capabilities and institutional theory, we propose a framework for analyzing the China-India differences in trades and investments in SSA. Institutional theory helps us understand legitimacy-seeking activities of various institutional actors involved with trades and investments in China, India and Africa. The dynamic capabilities perspectives helps disentangle the contexts, mechanisms and processes associated with Chinese and Indian firms' creation and exploitation of competitive advantages in Africa. Using the framework developed, we compare and contrast the natures of Chinese and Indian firms' trades and investments in Africa in terms of various dimensions and levels of analysis. Specifically, we examine China-India differences in terms of factors such as relative competitive advantages in SAA, operations in economies with diverse institutional conditions, dominance of national versus firm-level strategies in trade and economic activities and management of risks.

Keywords: China, India, Africa, institutional fit, coercive isomorphism, normative isomorphism, mimetic isomorphism, south-south trade, dynamic capabilities

Chinese and Indian Economic Links with Sub-Sahara Africa

Introduction

Sub-Sahara Africa's (SSA) economic links with China and India have strengthened remarkably in recent years. The Africa-India trade grew 26 fold during 1991-2008. Likewise, China is sub-Saharan Africa's biggest trading partner. With respect to their economic links with Africa, there has also been a dramatic reversal in the relative power of China and India over the past decade. Until 1999, China's trade with Africa was less than that of India's (Srivastava 2008). In 2008, however, Africa's trade with China was over four times as large as it was with India.

Multinationals from the two countries have shown significant variations in their operations in Africa. The divergences can be attributed to differences in cultures, political systems, and economic policies of China and India. While previous researchers have extended our understanding of China's and India's trades with Africa in terms of complementary and substitute activities (Geda and Meskel 2008), in little research have scholars examined these links from the institutional angle.

Drawing on prior research and theories on dynamic capabilities and institutional theory, we propose a framework for analyzing major drivers of China's and India's trades and investments in Africa and examine the nature of China-India differences in the economic links with Africa. This study has several theoretical, managerial and public policy implications. First, part of the fascinating character of this topic stems from the fact that the intra-developing world trade (also known as: South-South trade) is rising rapidly but has been an underresearched aspect of international trade and investment. More specifically, scholars have argued that the rise of China and India have created a threat as well as an opportunity for Africa (Geda and Meskel 2008). In this regard, this article offers the promise of filling many important gaps in the sparse

literature on the south-south trade. Second, scholars have paid even less attention to trades and investments in Africa. Coster (2007) forcefully argued: "Think of Africa as a normal place. There are 15 times more analysts covering Indian companies than covering African companies, and 11 times more analysts covering Chinese companies than African companies. Can someone please switch on the light and enhance our knowledge of this place a little bit?" Third, while analysts have pointed out the existence of a three-tier system of global commerce, in which companies in tier two markets such as China and India[1] are selling to those in the tier three markets such as those in Africa and Latin America (Cuddeford 2006), little is known about the nature of the tier two-tier three ties. Finally, the operating environment for entrepreneurs is arguably more complex in emerging economies than in developed economies (Stewart et al. 2008). The framework developed in this paper is thus expected to contribute to management practice.

The remainder of the paper is structured as follows: The next section provides a brief survey of China's and India's trades and investments in Africa. Then, we examine Africa's economic links with India and China using institutional and dynamic capabilities perspectives. Next, we develop some theory that allows us to determine how China and India differ in their approach to trade and investment in Africa. Finally, we provide conclusions and implications.

A Brief Survey and China's and India's Trades and Investments in Africa

India's trade with Africa increased from US$967 million in 1991 to US$25 billion in the fiscal year (FY) 2007-8 (Srivastava 2008). India's goal has been to increase its trade with Africa to US$70 billion by 2013. As a response to the recent global financial crisis (GFC), Indian government announced new foreign trade policy, which focuses on expanding exports to Africa and other emerging economies (ibtimes.co.in 2009).

Likewise, China's trade with Africa increased from $12 million in 1956 to US$55 billion in 2007, which further increased to US$107 billion in 2008[2] (Kripalani et al. 2008; chinadaily.com.cn 2009a). China is already Africa's biggest trading partner (Sterling 2009). During 2000-2008, Africa's exports to China and India increased by 56% and 15% annually (Allen 2009). Table 1 compares China's and India's trades in selected African economies.

Indian companies are doing business in over 20 African countries (Basu 2010). Indian multinationals such as Bharti, Reliance, Tata and Ambani have been aggressively buying large African assets (Allen 2009). As of 2007, Tata Africa had invested $100 million in Africa (Noronha 2007). Indian businesses are active in Africa in such areas as automobiles, telecommunications and education. India's Bharti Airtel and South Africa's MTN Group have been negotiating a US$23 billion merger deal. The Indian company NIIT has 55 centers across Africa, which has provided IT training to 150,000 students (Sterling 2009). Indian companies' most favoured destinations in the continent have been Nigeria and South Africa (Table 1). Indian automobile companies such as Tata, Mahindras and Ashok Leyland have sold about 20,000 cars in South Africa annually (Sterling 2009).

Table 1 about here

China, on the other hand, is active in most African countries. The number of China's trade partners in Africa with more than US$1 billion in trade increased from 14 in 2007 to 20 in 2008 (Xinhua 2009a). By the end of 2005, over 800 Chinese state-owned companies had invested in Africa in diverse areas such as trade, manufacturing, resource exploitation, transportation and agricultural development (Lagerkvist 2009b).

Five oil-rich countries (Angola, Equatorial Guinea, Nigeria, the Republic of Congo, and Sudan) account for 85% of Africa's exports to China (Hanson 2008). Angola, which overtook Nigeria to become the largest oil producer in SSA, deserves special attention (Kandell 2010). Crude petroleum accounts for about 95% of the Angolan exports to China. 30% of Angola's oil exports go to China (Nesbitt 2009). Angola provides 50% of China's African oil imports. Likewise, Ethiopia's trade volume with China increased from US$150 million in 2003 (Borak 2006) to US$1.376 billion in 2009, which was 20 times higher than in 2000 (Newbusinessethiopia.com 2010).

By 2008, the official Indian investment in Africa was estimated at US$2 billion and the private sector investment at US$5 billion (Srivastava 2008). India invested additional $2 billion in Africa in 2008 (Sterling 2009). The private sector investment in Africa is led by big multinationals such as Tata Group, Ranbaxy Laboratories and Kirloskar Brothers. These companies, however, are mainly concentrated in South Africa, Nigeria and Kenya. China had invested more than US$8 billion in Africa by 2008 (Harvard Business Review 2009). China committed about US$8 billion in investments in the continent in 2009 (Sterling 2009).

Some estimates suggest that there are about a million Chinese in the continent (Danwei 2010). Many of them went on the continent to work in SOEs but stayed to take advantage of trade opportunities in the continent (Danwei 2010). Likewise, Africa is home to 2 million Indians (Kripalani et al. 2008). Among 1.25 million people in Mauritius, 68% are of Indian origin (Vines and Oruitemeka 2008). Ties between the two countries are particularly close. Likewise, about 30,000 Indians live in Nigeria (business-standard.com 2009).

Table 2 about here

Africa's Economic Links with India and China: Theoretical Foundations

An Institutional Perspective

An economic system can be considered as a "coordinated set of formal and informal institutions" (Dallago 2002) influencing economic agents' behavior (Matutinović 2005). That is, all economic phenomena arguably have institutional components and implications (Parto 2005).

North (1990) defines institutions as macro-level rules of the game. Institutions can be better understood in the context of the tasks for which they were created (Holm 1995). Farazmand (1999) notes: "All organizations and institutions perform in a political or power environment through which the broad parameters are more or less defined, and any organizational action contradicting rather than enhancing, or conforming to, that environmental power structure is sanctioned by institutional means of the state, whether autonomous, dependent, mediating, or weak in dealing with powerful transnational corporations". By approaching international business from the standpoint of institutions, we can capture complex factors discussed above. Institutions define the parameters for business operations and hence can help us understand complex causes and roots associated with Africa's economic links with China and India.

Institutional pressures can be explained in terms of coercive, normative and mimetic isomorphism (DiMaggio and Powell 1983). These forces can be mapped with Scott's (1995 2001) regulative, normative and cognitive processes respectively. Coercive pressure entails threat or actual use of force by a powerful actor in order to gain compliance. Normative pressure is related to cultural and professional expectations. Mimetic pressure entails mimicking behaviors of other actors that are perceived to have a higher degree of effectiveness (Lawrence et al. 2001).

The nature of coercive isomorphism in Africa: China, India and Western powers

Coercive isomorphism is the result of pressures from exogenous resources providers (Lawrence et al. 2001). Western countries as well as China and India represent important sources of resources for many African countries. In return, Western countries have exerted coercive pressures on African countries in such areas as democracy, human rights and free trade. The World Bank, the U.S. and other Western powers have long used foreign assistance as a means to provide political reform pressures to African governments (Hinshaw 2009). The U.S. has reportedly requested African leaders to host U.S. military bases, battle terrorism, and emphasize human rights (Giry 2004). In general, Jane's Intelligence Review (October 12, 2004) noted that "China is able to expand its influence in Africa partly because it is viewed with more credibility than Western states with imperialist legacies".

China's strength has arguably stemmed from its "soft power", which includes culture, political values, foreign policies, and economic attraction needed to persuade other nations to willingly adopt the same set of goals (Nye 2004). Beijing is especially favored by African leaders who do not want to implement economic or political reforms (Thompson 2005). German President, Horst Kohler Commented that many African economies favor Chinese investments because the Chinese government does not impose conditions related to democracy or human rights (cf. Lee 2009). China thus has become an attractive partner for many African leaders (Wilson 1990). For instance, Gabonese ex-President Omar Bongo commented that China's cooperation comes with mutual respect and regard for diversity (Giry 2004).

Prior researchers have noted the important role of indirect coercion mechanisms associated with soft pressures (Barroso 2005; Dolowitz and Marsh 1996; López-Santana 2006). China's soft pressures in Africa lack formal coercive instruments. The influence of soft pressure

is mostly grounded in its “framing effect” rather than on the potential coercive power such as political reform pressures (López-Santana 2006). The ‘framing effect’ of soft pressure is linked to indirect coercive transfer and there are no tangible punishments (Dolowitz and Marsh 1996). Beijing has framed its approach as respect to other nations’ sovereignty without being involved in the internal affairs. In prior theoretical and empirical research, scholars have found that the framing effect of soft pressures could lead to better “practical compliance” if such pressures are integrated by various linking mechanisms and involve different types of domestic actors in the implementation (Barroso 2005; López-Santana 2006).

While India has attempted to develop a similar program known as the *India Development Initiative* to promote the idea of the country as a donor, it seems to be a result of ambiguity and poor performance faced in Africa. An Economist article notes: “.. it is not the past which haunts Indian strategists. It is a future dominated, many fear, by competition with India's vast, commodity-hungry and increasingly Afrophile neighbor, China” (Economist 2008). India has offered several African countries discount loans to finance Indian exports. Yashwant Sinha, India's former foreign minister, noted that Indian aid to Africa “was not a carefully thought out program” (Cahturbedi 2004).

Normative isomorphism

Normative components introduce "a prescriptive, evaluative, and obligatory dimension into social life" (Scott 1995, p. 37). To put things in context, legitimacy conferred by African citizens and policy makers’ upon China and India is a function of their evaluation of these economies vis-à-vis the Western powers in terms of the prescribed behaviors on trade and investment in Africa and moral obligation to Africa.

China has established normative legitimacy through various sources. China has expressed a strong sense of moral obligation to African welfare. In 2000, China established the pro-business China-Africa Cooperation Forum with 44 African nations, which has eased the way for free-trade and investment with the region (Leggett 2005). China is also teaming up with supranational agencies to win further legitimacy for its trade and investment in Africa. Under the auspices of the UN Development Program (UNDP), China-Africa Business Council was opened in March 2005 and is headquartered in China. Its goal is to boost China's private sector investment and development with the continent under the South-South Cooperation (SSC) Framework (china.org 2005). It is a joint initiative between the UNDP, the Chinese government and the private-sector China Guangcai Program. Similarly, Asia-Africa Summit, another multilateral forum, is a joint initiative with the UNDP.

China has created a sense of common membership in the developing world to win normative legitimacy and has emphasized on the need for developing nations to unite together against the industrialized West. During a 2003 speech in Ethiopia, Chinese Premier Wen Jiabao said "China is ready to coordinate its positions with African countries...with a view to safeguarding the legitimate rights and interests of developing countries" (Leggett 2005). In a keynote address at a summit of Asian and African business leaders in Jakarta, Chinese President Hu Jintao said: "Faced with both opportunities and challenges, we Asian and African countries must seize opportunities, strengthen cooperation to cope with challenges and seek common development" (business.iafrica.com 2005). In February 2009, China dramatically broadened its diplomatic support for Africa at a plenary session of the UN General Assembly, during which the Chinese ambassador declared: “In the reform of the Security Council, priority should be given to the greater representation of developing countries, in particular African ones” (Xinhua 2009b).

The South-South connections have thus offered an alternative source of legitimacy, which has made Chinese much more persuasive in their efforts to secure business deals in Africa.

Among the 53 African countries, China has maintained diplomatic relations with 49[3] and China has an embassy and ambassador in each 48 of them (except for Somalia due to security issues). Likewise, 48 of the 49 countries (except for Comoros) have embassies in China (Shinn and Eisenman 2008; Hofstedt 2009).

Mimetic isomorphism

Mimetic pressure entails mimicking behaviors of other actors that are perceived to have a higher degree of effectiveness (Lawrence et al. 2001). Mimetic isomorphism occurs in an uncertain environment when an organization models after an exemplar organization that is perceived to be successful (Dickson et al. 2004, p. 83). Organizations mimic other organizations in the same industry, outside their industry but similar in complexity, or those "on the cutting edge" (DiMaggio and Powell 1983). We extend this logic to consider how Africans relate to the Chinese and Indian models of development.

Many African governments regard China as a model of modernization and more responsive to African needs and wants than Western partners. Most African governments perceive China's fast-growing involvement overwhelmingly positive. Beijing also actively promotes its development model, based on a limited market economy controlled by an authoritarian government. Evidence of Chinese influence is thus more readily apparent in authoritarian regimes (see case 1). Many authoritarian African regimes find China's modernization model preferable to free-market and democratic reforms advocated by the U.S. and the European Union. The degree of mimetic isomorphism of Chinese model of development is thus fairly high in authoritarian regimes in Africa.

On the other hand, Africans consider India's model of development as less successful and far from the cutting edge**.** An Economist article notes: "With a munificence that accompanies 9% growth, India recently played host to some South African development experts, who were invited to inspect sanitation and low-cost housing. Alas, their experience--of a country where 700 million people lack indoor lavatories and half the biggest city's inhabitants live in slums--did not impress. According to one insider, the South Africans laughed all the way back to the rainbow nation" (Economist 2008).

Consider Nigeria and Kenya, which were the only sub-Saharan countries included in the 2009 Pew Global Attitudes Survey conducted by the Washington, DC-based Pew Research Center. Both have an electoral democracy and are classified by Freedom House as "partly free" countries. The Pew survey found that 85% of Nigerians have favorable opinion of China while 79% of Nigerians have favorable opinion of the U.S. (Pew Research Center 2009a, b). The respective proportions for Kenya were 73% and 90% respectively (Pew Research Center 2009a, b). The Kenya-Nigeria differences may be attributable to U.S. president Obama's Kenyan connection and the fact that Kenya has a higher degree of political freedom than Nigeria.

The dynamic capabilities perspective

The dynamic capabilities perspectives (Teece et al. 1997) helps disentangle the contexts, mechanisms and processes associated with Chinese and Indian firms' creation and exploitation of competitive advantages in Africa. Eisenhardt and Martin (2000) define dynamic capabilities as: "The firm's processes that use resources – specifically the process to integrate, reconfigure, gain and release resources – to match and even create market change. Dynamic capabilities thus are the organizational and strategic routines, by which firms achieve new resources configurations as markets emerge, collide, split, evolve, and die" (p. 1107). Firms with dynamic

capabilities acquire, retain and integrate resource to develop value-creating strategies (Eisenhardt and Martin 2000).

Firms with dynamic capabilities can "integrate, build, and reconfigure internal and external competencies to address rapidly changing environments" (Teece et al. 1997, p. 516). These capabilities enable a firm to reconfigure its resource base and adapt to changing market conditions in order to achieve a competitive advantage (Eisenhardt and Martin 2000; Zahra and George 2002).

Chinese and Indian companies' dynamic capabilities to operate in Africa

Chinese and Indian companies are in a position to reconfigure their resources to operate in Africa. They can easily adapt the business models used in their domestic markets (Harvard Business Review 2009). Indian firms' capability to deliver value for money in the domestic market has been an important source of their competitive advantage to operate in the African market (Kumar 2008). That being said, it is also clear that Chinese firms seem to be in a better position than those from India to build dynamic capabilities to operate in Africa.

First, Chinese firms have a higher degree of dominance and power in the world economy than Indian firms. For instance, compared to India, China had almost twice as many companies in the Forbes' "Global 2000" list of the world's biggest companies in 2009 (DeCarlo 2009, Table 2). It is argued that the Indian multinational is "in an embryonic stage" (Kumar et al. 2009). To put things in context, while most Chinese firms in Africa are medium-sized or large state-owned enterprises, Indian companies exhibit a higher degree of heterogeneity in terms of size (Broadman 2008).

Second, China spends much higher than India in R&D (Table 2). More importantly, Chinese firms are developing products that are relevant to developing countries. As is the case

with other high-technology sectors, Chinese firms are working on nanotechnology-related products that fulfill needs specific to developing countries. To take one example, researchers at China's Tsinghua University are testing a nanotech bone scaffold in patients. Experts say that this application of nanotechnology is especially relevant for developing countries, where the number of skeletal injuries resulting from road traffic accidents is high.

Third, Chinese firms possess resources to reduce production costs, which is important to develop value-creating strategies in the African context (Eisenhardt and Martin 2000). India has not been able to compete with Chinese low wages in assembly-oriented manufacturing. India is currently a leader in IT services. India's emphasis on services has been less effective in building dynamic capability to operate in Africa (Matthias 2006; Shaw et al. 2007). China's dominance in manufacturing and trade, not only with Africa but also with the industrialized countries, has been at the expense of other emerging economies such as India and Mexico (Shaw et al. 2007). Harry Broadman, a World Bank adviser on Africa, put the issue this way: "The Chinese have deep pockets. They have the ability to undercut and win every contract - and not just against India. It's the US and Europe, too" (cf. Schatz and Sappenfield 2008).

Discussion: Toward a Theory of China-India Differences in Economic Links with Africa

National-level versus firm-level strategies

Chinese firms have an access to external competencies associated with the government's deep pockets, which has been particularly important to build dynamic capabilities to operate in Africa. While most Indian companies operating in Africa are privately owned or have a mixed private-public ownership, most Chinese firms are state-owned (Broadman 2008). India's model of private investment differs from China's model of state-managed investments (Teslik 2007). India's operations in Africa arguably are "driven by firm-specific considerations" (Upadhyay

2007). According to UBS, the state accounts for at least 70% of the Chinese economy compared to less than 7% in India (Pei 2006). China's state-operated Exim Bank is the world's third largest credit agency, which, for African economies, has become an alternative to the World Bank (Hinshaw 2009). Beyond all that, China has provided considerable development aid, mainly in the form of low-interest loans, to African countries, which has helped Chinese firms' operations in the continent. They include US$13 billion to Angola, US$9 billion to the Democratic Republic of the Congo, and US$2.5 billion to Ethiopia (Shinn and Eisenman 2008). Commenting on Chinese approach in Africa, Prashant Ruia, group CEO of the Indian company Essar recently put the issue this way: "We are nearly five to seven years late…..Competing with the Chinese is impossible, to be honest. They are building roads, airports and projects as a grant. They are taking a 20 year investment risk — something private companies like us cannot do. We do not have the kind of backing that the Chinese have, they are present on a much larger scale too. They have had a head start and have been there for the past 10 years" (cf. Sterling 2009). While India has also started providing developmental aids to some African economies, it operates at a much small scale. Indian commercial loans to Africa amounted about US$110 million in 2003 (Cahturbedi 2004). During the India-Africa Summit in April 2008, Indian government promised that it would provide US$500 million in grants to African countries over the next five to six years and would double credit lines to US$5.4 billion.

Due to China's mature and effective foreign policy, the effect of the state's deep entrenchment in the economy on China's trade with Africa has been more pronounced and is working towards achieving national goals. Between the mid-1950s and mid-2000s, China's foreign aid to Africa was estimated at 44.4 billion RMB in over 900 infrastructural and social projects (Zhan 2006). India has responded by increasing its aid to Africa. India also offered $5

billion in credit at the 2008 Indian-African summit. However, these actions have brought few commercial gains to India. For instance, India has been an African Development Bank member since 1982. Yet it has less voting weight than most other donor countries such as China, Japan, Saudi Arabia, and South Korea (Feigenbaum, 2010).

One reason behind India's failure to act in its national interest and achieve national goals concerns the underdeveloped “foreign policy software" and institutions (Markey 2009). Feigenbaum (2010) notes: “India's foreign service is tiny; seniority often trumps other criteria for promotion in the foreign service; and think tanks and university area-studies programs are underfunded and small. Improvements in these domains will be important if India is to fashion and implement more global strategies”.

China is arguably “playing a game of scale” in Africa (Suri & Mahajan-Bansal 2009). In 2008, China signed a US$9 billion civic infrastructure agreement with the Democratic Republic of Congo (DRC) for 10 million tonnes of copper ore (Lee 2010).China agreed to build 2,400 miles of road, 2,000 miles of railway, 32 hospitals, 145 health centers and two universities for the DRC (Suri & Mahajan-Bansal 2009). China Petroleum and Chemical (Sinopec) announced that it would acquire a 55% stake in refinery JV in Angola for $2.46 billion (nytimes.com 2010). Likewise, China National Petroleum Corp. (CNPC) has invested *$3* billion in Sudan's Greater Nile Petroleum and owns 40% stake (Kandell 2010). CNPC’s other ventures in Africa include a $385 million refinery in Algeria and a $5 billion deal to develop oil in Niger (Suri & Mahajan-Bansal 2009).

Business relationships embedment in wider institutional field

Prior research indicates that isomorphism measures that pay attention as to how they are embedded in the “wider institutional field” (Lawrence et al. 2002) or “networks of other already legitimate institutions” (Suchman 1995) are more likely to be successful. In this regard, an

important dimension of Africa-China ties is a wide range of aids, concessions, assistances and technologies provided by China to African countries. During the second China-Africa trade summit held in Addis Ababa in 2003, Beijing wrote off US$1.3 billion in debt owed by 31 heavily indebted countries in Africa. In an effort to boost trading links, China has provided 28 most underdeveloped African countries with zero tariff treatment and special preferential tariff rate for exports of about 190 products to China. These range from food, mineral product and textile, to machinery and electronics.

While China's relation with Africa in the 1960s and 1970s was rooted in political and ideological solidarity, it is becoming more economic driven. Nonetheless, continuation of activities that were originally designed to spread Chinese-style communism in the 1960s and 1970s have helped to strengthen China's economic and business ties. Beijing is intensifying such activities. There are about a thousand Chinese doctors working with HIV/Aids patients in Africa and over 10,000 agricultural engineers working in Africa. These factors have influenced the lens through which Africans view China.

To gather cognitive legitimacy from African institutions, China is also strengthening cultural ties. China International Radio, the voice of Beijing, launched a new FM station in Nairobi, Kenya, which broadcasts 19 hours a day in English, Chinese and Kiswahili. The voice of Beijing is thus competing with the BBC World Service and Voice of America. Similarly, in 2003, more than 6,000 African students received technical training in Chinese universities. It is also important to note that China's early relations with the continent included large number of scholarships for African elites to study in China.

Likewise, by the end of July 2004, China had sent 1,401 peacekeeping troops to take part in nine UN missions in Africa. Similarly, by the end of 2004, 840 Chinese peacekeepers

participated in seven UN missions in Africa (African Times 2004a). In the same vein, since 1964, China has sent over 15,000 doctors to over 47 African countries and treated approximately 180 million African patients (Nye 2004).

Official contacts between China and Africa include frequent high-level visits by the President, the Premier, and ministers. Most impressive of all, since 1991, the foreign minister's first foreign visit each year has been to Africa (Shinn and Eisenman 2008; Hofstedt 2009). The above leads to the following:

Proposition 1: Indian firms' behaviors are more likely to serve to implement specific choices made by an organization and are therefore likely to follow from the firm's specific strategy. Chinese firms' programs and initiatives, on the other hand, are more focused on accomplishing national-level goals.

Corollary to Proposition 1: China is likely to have more large-scale investments[1] in Africa than India.

Resource-seeking as opposed to market-seeking investments

It would also be interesting to compare China's and India's approach to market-seeking and resource-seeking investments in Africa. Resource seeking investments are made in order to establish access to basic material, input factors and natural-resource such as those in energy, metallic minerals, wood, paper and other raw materials. Market seeking investments are made to enter an existing market or establish a new market. In this regard, it is important to note that China's consumption of electricity and other types of energies is much higher than India 's (Table 2). In 2003, China surpassed Japan to become the world's second-largest oil consumer, after the U.S. According to the U.S. Energy Information Administration, China accounted for 40% of total growth in global demand for oil during 2001-2005 (Pan 2006). China became a net

[1] By large scale investments, we mean investments over $10 million. In India, for instance, investments exceeding Rs. 500 million (about $10 million) are considered to be large scale investments (http://www.starpackaging.biz/content/aboutus/aboutus_businessoverview.html). Likewise, in Korea, large-scale investments are those over $10 million each (see: "Recent Trend of Foreign Direct Investment", Korea Herald 2001. 4. 7, http://www.keb.co.kr/english/unit/com_htm/contents-3-5-87.htm)

importer of petroleum products since 1993 and of crude oil since 1996. The country relies on overseas producers for one-third of its supplies and the proportion is expected to reach 60% by 2020 (business.iafrica.com 2005). At the same time, except for coal, China lacks other types of natural resource.

China has been making offshore investments in natural resources not only in Africa but also in diverse geographical locations such as Russia and Venezuela (Altman 2009). Chambishi copper mine in Zambia is one of the biggest Chinese mining operations in Africa.

In 2006, China National Offshore Oil Corporation agreed to pay US$2.3 billion for a stake in a Nigerian oil and gas field (Srivastava 2008). In sum, while both Chinese and Indian companies have gained access to African natural resources (Teslik 2007), China's involvement has been higher in the continent. In October 2009, the Chinese oil company Sinopec reportedly made an offer to the Ghanaian government for oil discovery (Connors 2009). Based on above discussion, the following proposition is presented:

Proposition 2: Compared to India, China is more likely to engage in resource-seeking investments in Africa.

China vs. India in Authoritarian African regimes

According to Freedom House, of the 48 countries in SSA, only 9 (combined population: 102.6 million) were "Free" in 2010 while 23 (combined population: 496.8 million) were "Partly Free" and 16 (combined population: 235.6 million) were "Not Free" (freedomhouse.org 2010). Note that 11 were in the "Free" category in 2006. Freedom House referred Africa as the "bleakest" region in terms of political rights and civil liberties in 2009. In 2009, Africa experienced more declines in political rights and civil liberties than any other region in the world. Freedom House's survey indicated that human rights situation worsened in 16 countries in Africa in 2009. According to the Council on Foreign Relations, only 40% of African countries are electoral democracies (Kempe 2006).

Case 1: China's export of censorship technologies

The Chinese government learnt censorship techniques from Singapore. In June 1996, Beijing sent a senior information official to learn about the city state's state-of-the-art internet control and policing practices. In recent years, China has made significant strides in censorship know-how and technology and seems to be ready for exporting such techniques.

Beijing's provision of censorship technologies (such as phone-tapping, radio-jamming and internet-monitoring equipment) to Robert Mugabe's government in Zimbabwe provides a glimpse of this phenomenon. During the election campaign in 2004, a radio-jamming device located at a military base outside Zimbabwe's capital prevented independent radio stations from broadcasting. Similarly, the shortwave station, SW Radio Africa, an independent radio station based in Britain that employs exiled Zimbabwean journalists, experienced jamming problems in 2004. VOP, a shortwave station broadcasting from Madagascar, has also reported such problems. The BBC reported that Chinese intelligence officers visited Harare in 2005 to give further training in telecommunications and radio communications to Zimbabwean technicians.

South Africa-based Zim Online reported that in June 2005, Mugabe announced his government's plan to 'outlaw the dissemination through the internet of information and material it deems offensive' (Zim Online 2005). Another ZimOnline story in 2004 reported that Harare was seeking help and equipment from China to monitor e-mails and information exchanges. There have also been reports of arrests in an internet café for sending e-mails that criticised the government.

Experts say that China has tremendous potential to become a hotbed for advanced censorship technologies and is likely to capture a substantial share of the rapidly growing global market for such technologies, which is currently supplied by Western corporations. For instance, China's large market allows it to test a number of experimental blocking features that cannot be done in most Western countries. In particular, as China is already a regional internet access provider for its neighbours such as Vietnam, North Korea, Uzbekistan and Kyrgyzstan, these countries can easily be China's market for censorship know-how and technologies.

Observers note that China has gradually changed its role in Africa from a mere trade partner to more "advisory approach" (China**:** Country Analysis Report.2009). Consequently China's political influence is increasing in the continent. Such a role has a special significance in authoritarian regimes. Especially, China has been able to secure political influence rapidly in countries that are avoided by Western nations because of poor governance and opaque political systems and the lack of civil liberty, political freedom (see: Case 1; Thompson 2005). Pilling (2010) put it best, "China's Communist system has little obvious attraction for advanced nations, though for those poor countries wishing to prioritise modernisation over democratic niceties it arguably offers a template". For instance, Nigeria is fighting a continuous struggle with rebels who regularly disrupt oil production. The Nigerian government thus preferred to have a business partner that is indifferent of human rights. In October 2004, the governor of Nigeria's Kaduna Province, which was involved in sectarian killings and adopted a Shariah-based criminal law, invited Chinese investors to set up businesses (Giry 2004).

India has also intensified its diplomatic and economic relations with Africa (Fidler and Ganguly 2010). Yet researchers have argued India's efforts to utilize its cultural and political attractiveness to its advantage have been far from effective (Lagerkvist 2009a). Moreover, Indian model of development is not attractive for most authoritarian regimes in the continent. In line with these arguments, the following proposition is presented:

Proposition 3: China's competitive advantage over India is likely to be higher in African countries that have authoritarian regimes than those that have democratic regimes.

China vs. India in Commonwealth members in Africa

Connection and compatibility with the local society as a source of competitive advantage for Indian businesses

Compared to their Chinese counterparts, Indian immigrants are substantially more integrated into the African society. According to a 2006 survey of ethnically Indian and Chinese business owners in Africa, about 50% of the ethnic Indian had acquired African nationalities compared to only 4% ethnic Chinese (Broadman 2008). In general, thanks to the raj legacy, India arguably is more connected into and more compatible with the established global economy (Cohen 2001; Das 2000; Khilnani 1997; Kohli 2001; Shaw et al. 2007).

A lower degree of integration of Chinese workers into the African socioeconomic structures can also be explained with the nature of Chinese nationalism. Pei distinguishes nationalism related to universalistic ideals (democracy, rule of law, free marketplace) and institutions from that based on ethnicity, religion, language, and geography. China falls in the latter category. In China, the state arguably bolsters its legitimacy through invoking a deep sense of "Chineseness" among citizens (Ong 1997; Hansen 1999). Sautman (2001) has documented how China has adapted a body of complex scholarship to invoke a deep sense of "Chineseness": "Nowhere is this more pronounced than in China, where these disciplines [Archaeology and paleoanthropology[4]] provide the conceptual warp and woof of China's "racial" nationalism".

Psychic distance from the home country or primary markets is one of the important determinants for foreign market selection (Dunning 1988). The stage model suggests that international expansion is influenced by managerial learning. Internationalization begins with low-risk, indirect exporting to "psychically close" or similar markets (Johanson and Vahlne 1977). International activities require both general knowledge and market specific knowledge. Over time and through experience, firms increase their foreign market commitment and expand to more "psychically distant" market (Cavusgil 1984). The network theory draws on social exchange and resource dependency and focuses on interpersonal relationships. According to this perspective, internationalization is a result of interaction and the development of a multitude of relationships. A growing body of research has demonstrated that business markets are structured as networks (Johanson and Vahlne 1992).

One broad observation made by van de Walle (2008) shapes everything that follows: "The relationship between India and the African continent relies on private networks, linked to long-standing Indian populations in the region. The relationship between China and the region, on the other hand, is more recent and more often mediated by formal government-to-government agreements".

Traditionally, India's trade and investments in Africa were concentrated in countries that have a high proportion of Indian population, especially those colonized by the British (Teslik 2007). For instance, today's Kenya and parts of Uganda were administered by the British out of Bombay. Indian rupees were used as their currency during 1897-1920 (Vines and Oruitemeka 2008). It is important to note that the rupee is still the currency in Seychelles and Mauritius (Vines and Oruitemeka 2008). It is estimated that the 'Commonwealth factor' provides Indian companies a 10%– 15% advantage in economic interactions in English-speaking countries (Shaw

2007). Note that eighteen African countries are the members of the Commonwealth of Nations (Some of them are listed in Table 1).

Commonwealth African countries' "psychically close" distance with Indian seems to be contributing to the success of Indian firms. For instance, India's exports to Uganda have increased in recent years. In 2004, India was the second biggest exporter to Uganda (after Kenya). In 2004, India's exports accounted for 8.5% of Uganda's total imports (FICCI 2004). India's Essar Group invested $100 million in Essar Telecom Kenya Holdings. As of August 2009, Essar had 400,000 telecom subscribers in Kenya. Essar also has a 50% stake in Kenya Petroleum (Suri & Mahajan-Bansal 2009). From April–June 2007 to April–June 2008, India's trade with East Africa grew by 82% (Scott 2009).

A related point is that African leaders from some Commonwealth countries have expressed their affinity with the Indians while they have been hostile to the Chinese. In 2003, during her India visit, then South African Communication Minister Ivy Matsepe Casaburri noted that India and South Africa had ties since the days of Mahatma Gandhi (Jafri 2003). On the other hand, in 2007, the South African president warned that the continent was in a risk of being colonized by China (Pant 2008). Michel (20008, p. 45) notes: "China seems to have difficulty maneuvering in countries more democratic than itself". Increasing Africa-China ties have led to the closure of uncompetitive local textile mills in many African countries. Chinese businesses, however, are facing hostile reactions in more democratic countries such as South Africa (Pant 2008). Thus, we propose that:

Proposition 4: India's competitive advantage over China is likely to be higher in the members of the Commonwealth of Nations than in non-members.

China vs. India in African countries with various levels of political risks

Prior researchers have suggested that there are high risks associated with large scale investments for the private sector. The risks are particularly high for projects involving sunk assets, which

cannot be removed for use in other places or cannot be redeployed for other purposes (Rees 1998). Normally infrastructure investments, which tend to be expensive, satisfy these criteria.

Let us consider China's economic links with African countries that are considered to be the riskiest by the Political Risk Services' (PRS) International Country Risk Guide (ICRG). China's most successful African energy investment has been arguably in Sudan (Hanson 2008), which had an ICRG rank of 133 (out of 140 countries considered) in January 2010. 60% of Sudan's oil exports go to China (Nesbitt 2009). China's ability to manage political risks in the world's riskiest countries is apparent in its significant economic links with African economies that are considered to be riskier than North Korea (ICRG rank: 132). For instance, Equatorial Guinea (ICRG rank: 134) is a big oil supplier to China. China has a significant trade relationship with Zimbabwe (ICRG rank 138). Chinese imports from the Democratic Republic of the Congo (DRC) (ICRG rank: 139) more than quadrupled from 2004 to 2007 (N'Sakila 2008).

India's approach to avoid political risks is summarized by Suri & Mahajan-Bansal (2009): "Rather than run smack into Chinese competition in Africa, one tactic to tap Africa is to go to countries where China isn't as active. That's what the Essar group did. It focused on East Africa. It figured that the region was largely English speaking and had lower political risks". It is thus proposed that:

Proposition 5: China's competitive advantage over India is likely to be higher in countries that have high political risks than those that have low political risks.

Conclusion and Implications

By integrating institutional theories and the theories of dynamic capabilities, we have taken a significant step toward a greater understanding of the complexity involved in the South-South trade. Since most studies on South-South trades have focused on intra- and inter-regional trades among Asian and Latin American economies, this paper has contributed to filling an important void on such trades involving Africa (Geda and Meskel 2008).

China is a bigger exogenous resources provider than India, which has helped it to exert an effective coercive isomorphic pressure. Soft power has been an important component of China's management of coercive diplomacy in Africa. China's expression of a strong sense of moral obligation to African welfare has helped it to establish normative legitimacy. China's model of modernization has been exemplary, especially for authoritarian regimes in the continent, which has led to a higher degree of mimetic pressure. Likewise, Chinese firms' higher degree of dominance and power in the world economy, development of products that are relevant to the needs of developing countries, access to resources to reduce the cost of production and an access to external competencies associated with the government's deep pockets have helped than build dynamic capability to operate in Africa. As noted above Indians living in Africa are its major source of competitive advantage over China. Yet researchers argue that the Indian Diaspora in eastern Africa are not being used effectively to increased economic links with Africa (Lagerkvist 2009a).

Chinese firms' better institutional fit in Africa and the possession of dynamic capability have allowed them expand across wider geographic markets and product categories. The above discussion also indicates that China has created real business values and economic benefits, which have outweighed the values of India's historical and cultural ties. China's relative advantage compared to India seems to be lower in Commonwealth English-speaking countries in Africa (Table 1).

The preceding discussion has important managerial and policy implications:

Implication 1: The challenge of institutional change

We discussed above how different sources of legitimacy relate to the effectiveness of Africa-China trade. These sources of legitimacy and their importance, however, are not static.

Following the analogy of social ecosystem, we can argue that international trade and investments also influence institutions. Notwithstanding their connotation of persistence (Parto 2005), durability (Hodgson 2003) and stability (Scott 2001), institutions are subject to change in evolutionary time. Zucker (1988) draws an analogy from physics to describe institutional changes mechanisms. Institutions continuously undergo change due to entropy, a tendency toward disorder or disorganization. An implication of the entropy-like characteristics is that people and organizations can modify and reproduce institutions (Scott 2001). Institutional changes take place incrementally (North 1990) as well as in discontinuous fashions (Scott 2001). The pattern of international trade and investment is thus likely to change institutional structure of involved trade partners. Such changes, in turn, are likely to affect International trade and investment.

The fact that China has been a big player in Africa has also made Chinese players vulnerable to attacks from various constituencies in Africa. With respect to the Africa-China business ties, not all stakeholders view China's involvement in Africa positively. Many African manufacturers and trade unions have criticized China's increasing involvement in Africa. Some have branded China's involvement in Africa as a new form of imperialism as well as threats to domestic industries. South Africa's trade unions, for instance, have complained that the country's imports of cheap hi-tech products such as computers and telecoms equipment from China are ravaging domestic technology industries. In South Africa, there was a threat of a boycott of stores that carried Chinese goods in the last quarter of 2004. Some local activists want local stores to agree to a 75%-25% balance of locally-made to imported goods (The Economist 2006). Similarly, Zimbabwean manufacturers and retailers have complained that Chinese imports have forced them out of business. Likewise, competition from Chinese firms forced over 10 textile

factories in Lesotho to close in 2005 alone leaving 10,000 employees jobless. This phenomenon is referred as Chinese tsunami in Lesotho. A member of Lesotho's Parliament noted: ”The Chinese tsunami has created more poverty by extensive job losses" (Peta 2005).

Some African economies are experiencing trade deficit with China, which is likely to fuel opposition to trade with China. For instance, South Africa's trade deficit with China went from US$24 million in 1992 to US$400 million in 2004 (*The Economist 2006*).

China's African involvement has also been criticized by some environmentalists. A July 2005 report of the International Rivers Network and Friends of the Earth accused China's Exim Bank for funding environmental unfriendly projects such as the Merowe Dam in Sudan. Institutional changes taking place in China are also likely to alter the landscape of Africa-China trade and investment. For instance, China is undergoing a rapid privatization of its economy. Currently, China's state-owned enterprises, which are less concerned with near-term profits, account for a considerable share of Chinese invetment in Africa (Ranneberger 2005). Chinese private firms may not necessarily follow the same modus operandi. Moreover, as noted above, China's health diplomacy has played a critical role in winning cognitive legitimacy in Africa. Like other sectors of the Chinese economy, the medical system is also being privatized. Chinese doctors are less willing to accept postings in Africa, particularly because of a low level of current government stipend (Thompson 2005).

Finally, there is also some movement toward democracy in Africa (Easterly 2005), albeit very slow. A stride toward democracy and Africa's changing attitude towards issues such as humanitarian intervention (Alden 2005) may also weaken the Africa-China business ties.

Implication 2: The China, India and South Africa (CISA) framework

It is also important to analyze China's and India's trades and investments in Africa vis-à-vis that of South Africa. Shaw et al. (2007) refer China, India and South Africa (CISA) as "'emerging economies' aspiring towards the top tier of the global architecture" (p. 1256) and argue that CSIA will shape the policy and economic landscapes of sub-Saharan Africa in an important way. According to the UN Conference on Trade and Development's (UNCTAD), World Investment Report 2006, over 50% of all FDI inflows in Botswana, the Democratic Republic of the Congo, Lesotho, Malawi and Swaziland came from South Africa. In this regard, it is important to note that institutions in South Africa are more similar to India than to those in China. The institutional similarity is likely to put South African companies in more direct competition with the Indian than with the Chinese.

Implication 3: The state's involvement in African economies

In most African countries, the government's relatively stronger position and control over strategic national resources have facilitated China's access to such resources. Virtually all African countries are characterized by mixed economies. As is the case of many developing countries, private and public firms function side by side. In some countries, the nationalization process is still going on. For instance, in 2004, Zimbabwe's President Mugabe announced his government's plan to demand half-ownership of all privately owned mines in the country in order to stay in control of its natural resources (African Times 2004b).

In Africa, the commercial class and the national elite have a high degree of complementary characteristics. For instance, African commercial class lacks financial and managerial ability to run "high markets" such as a copper mining company or an automobile assembly plants (Wilson 1990). State elite, on the other hand, see professional and personal rewards in nationalizing such markets. Government purchases account for a significant proportion of imports in developing

countries. For instance, in all developing countries, the government is the single biggest user of technology products (Nidumolu et al 1996). In Ethiopia, government purchases account for 40% of total imports, with loans by international financial institutions such as the World Bank and the African Development Bank. Beijing's influence on many African governments has thus helped trigger China's exports to Africa.

Implication 4: Shift towards democracy and economic freedom

There has been a gradual shift towards political and economic freedom in some African countries. For instance, Ethiopia recently moved from one-party to multi-party system. The above discussion indicates that such a shift may benefit India. Indian managers tend to be more effective than Chinese in interacting and communicating with African local managers. Sterling (2009) observed: "Indian managers talk to local African managers in ways the Chinese never do".

Implication 5: Utilizing the continent's labor force

Chinese and Indian companies have mainly concentrated on accessing the natural resources and markets in the continent. There is, however, a potential to expand their operations to utilize the continent's labor force to serve international markets, especially the European ones. For instance, Indian offshoring companies can utilize the continents' English, French and Portuguese speaking populations to provide call center services to Europeans. Likewise, Chinese firms can use Africa's geographical position as proximity to Europe to establish factories in the continent and sell products to the European market.

Implication 6: Importance of forward and backward linkages

African economies are in an urgent need to move to a higher gear to benefit from foreign trades and investments. For instance, there are reports that the garment manufacturing industry in many parts of Africa is shallow. That is, this industry has few linkages to the domestic economies. In some African economies such as Namibia and Lesotho, even skilled direct employees for this industry are foreigners (Rasiah and Ofreneo 2009). The host African countries can increase benefits of Chinese and Indian trade and investments by creating efficient channels for forward and backward linkages, labor mobility and stimulation of knowledge and technology transfer to local firms (Markusen and Venables 1999).

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Table 1: A Comparison of China's and India's Trade in selected African countries

Country	Population ('000) [⊕]	GDP per capita (PPP US$)[τ]	Commonwealth member? [κ]	Political Rights Score(PR) Civil Liberties Score (CL) [α]	India's trade (US$, million)	China's trade (US$, million)	ICRG Composite Risk Rating (rank out of 140 countries) (Jan. 2010)
Angola	17,499.4	2,335	No	PR: 6 CL: 5	2004: 74; 2005: 155, 2006:446; 2007: 1,281[ϑ]	1998: 190 1999: 372 2000: 1,876 [≤]	
Congo	3,847.2	1,262	No	P R: 6 CL: 5	2004: 106[℘]	2005: 2,050 [Π] 2002: 291[◊]	72.3 (49)
DRC	64,703.6	714	No	PR: 5 CL: 6	2000: 4.73; 2001: 3.75, 2002: 4.31, 2003: 11.24, 2004: 5.36, 2005: 16.24 , 2006: 18.24, 2007: 1382.19	2002: 31	44 (139)
Kenya	38,549.7	1,240	Yes	PR: 4 CL: 3	2004-05: 450[Θ]	2005: 475[ћ]	61.3 (111)
Mauritius	1,271.5	12,715	Yes	PR: 1 CL: 2	2004: 245 2005-06: 207 2006-07: 751[ℵ]	2008: 323 [Δ]	
Nigeria	151,478	1,128	Yes	PR: 4 CL:4	2008: 13,000 2007: 8,000 [#]	2007: 4,300[϶] 2009: $6373[⊥⊥]	60.8 (112)
South Africa	48,832.1	11,110	Yes	PR: 2 CL: 2	1993: 45 2007-08: 6,000[⊥]	2003: 3,870 [β] 2006: 8,800 [∀]	70 (61)
Sudan	39,445.0	2,083	No	PR: 7 CL: 7	1998: 90; 1999: 69 2000: 83; 2001: 97 2002: 111; 2003: 149; 2004: 225; 2005: 349 2006: 624; 2007: 563 2008: 1,122[∂]	2006: 2,900[∀]	53.3 (133)
Uganda	31,902.6	1,454	Yes	PR: 5 CL: 4	1984: 6 2003: 106 [ω]	2005: 100[≥]	64.3 (98)
Zimbabwe	13,481.2	2,038	No	PR: 7 CL: 6	2006: 40 [κ]	2005: 280[η]	48.3 (138)

[ϑ]MEA (2009); [∂]Embassy of India, Khartoum (2009); [κ]globalinsight.com (2008); [η]Ministry of Foreign Affairs, the People's Republic of China (2006); [ϖ]FICCI (2004); [Ђ] Omungo (2007); [∀]**F**oxnews.com (2007); [β]fmprc.gov.cn (2004); 6000[⊥] *pambazuka.org (2009*); [Θ]Vines and Oruitemeka (2008); [τ] UNDP (2008); [α] a higher score represents lower freedom (Freedom House 2008); [#]business-standard.com (2009); [϶]financialnigeria.com (2008)**;** [ℵ]Reuters (2006); [Δ]chinadaily.com (2009b); [℘]Department of Commerce (2005); [◊]Ministry of Foreign Affairs, the People's Republic of China (2003); [Π]China Economic Review (2006); [≥]Xinhua News Agency (2006); [≤]People's Daily Online (2001); [⊕]Euromonitor International from national statistics/UN. [⊥⊥]China, Nigeria bilateral trade hit $6 billion, June 17, 2010 http://www.afriqueavenir.org/en/2010/06/17/china-nigeria-bilateral-trade-hit-6-billion/

Table 2: A comparison of some international trade related indicators in China and India

Indicator	China	India
Per capita GDP, US$ 2005[§]	1,713	736
Total population (millions	1,313.0	1,134.4
Research and development (R&D) expenditures (% of GDP) (2000-2005) [§]	1.4	0.8
Researchers in R&D (per million people) (1990-2005) [§]	708	119
Patents granted to Residents (per million People) (2000-2005) [§]	16	1
Receipts of royalties and license fees (US$ per person) 2005[§]	0.1	--
No. of companies in the Forbes' "Global 2000" list‡	91	47
Electricity consumption per capita**,** 2004 (% change, 1990-2004)	1,684 (212.4)[c].	618 (77.6)[c].
GDP per unit of energy use**,** 2004 (2000 PPP US$ per kg of oil equivalent) (% change, 1990-2004)	4.4 (108.6)[c].	5.5 (37.1)[c].

[c]UNDP (2008); [‡]DeCarlo (2009)

Notes:

[1]According to this approach, Western nations constitute the tier one markets.

[2]U.S. trade with Africa amounted US$104 billion in 2008

[3] China doesn't have a relationship with four African states: Burkina Faso, São Tomé and Príncipe, Gambia, and Swaziland. These countries have maintained relationships with Taiwan.

[4] Archaeology is the study of ancient societies and cultures. Paleoanthropology is the study of the human fossil record.