China’s Outward Foreign Direct Investment in Developing and Developed countries

-----From the perspective of motivations, obstacles and impacts

Master Thesis

MSc in Finance and International Business

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Executive Summary

The last two decades the whole world has witnessed a significant rise of outward foreign direct investment from China. Since it is a relative new phenomenon, the related research remains at the initial stage. This paper will provide a systematic analysis of the development path as well as the major driving factors and impacts of Chinese OFDI.

By analysis the historical development path of Chinese foreign investment from 1978-2015, it can be concluded that in general the Chinese foreign investment consists with the Dunning’s investment development path (IDP) theory, and currently China is in the 3rd stage whereas outward FDI is increasing faster than inward FDI. The recent surge in Chinese outwards FDI is attributable to a concerted government policy to promote overseas investment and rapid economic development domestically.

In advanced countries like EU, technology exploration is the most important motivation driving Chinese investment. The favored institutional environment and stable economy in EU offers Chinese enterprise excellent opportunities. However, the rising political pressure triggered by the growing trade deficit will exert pressure on bilateral economic cooperation. Big culture distance exists between the Western and Eastern counties which is also a barrier for the two side built comprehensive partnership.

In Africa, focus of Chinese investment has been shift from resource-seeking to market seeking. China FDI in Africa brings lots of other advantages such as transfer of technology, promotion of competition and innovation, increasing productivity and raising the living standards Africans. But it also brings negative influence on local environment. By applying the CAGE framework, we can see that Africa is still perceived as a risky direction for investment because of the existence of corruption, limited infrastructure and threat from terrorist.
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Part 1. Introduction

1.1 Backgrounds
Chinese outwards foreign direct investment was almost non-existent before China’s economic reform in 1978, and remained insignificant until 2004. However, in 2008, China’s annual OFDI flow reached $50 billion, almost double the amount in the previous year. Since then Chinese overseas direct investment has become one of the most keenly followed stories. Fuelled by rapid economic growth, China’s OFDI has become closely associated with resource-seeking acquisitions in countries such as Latin America and Africa. Aimed at acquiring advanced knowledge, technology and foreign brands, Chinese OFDI has also resulted in investing in the advanced countries such as Europe and North America. Chinese outward FDI challenges the classic international business theories, which are based on the observation of developed economies that are historically, economically and institutionally different from China (Timokhina, 2013). As a result, for many business leaders and policymakers, the drivers, patterns and impacts of China OFDI seems to be mysterious. What is the impact of this rapidly expending OFDI for the host countries? What are the motivations behind this new phenomenon? Does it follow the same pattern when invest in advanced economy and developing countries? What are the obstacles the Chinese MNEs facing in the foreign market? The purpose of this thesis is to find out these mysteries behind China OFDI.

1.2 Problem formulation

◆ What is Chinese investment development path and whether it follows the Dunning’s IDP hypothesis?
◆ What are the motivations and obstacles of China OFDI in developed and developing countries respectively?
◆ What is the impact of China OFDI for local economies?
1.3 Methodology

The methodology chosen when writing this thesis is qualitative approach. The purpose of qualitative approach is to increase the understanding of the phenomenon and reveal new theoretical perspectives. The qualitative methods will be an efficient method to obtain new insights on the topic and get an in-depth understanding recent China outwards foreign investments.

Within the qualitative methodology, case study approach was taken. Case study allows combining qualitative and quantitative evidence, and is not limited to a particular data collection method (Yin, 1981). The method also gives me the opportunity to present a theoretical analysis, statistical data to investigate whether there is a fit between theories and reality in China.

1.4 Data sources

The two main data sources used in the thesis are UNCTAD and MOFCOM. UNCTAD compiles data from national and international sources such as IMF and OECD when national data is not obtainable. UNCTAD is known as “an accurate and reliable source, it reports figures that more comprehensively cover Chinese outward FDI flows”. Yet, UNCTAD data “falls short in providing a detailed description of total outward FDI from China including a sectorial and geographical overview” (Kolstad & Wiig, 2012). For these purposes, data from MOFCOM is used.

MOFCOM as a national source from Chinese official reports, is the most consistently used statistical evidence in academic research on China’s FDI activity. However, before 2002, the data provides by MOFCOM was on an approval basis. Underestimation of the actual OFDI volumes might occur based on enterprises escaping the formal approval process (OECD, 2008). From 2003, the data from MOFCOM was based on a balance-of-payments basis, which is more accurate and reliable.
PART 2. Overview of The Main FDI Theories

In this section, I will give a brief overview on some of the main theories in international business field that includes Investment Development Path (IDP), OLI eclectic paradigm and the CAGE framework. The purpose of OLI eclectic paradigm is to analysis the motivation of a firm to invest internationally instead of doing some more simple internationalization modes such as exports or licensing. The CAGE framework is applied to analysis the obstacles and barriers the MNEs face in the international market. The role of government regulations and policies on foreign direct investment is also investigated.

2.1 Investment Development Path Theory

The Investment Development Path (IDP) theory hypothesizes that there is a relationship between a country’s net foreign direct investment and its level of economic development (Dunning, 1981). It was developed by Dunning (1981) as a dynamic view within the OLI paradigm. The connection with the OLI paradigm is that IDP analyzes changes in FDI patterns in connection with changes of the OLI advantages of both domestic, and foreign firms (Narula & Guimón, 2010). According to the IDP theory, countries tend to evolve through five stages, from being a net FDI recipient to being a net source of FDI (Dunning and Narula 1996), which explains a country’s evolution from early development through to the fully developed stage. In part 3 of the thesis, the IDP hypothesis will be tested with Chinese situation, with a time series data set from 1978 to 2014. The figure below shows the five stages of the investment development path.
According to IDP hypothesis, stage 1 is associated with pre-industrialization. Inward and outward FDI flows are almost nonexistent because domestic companies lack the requisite ownership-specific advantage of invest abroad, domestic markets are very small, infrastructure is inadequate, the labor force is poorly educated and commercial and legal frameworks are undeveloped.

During the second stage a significant increase of FDI inflow takes place and its growth rate surpasses that of the GDP. At this stage, the ownership specific advantages of domestic companies are weak and this limits their outward investments. To the extent firms do invest abroad, it is in response to the local government's "push," for example in response to subsidies granted for export supporting investment and or capital allocation for resource acquisition (Katherin, 2007). Consequently, the net stocks of outward investment will become increasingly negative.

During Stage 3 Outward direct investment will gradually start rising since the domestic firms have acquired ownership advantages over the period of time and they will now start making investments overseas for asset seeking and market seeking. The country's NIOP is still negative but is on an upward trend.

The country enters stage 4 when the outward FDI stock exceeds inward FDI stock and the rate of outward foreign investment increases faster than the rate of inward investment. The country became a net outward investor. This change is attributed to the development of ownership advantages achieved by the local firms that make them increasingly competitive.

At stage 5, the net investment position will tend to fluctuate around zero, with temporary negative or positive figures. It will be largely influenced by prevailing macroeconomic conditions such as foreign exchange valuations and the business cycle. This stage is observed with today’s most developed countries (Dunning and Nerula, 1994).
2.2 OLI Eclectic paradigm

John Dunning introduced the OLI paradigm to explain the origin, level pattern and growth of MNE’s offshore activities (Eden, 2014). Over the years, OLI has developed into one of the dominant theories in international business studies. The abbreviation OLI stands for ownership, location and internationalization advantages. These three sets of advantages must be present in order for FDI to occur (Dunning & Lundan, 2008). This theory is widely used in analyzing the motivation of FDI.

Ownership advantages

Ownership advantage refers to some firm-specific assets or resources that are exclusively owned by a company (Dunning, 2011). According to Dunning, these assets could be intangible assets such as brand name, good reputation, technology or tangible assets such as technology, financial resources, marketing and advanced production processes. Ownership advantages are the core competences of the corporation. The greater the competitive advantage of the investing firms, the more they are likely to engage in foreign production.

Location advantages

Location advantage determines which country will be chosen for an investment. Location advantages can be the factors such as the availability of natural resources, labor cost, transportation cost, cultural closeness, investment incentive policies and taxes, market size and growth potential, etc. (Dunning, 1995) These factors evaluate the potential cost and difficulties to operate in a foreign country. Each country’s specific advantages can be categorized into three types (Denisia, 2010)
1. Economic advantages: advantages associated with factors of production, cost of transport, cost of communication, scope and size of the market etc.

2. Political advantages: favorable FDI policies implemented by governments.

3. Social advantages: benefits that relates to physical distance between markets, cultural diversity etc.

**Internalization advantages**

The internalization advantage determines what mode of entry the firm uses to penetrate the foreign market. It helps a company to decide if to exploit its ownership advantages internally or license them to another company (Dunning, 1980). Furthermore, “by internalizing the firms will be able to exert more control over its operations and reduce the risks associated with property rights, brand image.” (Dunning, 1980). The specific characteristics of the transferred knowledge and the transfer cost are determinant elements for the company’s strategy. Without internalization advantage, FDI would be replaced by other forms of international contracts such as export or license (Dunning, 1980).

**Four main types of motivations**

In order to fully examine FDI behavior we must firstly understand the motivation behind it. One of the classification theories of FDI motives is the one developed by Dunning (1993). In his article, he described four main types of FDI and the motivations behind every one of them.
Market-seeking FDI

The market-seeking investment aims to reach new attractive markets and satisfy customer demand by engaging in FDI.

The main motivation of Market-seeking FDI is the size of the target market and its growth potential. Strategic reasons may also be associated with this type of FDI, such as a firm involves in FDI to follow its clients in their foreign expansion, or to adapt products to local conditions and tastes, or to reduce of transaction costs (Dunning, 1993).

Resource-seeking FDI

This type of investment mainly focuses on factors such as rich raw materials, low-cost unskilled and skilled labor and basic infrastructure. According to UNCTAD(2012), it was the most common foreign direct investment type during the 19th and 20th centuries.

Efficiency-seeking FDI

The intention of the efficiency seeking MNE is to take advantage of different factor endowments, cultures, institutional arrangements, economic systems and policies, and market structures by concentrating production in a limited number of locations to supply multiple markets (Dunning, 1993).

Strategic asset-seeking FDI

The motivation of strategic asset-seeking FDI is to protect or augment the existing ownership advantages of the firms or to reduce those of their competitors (Rahman, 2014). In order to maintain the ownership specific advantages and strengthen its own position among competitors, firms acquire strategic assets from others in the host country. This kind of investment is aiming at acquiring attractive
assets, especially in highly-technological industries.

The table below is Dunning’s summation of factors that determine OLI advantages in relation to a firm’s motivation.

<table>
<thead>
<tr>
<th>Types of motivation</th>
<th>O advantages</th>
<th>L advantages</th>
<th>I advantages</th>
<th>Strategic goals of MNCs</th>
</tr>
</thead>
</table>
| Natural Resource Seeking (RS) | • Capital  
• Technology  
• Access to markets  
• Complementary assets  
• Size & bargaining strengths | • Possession of natural resources  
• Transport & communication infrastructure  
• Tax & other incentives | • Ensuring stabilities of supplies at right price  
• Market control | • To gain privileged access to resources vis-à-vis competitors |
| Market Seeking (MS) | • Capital  
• Technology  
• Management & organisation skills  
• Surplus R&D and other capacity  
• Economies of scale  
• Ability to generate brand loyalty | • Material & labour cost  
• Market size & characteristics  
• Government policy (e.g. with respect to regulations & import controls, investment incentives, etc.) | • A reduction in transaction costs  
• Buyer ignorance or uncertainty  
• To protect property rights | • To protect existing markets  
• To counteract behaviour of competitors  
• To preclude rivals or potential rivals from entering new market |
| Efficiency Seeking (ES) | • As for MS, as well as  
• Access to markets  
• Economies of scope and  
• Geographical diversification and/or clustering  
• International sources of inputs | • Low labour costs  
• Incentives to local production by host governments  
• A favourable business environment | • As for MS, as well as  
• The economies of common governance and  
• The economies of vertical & horizontal diversification | • To contribute to regional/or global product rationalisation and/or to gain process specialisation |
| Strategic Asset Seeking (SAS) | • Any of first three that offer opportunities for synergy with existing assets | • Any of the first three that offer technology, organisational and/or other asset in which firm is deficient | • Economies of common governance  
• Improved competitive or strategic advantages  
• Reduction in, or spread of risks | • To gain new product markets |

Source: Dunning & Lundan, 2008b, p. 104-105
Criticism to the Eclectic Paradigm

Although the eclectic paradigm has developed into the dominant framework in the international business field for explaining the motivations of firm’s foreign expansion, it has also been criticized.

Firstly, unlike developed countries, developing countries such as China has some identical features when get involved in FDI, while the eclectic paradigm only explains FDI that involves large MNEs in developed economies. It implies that latecomers tend to invest in less developed countries, which is proven not to be the case for countries such as China, South Korea and Taiwan whose FDI lately have been directed towards United States and Europe.

Secondly, the eclectic paradigm is critics for lacking focuses on OFDI of home economies (Rugman 2010). His OLI models and four motives for FDI are all based on the host economy’s point of view and consider less on changes occur in the home market.

Furthermore, when comes to entry modes, the OLI-model has also been criticized since it argues that “the latecomers and newcomers often undertake partial internalization or enter countries overseas using external modes” (Li, 2003; Matthews 2006).

2.3 Theories on the Obstacles of OFDI: The CAGE Framework

The CAGE distance framework identifies cultural, administrative, geographic and economic distances between countries that companies should address when crafting international strategies (Ghemawat, 1993). It was first introduced by Pankaj Ghemawat in the famous article “distance sill matter”.

Ghemawat indicated that distance still matters and a company cannot succeed if merely take into consideration the determinants such as market size and growth. In
order to be success, company should also examine the potential impact of distance on the international expansion. The distance does not only refer to geographical distance but also cultural, administrative and economic distances. The more different two countries are in CAGE framework, the riskier it becomes for investing.

Ghemawat said that, traditional economic factors, such as the country’s wealth and size still matter, but other factors related distance matter even more. The amount of trade that take places between countries 5000 miles apart is only 20% of the amount that would be predicted to take place if the same countries were 1000 miles apart (Ghemawat, 2001). Cultural and administrative distance produces even larger effects. According to Ghemawat, a company is likely to trade that is a former colony than with a country to which it has no such ties. A common currency increase trade by 340% and common membership in a regional trading bloc increases trade by 330%(Ghemawat, 2001). Below each dimension of distance will be briefly explained.

**Cultural distance**

A country’s culture determines how people interact with one another. According to Ghemawat, differences in religious beliefs, race, social norms, and language are all capable of creating distance between two countries. All other things being equal, trade between countries that share a language, for example, will be three times greater than between countries without a common language (Ghemawat, 2001). Failure to understand culture distance can lead to strain relationships and misunderstanding of foreign partners, and therefore drag down business performance.

**Administrative distance**

Administrative distance indicates both historical and political associations. Ghemawat (2001) argued that host governments are more likely to implement protective measures such as tariffs, quotas, restriction on FDI, subsidies for home companies and favorable regulation for home companies that creates barriers for
foreign entrants. In terms of historical perspective, for example, colony-colonizer links between countries will boost trade by 900%. Lack of shared regional trading bloc or common currency will enlarge the administrative distance between two countries.

**Geographic distance**

In general, the farther you are from a country, the harder it will be to conduct business in that country. Ghemawat (2011) stated that when it comes to geographic distance companies should not only consider the physical distance between home and host market but also physical size, average internal distance to borders, access to waterways and oceans, topography, host country’s transportation and communication infrastructure.

Obviously, the bigger the geographic distance, the higher the transportation costs. Therefore, perishable, fragile and bulk goods will be significantly affected by geographic distance (Ghemawat, 2011).

**Economic distance**

Economic distance refers to the differences in economic statues such as consumer income, infrastructure and natural resource. These factors have major impacts on how businesses operate and make decisions. Ghemawat stated that the income of consumers is the most important economic attribute that creates distance between countries, and it has a marked effect on the levels of trade and the types of partners a country trades with. Firms that put more focus on economies of scale, standardization and experience will tend to choose partner countries with similar economic profiles (Ghemawat, 2011). It will be difficult to make it work if there are big differences in countries’ economic profiles.
PART 3. General Situation of ODFI from China

China’s overseas finance is becoming increasingly influential globally. According to the latest data provided by UNCTAD in 2014, foreign direct investment inflows to China reached $113 billion last year, while outflows increased to $94 billion. By the end of 2012, the OFDI stock has reached $509 billion, 16,000 Chinese business firms had made investments in 22,000 overseas ventures in 179 countries (The Economist, 2013). It is also anticipates by EconoMonitor (2013) that outflows will surpass inflows within the next few years, changing China from a net recipient of FDI to a net supplier.

In the ranking of overseas investment by individual countries, in 2012, China ranks in the 3rd place, with the U.S. and Japan remained in first and second place respectively.

3.1 Distribution of Chinese OFDI Globally

As reported by China’s Ministry of Commerce (MOFCOM), China’s OFDI is largely concentrated in Asia (71%), although investment has increased significantly in Europe (13%) and Africa (4%) over the past five years. In terms of growth rates, Europe and North America have outpaced other regions in attracting FDI from China, with yoy growth of 102% and 72% respectively in 2010. FDI to Africa continues to grow fast, at 47% in 2010(MOFCOM, 2011).

The Final Destinations of China’s OFDI

The data from MOFCOM shows that More than two third of Chinese investments concentrates within Asia. However, the official statistics may not fully show the final destinations of China’s OFDI since the figures merely refer to the initial country in which inward investments are recorded, not to the final destination of the investments.
This is because “most of Chinese companies initially invest in tax havens or offshore financial centers where there is minimal or no tax, such as the British Virgin Islands, Hong Kong or the Cayman Islands”(Palan, 2014). Then, these companies reinvest into other countries, such as Africa and Latin America, through their subsidiaries in these offshore financial centers. Consequently, the real proportion of Chinese investment in regions such as the EU and Africa should be much more higher than the official statistics claims.

3.2 Sectors Receiving Chinese Investments

By the end of 2012, Over 79% of China’s OFDI stock was being invested in the tertiary sector, —leasing and commercial services (33 %), finance (18 %), wholesale and retail trade (13%), manufacturing (6 percent) and transportation and storage (5%). The primary sector came second, with 15% of the total OFDI stock with mining, quarrying and petroleum comprised 14%. The OFDI in the secondary sector is a relatively minor component of China’s OFDI, making up only 6% of the OFDI stock in 2012(MOFCOM, 2012).

However, According to Palan (2014), the official statistics data on the sectorial distribution above may also be misleading. For example, it is possible that some proportion of the investment in tertiary sectors such as financial and business services may be intended for use in manufacturing project (Palan, 2014).

Although China the sectorial distribution of China’s OFDI has remained stable in recent years, this stability may be illusive and it is likely to make major shifts in composition in coming years (Davies, 2010). In the future, Chinese enterprises may diversify from manufacturing to service markets more directly (Huang, Lehnich, Eloot, 2010). Investments in services industry, such as banking and financing, will have a strong catalyzing effect, since it will facilitate both the further expansion and the sectorial diversification of China’s FDI.
3.3 Investment development path of China OFDI

China's development path has been recognized as being “unique”, since it develops rapidly with “gradual privatisation and marketization, massive private capital inflows, and extensive exporting” (Liu, Buck & Shu, 2005), and all these have been achieved without political democratization. Does it establish a distinctive economic development path or follow a universal pattern? Let’s take a look at the historical development path of China OFDI. I divide the Chinese historical path into four phases according to the changing government attitude towards outwards investment:

Phase 1 (1978-1991): Significant control over the outward FDI

During this period, China was economically closed and had little involvement in the global economy. The firms were relative small and the government had no previous experience. The Chinese government had significant control over the outward FDI through approval procedures. It encouraged SOEs to carry out overseas investment to get access to advanced knowledge and rich natural resources. During this period, most OFDI flow to economically-developed countries such as Canada and Australia to import technology, management skills and natural resources into domestic market. Joint venture was a favorite entry mode.

At this time, the Chinese government valued inward FDI much more important over outward FDI, since “it was attempting to avoid ‘unnecessary’ outflow of hard currency and also to accumulate foreign exchange earnings” (Si, 2014)

Phase 2 (1992-1998): Tightening of the approval procedure

In this period, inward FDI remained playing a more significant role than OFDI for China, and the Chinese government was more rigorous about the approval procedure of outward FDI. Due to the Asian Crisis and a surge of state asset losses in Hong
Kong real estate and stock market speculation, many foreign projects were rejected or slowed down by the government (Wong and Chan, 2003).

The majority of the MNEs were engaged in the natural resource and business service industries. Some private manufacturers also start to invest abroad during this period such as Huawei, Haier Group and Galanz. Although the oversea investments were all in small scale, these companies were considered as the most successful companies in their field inside China at that time(Si, 2014).

Some other firms, took advantages of tax havens, established branches in Hong Kong and other tax havens and then re-invested back to China to reap the benefit as foreign investors. Hong Kong performed as a platform of Chinese firms to access finance and to engage into OFDI, and allows them to avoid Chinese Government regulations (Davies, 2012).

Phase 3 (1999-2005): From approval to supervision

1999 was the official beginning of the “Go Global” policy. This policy became the key guideline for Chinese development ever since. It provided a strong institutional support for the outbound investment.

From this phase, the government’s attitude also changed from caution to encouragement and started to evaluate outward FDI higher than inward FDI. In 2004, “Decision on Reforming Investment System” was published. It stipulated that firms could invest overseas without the approval of the government. They simply needed to keep a record with the government and the firms are allowed to raise money in international finance markets to fund the outward investment activity (Wong and Chan, 2003) Under this regulation, outward FDI fluctuated around 5 billion US dollars. M&A became one of the three important entry modes besides joint venture and green field investment. In this phase, Lenovo, TCL, Haier and other firms were
highly active in M&As in the international market. 2004 was even named the Chinese M&A year (Si, 2014).

Phase 4 (2006-Present): supervision and providing service

In phase 4, Outward FDI increased remarkably, from 12 billion US dollars in 2006 to around 115 billion US dollars in 2012.

At this stage, the main role Chinese government played is supervision. It also attempted to provide comprehensive service and support, such as offering information and guidance to reduce the investment risks. Encouraging outward FDI has been more important than attracting inward FDI for the government, since China possessed one of the largest foreign exchange reserves in the world.

M&A has been the favored entry mode for Chinese enterprises because of the government support for the acquisition of technology, knowledge and management skill. Stronger RMB exchange rate give Chinese firms the availability of acquisition targets at more attractive prices. Some early-starters like Huawei, Lenovo, Haier had gained abundant experience and decent reputation in the foreign market. At the same time, some newcomers, such as Geely, Sany also performed actively in M&A and green field investment.

Part Conclusion

During the development of OFDI in the last 30 years, Chinese oversea investment has changed from policy-oriented to firm-oriented. The Chinese government was trying to find ways to establish a rational regulation system. From highly control over the OFDI process to supervision and service support, and the government is graduate loosen the control and letting the firms play a leading role in the decision making process.
3.4 IDP and China OFDI

From the historical development path we can see that the Chinese outward FDI can to some extent be explained by the IDP model. According to the IDP model, countries initially draw in increasing amounts of FDI and subsequently become outward investors as their per capita income rises (Dunning et al., 2008). By compare with the IDP theory, a close relationship between the level of economic development and the country's NOI is also found is China investment development path. The graph below is my own drawing based the data form MOFCOM.

![Graph showing Chinese investment development path]

Data source: MOFCOM

During 1978-1991, China was under the first stage of IDP with limited inward and outward FDI with the annual flow amounting to less than 5 billion US dollars, government start to permit the inflow of FDI but has strict control over the foreign investment. In the second stage (1992-2005) there was large amounts of inward FDI up to 61 billion US dollars per year, the outward FDI remained insignificant, accounting for less than 10% of the inflow. In the early 2000 with the rapid increase in the rate of FDI outflow entered the 3rd phase of the mode, in which outward FDI has increased faster than inward FDI. Now, the outward FDI flow is still less than the inward flow which indicates China is still in the third stage of IDP. According to Katherin (2007), for China to move towards the 4th stage, the high economic growth
rate of the country would have to be accompanied by a higher growth rate of outward FDI than that of inward FDI. It proves the argument again that the development of FDI is highly related to the economic status of a country.

The historic development path also pointing that the Chinese firms always needed to make their strategic choices over time to adapt to the changing institutional environment. Meanwhile, the government also attempted to monitor the aggregate trend of Chinese MNEs and FDI, therefore issuing economically friendly policies. The government and MNEs interacted with each other and created the economic boom in China.

3.5 Institutional environment in China

The Chinese government has played the main role in promoting OFDI by setting out the “go global” policy. It supports the outwards investment “by gradually relaxing restrictions, cutting red tape, allocating credit for major outward investments and providing information about host countries”(OECD, 2013). The “going out” policy is mainly administered by the Department of Outward Investment and Economic Co-operation, which supervise China’s outward FDI in terms of both quantity and quality. The department is responsible for establishing and implementing a statistical system on outward FDI. It is also in charge of formulating and implementing performance evaluations and annual inspections of outward investments (Gammeltoft & Jiang, 2010).

The most powerful tools in promoting OFDI are financial incentives provided by the government (OECD, 2008). According to OECD, Chinese enterprises on the priority list can benefit from the government’s financial support such as “access to below-market rate loans, direct capital contribution, and subsidies associated with the official aid program”. China Export and Import Bank (Eximbank) and China Development Bank (CDB) are major providers of these financial incentives. For example, in 2010, a 900 million US dollar agreement is announced to fund railway
and other projects in Nigeria. In 2011, a 1.7 billion US loan is funded to build a hydropower plant in Ecuador (Davies, 2013).

The Chinese government is continuing making effort to reduce the number of stages enterprises have to go through to get approval of outward investment projects (Davies, 2013). The current regulation of overseas investment is not intended to control the investments, but to strengthen “macroeconomic guidance”. Since some Chinese enterprises have only been taking part in international competition for a short time and lack experience, the Chinese government therefore has to strengthen oversight and planning and perfect relevant policies and laws, and ensure that overseas investment projects comply with laws, regulations and policies.

Part conclusion
Generally, growth in China’s OFDI flows has become very significant in recent years.

From the perspective of geographical distribution, more than two third of investment is concentrate within Asian according to the official statistics. However, a significant share of it is directed through tax havens, making it difficult to trace the final destination of those funds. Except from Asian, the Europe and Africa are the most popular destinations that attracting Chinese investment.

In term of historical development path, Chinese outward FDI can to some extent be explained by Dunning’s IDP model. The Chinese government was trying to find ways to establish a rational regulation system in order to support the foreign expansion of Chinese enterprises. Overall, the institutional environment in China is favorable for OFDI, and government plays an active role in encouraging such oversea investment.
Part 4 Chinese Outward FDI in developed countries—the EU

4.1 General situation
Chinese investment in the EU increased significantly and it is expected to rise even more. According to Hanemann and Rosen (2012), China OFDI in EU has tripled from 2006 to 2009 and then tripled again in 2011 up to 10 billion USD despite economic slowdown. It is expected that by the year 2020 Chinese direct investment in Europe will reach 50 billion USD (Cheung & Qian, 2009).

The Eurostat has released in 2013 shows that bilateral trade between China and the European Union has reached 426 billion Euros, which is higher than the value of trade between China and U.S, making the European Union the largest trading partner for China. Understanding the phenomenon in the European Union is quite important as trade relations between Europe and China may signal even higher investments in the region.

4.1.1 Geographical distribution
Chinese investments in Europe have increased considerably in the past few years, but they are not equally distributed among EU countries. Different factors have diverse influence over the choice of location section when invest in the EU.

When Chinese companies invest in the EU, the size of the local market seems to matter greatly. The UK, the Netherlands, Sweden, Germany and Portugal are the top five host countries of Chinese companies in the EU in terms of assets (Zhang & Yang, 2013). All together, they host 85% of the total assets of all Europe-based Chinese companies. The Smaller EU members are perceived as less attractive destinations, although Chinese enterprises consider the fact that the EU is an integrated market, has a single currency and a good regulatory environment as the main advantages of
investing in the region (Cernat& Parplies, 2010). Western and Northern European countries attracts more Chinese investment in high-technology manufacturing and knowledge intensive services. In Eastern and Southern Europe, Chinese companies are attracted by the low manufacturing cost, such as TCL in Poland, Hisense in Hungary, Changhong in the Czech Republic (Nyíri, 2003). These firms do not produce under their own brand names, but work for western firms or operate as joint ventures with European partners (Freeman, 2011). The Eastern European economies just accounted for 8% of total investment value. In short, the Western Europe is still receiving the majority of capital but Chinese investment has become more diverse and now spreads to all parts of the European Union.

4.1.2 Sectorial distribution

Regarding the sectorial distribution, according to Rhodium Group database for 873 recorded Chinese investments in the EU, Chinese firms have invested in 30 different sectors. Fossil fuel assets and renewable energy projects is the number one sector (29%). Advanced manufacturing sectors including automotive, machinery and information are other important recipients of Chinese investments, which makes up 15.5% of China OFDI in EU. Agriculture (12%) and commercial real estate (12.4%) have seen rapid growth in the past two years.

Although only 8% of Chinese companies are operating in knowledge-intensive services (KIS) in terms of number of firms, the wealth of these companies represent two third of the total assets owned by Chinese firms in the European Union (Eurostat, 2014). The technology exploration is the most important motivation driving Chinese companies to expand their R&D activities into developed countries. Chinese companies take the initiative to invest in Western European countries to learn from partners. Overseas Chinese R&D units emphasize their role as knowledge-seekers.
4.1.3 Market entry methods

Concerning the entry mode, Hanemann & Rosen (2012) states that wholly owned subsidiaries and majority owned joint ventures are the top two forms of entities for Chinese investors when considering of establishing themselves in the EU. Greenfield investments representing 74.70% of the total value, mergers and acquisitions represent a lesser part of but greater amounts. Regarding ownership of the investing firms, the majority of Chinese OFDI is realized by private firms. However, SOEs investments represent two thirds of the value of these OFDI indicates that SOE are implied in larger scale investments abroad (Hanemann & Rosen, 2012).

For the case of developed countries, multinational enterprises prefer wholly owned companies when they have sufficient knowhow to enter a new market (Milelli, Christian. 2012.). However, this is not the case for Chinese MNEs. According to Christian(2012) , Chinese enterprises are asset-seeking investors, “the intention of using the sole proprietorship or majority ownership is to ensure the acquisition and control of foreign assets rather than the protection of their own technology”.

4.1.4 Motivation

China is transforming from a physical investment driven economy to an efficiency-led model (Deng, 2007). In order to achieve that strategic goal China has to rely on advanced science and technology. As stated before, two third of Chinese total investments in Europe is concentrated in knowledge-intensive industry which perfectly shows that the main motivation behind there are asset-seeking FDI. Stefano Elia (2012) also provides empirical evidence that China FDI in the EU is directed towards offsetting home country comparative technological weaknesses. According to Dunning, firms engage in strategic asset-seeking FDI when they intend to seek technology based resources and skills in a host country that are superior or not available in their home countries. The acquisition of foreign technologies and brands
is often regarded as a short cut to establishing a company as an internationally known, quality producer with a portfolio of the latest technologies and services and an efficient distribution channel (Rodriguez, S. B. (2005)). Europe was the birthplace of the industrial revolution and still has the lead in science and technology in many fields. Cooperating with European enterprises offer China opportunities to acquire advanced technology and managerial know-how to develop global managerial talent. By taking advantage of developed technology and advanced management experience, Chinese MNEs will be more competitive in global market.

Market-seeking is another strong rational motivation behind this OFDI boom phenomenon. Classic theory refers to market size or economic growth as the most important variables when it comes to determinants of foreign investment. On one hand, The EU as a single market with 500 million potential customers and on average $30000 GDP per capita is no doubt an attractive destination for Chinese investment. On the other hand, the Market-seeking motivations are the logical consequence of China’s export-oriented policy since its mean an avoidance of trade barriers and the facilitation of exports of domestic products(Wang & Wong, 2009). Due to a less favorable business environment for Chinese firms as they are facing rising labor costs and overcapacity in many industries (Wu&pangarkar,2006), investing in the EU market is a good way to get access with big market and international customers.

The expansion of Chinese MNEs into the EU markets is also motivated by political purposes which is not covered in Dunning’s motivation model. From the political perspective, Chinese companies are encouraged to expand into international markets for the following reasons.
Firstly, direct investment in Europe can help Chinese government ease the risk related to China’s huge foreign exchange reserves. According to MOFCOM, by the end of 2014, China’s foreign exchange reserves had increased to $3.6 trillion, making it the highest foreign exchange reserve in the world. The high level of foreign exchange reserve will give the central bank high capacity to smooth the volatility of the balance
of payments and strengthen China’s ability to guard against financial risks from other countries. However, inefficient use of these reserves will cause the value of China’s currency appreciate. By investing in international market, it will provides the Chinese government with a channel to invest its vast foreign exchange reserves and secure national resources to fuel the rapid domestic economic growth. International experiences from other nations also prove that OFDI is an effective way to diversify the use of foreign exchange reserves.

Secondly, China OFDI in Europe will ease the fear of some Europeans about the trade imbalance between China and the EU. According to China’s official statistics, the bilateral trade between China and the EU totaled $544 billion in 2013. The EU has become China’s biggest source of imports (MOFCOM, 2014). China and Europe now trade well over €1 billion a day. However, the EU suffers a trade deficit with China, which is $160 billion in 2013. It is hoped that increasing Chinese investment in the EU might reduce bilateral trade tensions and change EU attitudes towards China’s exports.

Finally, by investing in international market, it will also create national champions and therefore expand the soft power and improve the international perceptions of China.

4.2 Impact of China OFDI in EU

Chinese investment in the EU will generate numerous employments by injecting capital into the European economy. Greenfield projects create jobs that did not exist before, and acquisitions often mean saving a firm that would have collapsed otherwise (Hanemann & Rosen, 2012). According to a report by the Rhodium Group, released in June 2012, the 428 green-field projects in its 2000-2011 dataset created an estimated 15,000 new jobs, not counting employment at smaller firms with less than $1 million of investment. Chinese Ministry of Commerce database reveals the total employment of all Chinese companies in Europe at the end of 2014 is estimated to be
89,489 persons. The actual figures are much higher figures than what is captured in official data. It is also anticipated by Hanemann that $250-500 billion of new investment by 2020 will create or support a significant number of jobs across Europe.

The Chinese investment in EU also can help make up for the shortfall in some European countries’ capital and investment needs (Brennan, 2010). The years of sluggish economic growth in Europe and the Greece crisis has caused shortfall of capital in many European countries. Thus, China’s outbound FDI in the EU can be very valuable, particularly at a time of fiscal austerity and belt-tightening (Jiang, 2013).

FDI in EU can promote the development of productivity and help European firms to increase their world market share and competitiveness (Jiang, 2013). For instance, after being acquired by China’s Sany Heavy Industry, the German company, Putzmeister, could take advantage of the Sany’s global market network to increase sales of its high-tech concrete pumps.

4.3 Case study: Acquisition of Volvo by Geely

4.3.1 General Introduction

Case background:

• October 28, 2009, Geely was named as the preferred buyer of Volvo Cars by Ford.
• December 23, 2009, after a long and difficult negotiation, all substantive commercial terms were finalized for the sale of Volvo Cars from Ford to Geely,
• March 28, 2010, the definitive agreement was signed in Volvo headquarter Gothenburg. The sale figure is about $1.8 billion USD.
• August 2, 2010, the deal was completed after the approval of relevant authorities.
**Brief overview of Geely**

Geely is one the four largest private automobile manufactures in China, along with BYD, Chery and Great Wall. It is founded in 1986 as an independent firm. Initially Geely’s business was to produce refrigerator and later on gradually changed to manufacture decoration materials and motorcycle parts. In 1997, Geely launched the auto manufacturing business and since then it has achieved rapid development. Geely has been listed on the top 500 Chinese enterprises and top 10 automobile manufacturers for seven consecutive years.

The early business model of Geely was primarily simple imitation from other famous brand. However, by years of effort on continuous technology innovation and upgrading, it has developed several original products which is quite popular in Chinese low-end car market.

**4.3.2 OLI eclectic paradigm analysis of Geely & Volvo case**

Ownership advantage

Well-established sales network in domestic market

Geely has established a complete domestic sales network comprised of nearly 1,000 4S dealers and service stations. Its overseas markets also have nearly 540 sales and service outlets in 43 countries (Geely annual report, 2009). Since 2001, the total sales of Geely vehicles has accumulated to over one million. The trademark of Geely has been recognized as a well-known brand in middle-class of China. It has established sales service in Ulkrine, Russina, Indonesia and other countries, achieving oversea sales of more than 100 thousand vehicles, ranking among the best car exporters in China (Geely annual report, 2009).

Emphasis on research & development capabilities

By the end of 2009, Geely holds more than 1600 technology patents (Geely annual report, 2010). About 10% of their annual sales revenue is invested in technology
research and production development in order to improve the company’s technology capacities, which is significant compared to Toyata’s 5%. Geely also has a well-trained and talented research and development team, the number of stuff in R&D department exceeds 1500, representing 12% of the total staff of the Group. With its extensive investment in the research, group’s R&D team is capable of launching four to five new models every year, further consolidating its leading position in technology innovation capabilities in China automobile sector (Hu, 2010).

As one of the largest investors in green technologies in China’s auto industry, Geely attaches great importance to pursuit of more sustainable manufacturing technologies. In line with corporation’s vision of building the safest, most environmentally friendly and most energy-efficient cars, Geely Holding Group is committed to continuous investment in sustainable technologies (Geely annual report, 2009).

International experience

Geely was the first Chinese company to present its products in the developed market by participating in the Frankfurt Motor Show in September 2005 (Chou, 2011). From 2003, Geely started exporting cars to oversea market. In 2009, about 5% of its sales was from foreign market, mostly from developing countries, such as South East Asian countries, African countries, Russia, Peru, Uruguay, Bangladeshi, Cuban, Pakistani, Romanian (Geely annual report, 2009). In 2009, Geely paid $58 million to Australian transmission company for purchasing Drivetrain Systems International (DSI), this is the first acquisition of Geely with developed country and it made Geely “the first Chinese car maker to have the ability to manufacture six-speed automatic transmissions” (China’s Daily, 2011) This successful acquisition encouraged Geely’s confidence and enriched its experience in the international market.

Government Support

Comparing with the companies in developed courtiers, Chinese firms have very limited ownership advantage. The Geely case shows the influence from government plays a vital role for the oversea expansion in the EU. During the financial crises,
Chinese government had been encouraging Chinese companies to expand abroad, to take advantage of the global financial crisis to acquire assets at lower prices. Many favorable policies were introduced to support the development of the automobile industry, such as “auto industry restructuring and revitalization plan”. In the plan it states that government will “support the development of the automobile consumer market" and “promote the reorganization of the domestic automotive brand”. To support the acquisition of Volvo, the bank of china offered Geely a loan of 1 billion RMB for acquiring Volvo. The Beijing local government also committed to provide three billion Yuan loans for the acquisition.

**Location advantage**

The location advantages of the Sweden arise from the following aspects:

**Stable economy**

Sweden is a developed with peaceful and neutrality political environment. Although the EU has not recovered from the economic recession, Sweden’s economy has been keeping a modest growth. In 2014, Sweden managed to keep an adjusted real GDP growth that averaged 2.3% (UNCTAD, 2014). Sweden’s economy is expected to grow modestly in 2015, although the country continues to struggle with deflationary pressure (World Factbook, 2015). As the third-largest country in the European Union, Sweden was in the midst of a sustained economic upswing, boosted by increased domestic demand and strong exports. The stable economic status offers Geely a favored macro environment to further boost its international expansion.

**Leading technologies and top-ranking R&D resources.**

Sweden is recognized the world over for its outstanding automotive industry and excellence in engineering. In global perspective, Sweden cars represent leading position in terms of innovation, reliability, security, and design. The country’s world-class R&D group, well-developed industry value chain, and highly competent workforce create an internationally peerless automotive environment. It enables
companies to develop cutting-edge technologies which perfectly address future’s flexibility needs (The world bank, 2012). In the future, Sweden will continue to concentrate on providing top-class technological performance and on-going innovative progress.

Transparent political system
Sweden is ranked 3rd out of 177 countries in Transparency according to the International’s 2013 Corruption Perceptions Index. Effective anti-corruption measures discourage bribery of public officials and uphold government integrity. The rule of law is well established in Sweden. The judicial system operates independently and impartially, with consistent application of laws. Property rights and contract enforcement are also well protected in Sweden (Thomsen, 2008).

Favored political environment towards automotive industry
The European Commission fully realizes the potential of the automotive sector and it has been proactive to safeguard the industry and encourage it to prosper further (Invest in EU, 2012). In this context, the commission has set three certain objectives regarding the automotive sector. Firstly, The European Commission aims to identify and assess the policy issues to encourage healthy competitiveness of the EU automotive industry. The European Commission also put efforts on adapting a simple and comprehensive Internal market regulations for automotive industry. Moreover, the European commission has ambitious plans to give further boost to the automotive industry by encouraging more foreign investment in the sectors especially from Asian automobile giants.
Internalization advantage

Internalization advantages imply that the firms will choose to internalize ownership advantages across boundaries within their organization because of the high transaction costs caused by external market imperfection (Buckley & Casson, 1976).

Comparing with Volvo, Geely possesses little ownership advantages. The strategic goals of Geely to acquire Volvo are to acquire advanced technology and seek large markets in the EU. By acquiring Volvo, Geely Holding would gain access to a global dealership network, sophisticated automotive technology, and management know-how which are not available in China. In addition, Volvo employees are proficient in product innovation and project management, while Chinese employees are adept at system design and software engineering (Morcidclo, 2010). Cooperation between the two sides will facilitate mutual complementation of each other’s advantages and further more upgrade Geely’s comprehensive strength in technology R&D. When Chinese employees work in Sweden R&D center for a period of time and come back to China, they will also become the cadre in the field of product design and innovation and therefor enhance the overall R&D ability of employees in China. In this internalization process, Geely expects to acquire the R&D resources in developed countries and combine them with its existing technology advantage to form new ownership advantages, and then transfer it from developed countries back to China. The motivation is enhancement of transaction value.

4.3.4 Obstacle----CAGE Framework

Culture distance

“Culture is more often a source of conflict than of synergy. Cultural differences are a nuisance at best and often a disaster”( Hofstede, 2004) It is quite vital to understand the culture different when get involved in international business. China was totally
isolated from the rest of world until 1978. Although China has adopted the market economy, it is still regarded as being ruled under the communist party and the leaders of dictator, therefor huge gap still exists in the way the people think and conduct between China and western countries.

Hofstede’s five dimensions are a useful tool to give an insight of different cultures. I am going to analysis the culture difference between China and Sweden from the aspects of power distance, individualism, masculinity and long term orientation. Below is the comparison of the score of China and Sweden in these dimensions. Significant differences exist between Chinese and Swedish culture.

Source: http://geert-hofstede.com/china.html

**Power Distance**

Power Distance is defined as the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally. Sweden scores low on this dimension (score of 31) which means that in Sweden, power is decentralized. Control is disliked and attitude towards managers are informal and communication is direct and participative. People can
disagree with their supervisors and does not fear for confrontation with their boss. By contrast, scored at 80 China sits in the higher rankings of PDI. In china it is believed that inequalities amongst people are acceptable. This means that people are less willing to challenge authority. The subordinate-superior relationship tends to be polarized and there is no defense against power abuse by superiors (Hofstede, 2004). People are scare of disagreeing with the supervisors.

**Individualism**

According to Hofsteded, individualism is the degree of interdependence a society maintains among its members. It has to do with whether people’s self-image is defined in terms of “I” or “We”. It is also also the reflection of one's ethic and way of life. Sweden, with a score of 71, it is an individualist society. This means individuals are expected to take care of themselves and their immediate families only. Swedish places high value on one's willpower and individual initiatives. In Individualist societies the employer and employee relationship is a “contract based on mutual advantage, hiring and promotion decisions are supposed to be based on merit only, management is the management of individuals” (Hofstede, 2004). At a score of 20 China is a highly collectivist culture where people act in the interests of the group and not necessarily of themselves. In-group considerations affect hiring and promotions, the in-groups member such as families and friends are getting preferential treatment. People are cold or even hostile to out-groups. Personal relationships prevail over task and company.

**Masculinity**

The core idea of masculinity is what motivates people, wanting to be the best or liking what you do. A high score on this dimension indicates that the society will be driven by competition, achievement and success. A low score on the dimension means that the dominant values in society are caring for others and quality of life.
Sweden scores 5 on this dimension and is therefore a feminine society. In Sweden it is important to keep the balance between life and work. An effective manager is supportive to his people, and decision making is achieved through involvement. Conflicts are resolved by compromise and negotiation. Incentives such as free time and flexible work hours and place are favored. At 66 China is a Masculine society, which means they are success oriented and driven. The need to ensure success can be exemplified by the fact that many Chinese will sacrifice family and leisure priorities to work. This gap could cause misunderstand and conflict, the Chinese people will have complains about the Swedish colleagues always priority themselves above the working schedule at job, while the Swedish do not understand why the Chinese people are available for work whenever they are required, even during middle night.

**Long Term Orientation**

Long-term Orientation concerns how cultures view time and perseverence, whether business and relationships are nurtured over a period of time or if more emphasis is placed on short-term reward (Hofstede, 2004). For Chinese (score at 87), building strong, reliable relationships is much valuable. A certain amount of trust must be gained before any decision is made. The Chinese never like to rush into things and it may take three to four times the length of time to finish a business deal. Sweden, on the other hand, which score lower on this dimension, is well-known for its appreciation of efficiency. For Swedish, the bottom line is important and they care more about immediate gratification.

**Language Barries**

Language is obviously the most important communication tool for people to share thoughts and ideas. If people do not speak the same native language, it is certainly a very big challenge to achieve a good communication. As a swedish company, swedish is the mother language for most of native emplyees. since Swedish is a small language
with approximately 10 million people, it is not realistic to expect the Geely people to learn the Swedish in the future. English is widespread in Sweden, however, in China, Only those young and well-educated people in China can speak relatively good English.

In a recent interview which was published in the Swedish business newspaper Dagens Industries, the vice chairman of Volvo, Hans-Olov olsson, said that Chairman Li Shufu of Geely does not speak English so that he will not participate in the meeting discussion of the directing board. Without the direct communication of the board chairman to the board members, it is hard to reach a consensus within the organization.

**Administrative distance**

Diplomatic relations between the EU and China started in 1975. Recent years have witnessed sound political relations between the two sides. The EU and China share a common understanding of the importance of maintaining international peace and stability (Hanemann, 2012). Such understanding constitutes an essential part of the partnership. After several decades of contact and cooperation, the establishment of a “Strategic Partnership” in 2003 brought the two much closer. Foreign affairs, security matters and international challenges such as climate change and global economy governance are discussed and reached a consensus in the “Strategic Partnership”.

But the bilateral relation between China and the EU is not without problems. Although the EU and China share a long-term interest in pursuing prosperity and influence, the two sides diverge on how to reach such a goal (Men, 2008). According to Jing Men (2008), the divergence is due to the fact that “the EU and China are very different partners they come from different ideological backgrounds”, such a difference is compounded by the fact that “the EU and China are at different stages of development”. The EU has been criticizing China for its” “slow pace of political reform, human rights record, lack of transparency in military expenditure, and
restriction on market access”. As the rapid growth of Chinese exports to the European market, more conflict occurs. The growing trade deficit in EU leads to rising political pressure between the two sides. The troubled political relations will further more exert more pressure on bilateral economic cooperation between China and the EU.

**Geographic distance**

Sweden is a country in Northern Europe on the Scandinavian Peninsula. It is the fifth largest in Europe and the 56th largest country in the world with 450295 km$^2$. Sweden borders Norway to the west; Finland to the northeast; and the Baltic Sea and Gulf of Bothnia to the east and south and it has a long coastline on the eastern side and the Scandinavian mountain chain on the western border (CIA, 2008). Time difference between China and Sweden is 6 hours; physical distance between Gothenburg and Beijing is 7112km.

The disadvantage of Sweden compared to other European countries is its location and infrastructure. Sweden is the only country in Western Europe that does not have a highway between its two largest cities. This may cause troubles for Geely’s when transporting large mechanical parts. Due to the fact that Sweden is located relatively far away from the rest of EU, a more efficient infrastructural and logistical system is needed in order to reach the European market and stay competitive (DN, 2007).

**Economic distance**

Sweden’s economic environment is very favorable for long-term economic growth due to high scores on economic freedom, government transparency, and economic diversity (Collaborative Research, 2014). According to the World Bank, Sweden is one the world’s ten easiest economies to start up a foreign business in. The legal system of Sweden is stable and has a good balance between security, reliability, transparency and cost-efficiency (Nation Master, 2013). Usually it will only take two to three weeks to establish a foreign business in Sweden thanks to the standardized
contracts and documents as well as simple procedures for mortgaging and title registration (ISA, 2007). The fact that Sweden has one of the lowest corporate taxes in Europe (22%) can be seen as another incentive approach towards new business establishments from the Swedish government (Eurostat, 2012). However, there are also factors that make Sweden a less favorable investment market which will be presented below.

Sweden is a EU-member but unlike most of the other members, it chose not to adopt the EURO currency. Having a different currency is a disadvantage compared to other European markets since it creates a barrier to trade, such as slow and complicated bank transfers, currency risks, lack of competitiveness and accounting problems (Stockholm Chamber of Commerce, 2007). Another obstacle in Swedish market is that there are no minimum wages in Sweden according to law, yet the organized union has great power and companies are obliged to negotiate with the union regarding salaries and conditions (Svensk Lag, 2007). The collective bargaining power of the labor union could also be a potential pitfall for Chinese employers when doing business in Sweden.

**Part conclusion**

Although Europe has received a relatively small amount of Chinese FDI, Chinese FDI has attracted much attention of policy-makers and medias in Europe for its recent landmark cross-border M&As (Clegg and Voss, 2011).

Based on the case study of Geely, which is attempting to catch up technologically by acquisitions in Europe, we can see that the expansion of Chinese firms to EU market is a process in which they gradually integrate strategic alliances. Chinese firms investing in developed countries are driven by the attractions of large markets and asset augmentation. Strategic alliances and acquisitions help Chinese firms enhance
their internationalization competence. The favored political environment and stable economy in EU also contribute to the increasing investment from China.

Chinese firms are facing more difficulties in Europe than in other regions because of relative less experience with respect to Europe and the large involvement of state owned enterprises makes the investment sensitive topic (Ebbers and Zhang, 2010). The rising political pressure triggered by the growing trade deficit will exert more pressure on bilateral economic cooperation. Big culture distance exist between the western and eastern counties. Language could also be a barrier for the two sides built comprehensive partnership. But problems of psychic distance can be offset by the benefits from such investment activities.
Part 5 Chinese OFDI in developing countries—Africa

“China is investing billions of dollars in Africa but Beijing has been accused of exploiting the continent's vast mineral and energy resources, at the expense of local people.” (Al Jazeera, 2014). Chinese recent investments in Africa have raised many eyebrows globally. In 2009, China overtook the U.S. as Africa’s first trade partner, and trade volumes reached US$ 126 billion in 2010 (OECD, 2011). In terms of FDI, Chinese OFDI stocks in Africa grew by 1349% to US$ 13 billion in the period of 2004-2010 (The Chinese Ministry of Commerce, 2010).

However, its competitors like the U.S. argues that it is motivated by Beijing's desire to exploit the continent's resources. It’s a very common view is that China’s interest in Africa is mainly driven by its concern to achieve more security of supply for natural resources, rather than relying on global markets (Elizabeth, 2002). So whether the recent actions of Chinese enterprises in Africa is investing or exploiting? Does Chinese enterprises keen on chasing profit at the cost of the local environment? In order to find out the true motive behind this phenomenon, let’s take a look at the facts of Chinese OFDI in Africa.

5.1 General Situation of China’s OFDI in Africa

China has been Africa's biggest trade partner since 2009. Bilateral trade between China and Africa was just under $11bn in 2000, however, by 2006 this figure had jumped to nearly $60bn and in 2009 it had soared to $210bn (Al Jazeera, 2014). From 2009 to 2012, China's direct investment in Africa increased from US$1.44 billion to US$2.52 billion, with an annual growth rate of 20.5% (Xinhua, 2013). By the end of 2012, China has set up more than 2000 enterprises in Africa, accounting for 12.5% of the total number Chinese overseas investment. Africa became one of the most concentrated regions that attracting Chinese overseas expansion (Brautigam, 2013).

Although the rapid development, Chinese investment represents only insignificant
proportion - on average accounted for 5 percent of annual foreign direct investment flows to the continent, considerably smaller than investment from the United States and EU, which together accounted for more than 30 percent of annual FDI flows to Africa (Jafrani, 2012). According to the last figures published by the United Nations Conference on Trade and Development (UNCTAD), China accounted for just 2.6 percent of the total US$570 billion stock of foreign direct investment (FDI) in Africa.

5.1.1 Geographical distribution
China’s outwards FDI to Africa is dominated by a few countries. According to MOFCOM, from 2005-2010, more than half of Chinese FDI flows into Africa were absorbed by three countries: Nigeria (22.6%), South Africa (20.8%) and Sudan (14.5). For example, In Algeria, a Chinese consortium was granted the construction of the longest highway in the continent. In Nigeria, Huawei technologies won a $750 million contract with the operator Globacom to upgrade its network infrastructure (Jafrani, 2012). According to Financial Times, the Chinese also invest in high-risk and post conflict countries such as Burundi and Sierra Leone that Western investors tend to avoid.

5.1.2 Sectoral distribution
China is investing in a variety of sectors in Africa, and reaping a significant return on investment. More than 2,000 Chinese companies have invested in Africa, including in natural resource extraction, agriculture, telecommunication, transportation and infrastructure.
Initially, China has a vital interest in Africa’s resources, as do many other countries. For example, about one-fourth of China’s total crude oil imports originate in sub-Saharan Africa and more than two-thirds of Africa’s exports to China consist of crude oil (Wong, Haan, Qian, and Yu, 2011). However, data from the Heritage Institute shows that investments in the energy sector peaked in 2010 but have been diminishing ever since, in favor of sectors such as agriculture and transportation.
“China’s investments in Africa have become diversified in recent years. Chinese foreign direct investment (FDI) has flooded into everything from shoe manufacturing to food processing,” said by Harry Broadman, chief economist at PwC. In 2009, only 29 percent of Chinese FDI went to the mining sector, while more than half was in the manufacturing, finance, and construction industries, whereas they account for 70 percent of the investment from France, 59 percent of the investment from the United States, and 47 percent that of the United Kingdom (CARNEGIS, 2015). China is not a major player in Africa’s resources and energy markets.

There is also a significant difference in sector distributions between the private investors and state owned enterprises (SOE). The former overwhelmingly concentrated in manufacturing and service industries and the latter in construction and mining. According to the official statistics of African, 36% of private projects are in manufacturing and 22% in the service sector. In contrast, government projects are 35% in construction and 25% in mining.

Primary industry
(1) Agriculture
From the 1960s, Chinese government provided free food aid to Africa, which was the start point of China-Africa agricultural cooperation. Chinese Government provides preferential loans to encourage enterprises to invest in agricultural development projects in Africa. Chinese enterprises offer advanced technology and experience to help African countries build large-scale farms, and impart knowledge of cultivation techniques of growing rice, cotton, tobacco and other crops. At present, China has set up vegetable cultivation programs, agricultural machinery and training programs in more than 50 African countries, a large number of agricultural experts are send to Africa to assist with the relative agricultural programs.
(2) Forestry
In forestry industry, Chinese enterprises mainly concentrated in labor-intensive areas such as rubber processing, wood processing, deforestation, etc., but relatively small in technology-intensive industry. The business model is also relatively simplex, mostly are semi-finished production and export-oriented business. The direct investment in forest section is dominated by large state-owned enterprises. However, the amount of small and medium size private companies is increasing and they will become the new force Chinese investment in Africa.

Secondary industry
(1) Energy
The Continent holds some of the biggest reserves of oil, gas and minerals in the world, it is one of the world's eight oil-producing region. Sudan and Nigeria are two of the main oil producers. China owns 40% of Sudan's oil production and is negotiating on the acquisition of the 1/6 of Nigeria’s oil reserve rights. China Petroleum National Company's production base in Sudan found a large world-class field, which has proven reserves up to 20 billion barrels of recoverable reserves of about 600 million barrels currently. In addition, Sinopec, CNOOC is also actively involved in the oil and gas business with African countries exploration and development cooperation projects.

(2) Household appliance industry
Chinese home appliance MNEs has also made significant progress in Africa during recent years. In 2001, Hisense Group's successfully acquired the korean Daewoo’s factories in South Africa, and established the largest color TV production base in South Africa. Over the past decade, Hisense sales revenue and profit has being increasing at an average annual growth rate of 20-30% , occupied 20% market share. it has developed into one of the region's major appliance brands. In 2006, Haier Group joint venture with the Nigerian large local construction companies , producing refrigerators, freezers, air conditioners and other products. By the
cooperation with local leading enterprises, Haier has established good reputation and becoming popular brand among the local middle class. Furthermore, Chinese direct investment in clothing, textile, automobile and accessories processing industries has also developed rapidly.

Tertiary industry
Africa is relatively backward in service industry, which would severely restrict the development of the African economy. In the era of globalization, rapid and accurate access to relevant information has become an important part of economic activity. However, Africa’s outdated communications equipment, insufficient quantity or quality of service cannot meet the demand. According to statistics, the African telecom market has great potential, only 50% of the sub-Saharan region covered by mobile phone signals. Africa has a population of about 890 million, the mobile phone penetration rate is only 9.4%.

China's largest private telecommunications network technology provider, Huawei Technologies Co.Ltd., has been established 32 offices in Africa, mainly in Egypt and South Africa. About 60% of Huawei's 2500 employees is local residents. Huawei has also established training centers in Nigeria and Egypt. It’s products and services in Africa covers 40 African countries, serving more than 50 million customers, with sales revenue reaching $ 2.08 billion.

Part conclusion on general situation of Chinese OFDI in Africa
From the data and analysis above, we can see that one reason Chinese investment has attracted attention is the phenomenal rate at which it is growing. However, in fact, the total stock of Chinese foreign investment in Africa is still relatively insignificant compared to western country. A second reason of the controversial debate over Chinese investment is that it involves in some sensitive sector, most notably in mining and energy extraction. However, from the practical data, we can see that only 29% of Chinese investment goes to mining sectors which is much less compare to 60% of the US. The investment is diversifying away from natural resources to various areas. The huge market potential of Africa is an important factor that attracting Chinese private
enterprises. In recent year, there is a significant difference in sector distributions between the private investors and state owned enterprises. SOEs main concentrate on mining and energy sectors, while private investors main focus on manufacture and service sectors.

5.2 Impact of China OFDI in Africa
Chinese investment in Africa involved in wide rage of industries, bringing a lot of advanced technology and facilitates and help alleviate African widespread poverty by increasing per capita income and elevating overall standards of living (Cheung, 2012). However, Beijing is also been accused of exploiting the continent's vast mineral and energy resources, at the expense of local people.

China has undoubtedly been contributing to Africa’s economic growth, both in terms of trade and improving basic infrastructure. Chinese economic cooperation and aid in Africa do not hinge on any specific political or economic conditional ties such as human rights, democracy, or market liberalization (Tull, 2006; Yetiv & Luo, 2007).

“Chinese were by far the most effective trade partner,” said a Nigerian official, “unlike the western donors who have been stint to provide and unblocking major bottlenecks to growth, Chinese are willing to come in and build infrastructure.” Africa is facing at least a $20 billion shortfall in funding every year over the construction of infrastructure facilities because of its own shortage of financial resources, this can be complemented by China's global strategy and infrastructure advantages (Global Times, 2015). China is constructing everything in Africa, from roads and bridges to stadiums and important government buildings(Burke,2013). For example, the headquarters of the African Union, one of the most important political buildings in Africa, was built entirely with Chinese money which was estimated to exceed $200 million(Adisu, 2010). Regardless of this scale of investment infrastructure, such investments from China are without conditions which makes it highly valuable and significant compared to those of the westerns(Jafrani, 2012).

China has also provided both human capital and new technology to assist Africa’s
development. Advanced machinery and equipment and high tech products have been continuously delivered to Africa, and Chinese professionals also offer training to African workforce. With respect to skill transfer and human capital development, between 2010 and 2014, China has trained 16,000 African professionals. Another 20,000 are scheduled to be trained between 2015 and 2018 (Ayodele & Sotola, 2014). In 2012, the former Chinese president Hu Jintao announced an expansive aid program that would offer 18,000 government scholarships and train 30,000 Africans in various sectors by 2015 (Jing, 2013). Africa also gains from favorable loans offered by Chinese banks.

The rapid investment from China also help increase local living standard. Chinese products are generally considered to be more suitable to the African demand since the prices are generally cheap and could be easily affordable to a large number of people (Lieng, 2012). This consequently rise competition and therefore drives down the price of other suppliers. For example, computer was once seen as exclusively for the rich in African countries, but now it can be afford by most African families because of cheap computers from China. China helped greatly in driving down the prices to the level within the reach of many.

Like investment from other countries in Africa, Chinese FDI is concentrated in sectors of the economy that are especially vulnerable to environmental concerns such as energy, mining, fishing, and forestry (Shinn, 2015). These would cause the concerns for environment pollution. According to Adisu (2010), Chinese companies have set up many large factories which are located in ecologically fragile areas where there is a higher risk of environmental degradation. Chinese fishing vessels have also been criticized for “worsening food insecurity among Africans because they catch small species that are the main source of food and income for small-scale African fishermen” (Shinn, 2015). China is also a major investor in the leather industry in Ethiopia and owns numerous tanneries, which are well known for their pollution potential. In 2014, Hebei Iron and Steel announced that it is building a plant in South
Africa capable of making five million tons annually. However, the large quantity of production will be accompanied by greenhouse gases, solid and liquid waste, including hazardous products such as cyanide and mercury.

The government of China has become more sensitive to criticism of overseas investment by Chinese companies and has made a concerted effort to improve environmental guidelines and encourage their implementation. It also encourages Chinese companies to apply Chinese laws and standards in their overseas operations. In the Chinese 12th Five-Year Plan (2010-2015), strong emphasis is placed upon global responsibility and reduction of environmental destructions.

But all of the guidelines that apply to Chinese companies operating overseas are voluntary. In 2013, China’s Ministry of Commerce and the Ministry of Environmental Protection issued voluntary guidelines for the first time that encourage companies investing overseas to follow local environmental laws, assess the environmental risks of their projects, minimize the impact on local heritage, manage waste, comply with international standards, and draft plans for handling emergencies (Shinn, 2015). But if companies choose to ignore the guidelines, there is no penalty.

**Part conclusion on China FDI impact in Africa**

Chinese firms have committed huge investment and aids in upgrading Africa’s infrastructure. China FDI in Africa brings lots of other advantages to local economy such as transfer of technology, knowledge and skills, promotion of competition and innovation, increasing productivity and raising the living standards of millions of Africans. But it also brings negative influence on local environment. Although Chinese government has made a concerted effort to improve environmental guidelines, accomplishment is limited because of the poor implementation.
5.3 Case study: Haier in Nigeria

5.3.1 Brief introduction of Haier

Haier Group is a Chinese multinational corporation headquartered in Qingdao, Shandong Province. Founded in 1984, Haier Group is one of the world’s leading white goods home appliance manufacturers. It designs, develops, manufactures and sells products including air conditioner, washing machines, refrigerators, mobile phones and computers. Haier has been providing customers with high quality products for 30 years and is the number one brand of Major Appliances in the world with 11.6% retail volume share in 2013 (Haier annual report, 2014). By the end of 2013, the Haier Group has obtained 6189 patented technology certificates and 589 software intellectual property rights (Haier company profile, 2014). The products of Haier are now sold in over 160 countries.

(1) International expansion

Haier initially focused on Southeast Asia market, with investments in Indonesia, Philippines and Malasia. In 1996, Haier opened the first production facility in Indonesia, followed by Philippines and Malaysia in 1997. Thereafter, the company tried to compete in the Thai market, but they completely lost to local competitors and had to abandon the marketing there. In 1999, Haier became the first Chinese company to operate factory in the US and since then Haier began to manufacture full-sized refrigerators for North American market. By 2002, the US market revenues reached USD $200 million (Khanna & Andrews, 2012)

Haier also invested €80 million in Europe between 2001 and 2004. In 2001 it purchased for $8 million the Meneghetti refrigerator plant, one of the largest manufacturers of built-in appliances to match kitchen cabinetry (Haier annual report, 2009). By 2004, the company’s European headquarters organized logistics through four distribution centers in Italy, Netherland, Spain, and the U.K, serving 17 European
markets (Haier annual report, 2009). In 2004, sales in Europe accounted for 17% of the Haier Group’s total revenue. (Khanna & Andrews, 2012)

In Africa, Haier has established plants in five countries: Tunisia, Nigeria, Egypt, Algeria and South Africa. According to Euromonitor, in 2008, Haier had surpassed rival Whirlpool as the world's top refrigerator producer in terms of sales. Haier claimed it sold 12 million refrigerators worldwide in 2009, increased by 20% over the previous year. Its market share reached 6.3% globally ((China Knowledge, 2009).

(2) Haier in Nigeria
Nigeria is the largest market for Haier in the African region, and the most populated African country in term of sales (Khanna & Andrews, 2012). In May 2001, Haier Group and the UK PZ Cussons Group signed a joint venture, under the brand Haier-Thermocool, to build up a factory for the assembly and sales of refrigerators, freezers, and air conditioners marketed. Within 5 years of its operations’ beginning in the country, the company achieved a number-one ranking for refrigerators and freezers. It now has five distribution centers and a total of 23 service outlets across the country (Rubicon Strategy Group, 2012). Haier’s sales in Nigeria reached $150 million in 2009 and $200 million in 2010 (Haier Group, 2010).

5.3.2 OLI eclectic paradigm analysis
(1) Ownership advantage
Haier’s holds the leadership position in Chinese home appliance industry with a 21% market share for overall appliances, 34% of white goods, and 14% for small electric appliances (Haier annual report, 2014). Haier has also gained a lot of recognition in international market. It was ranked 86th among the world’s 500 most influential brands. The CEO Zhang Ruimin ranked 26th among the world’s most respected business leader by financial times in 2008.
Haier implement an OEC management-control system which is tailored to the corporation. The system help enforce corporation’s work rules and discipline. O stands for Overall; E stands for Everyone, Everything, and Everyday; C stands for Control and Clear. OEC means that every employee has to accomplish the target work every day. The OEC management-control system aims at overall control of everything that every employee finishes on his or her job every day with a 1% increase over what was done the previous day. (Haier annual report, 2008)

Haier also implements a “Market Chain” management which is “based on computer information systems and centered around order information flow, to drive logistics and capital flows and realize reengineering of business processes” (Haier annual report, 2006). This innovation on market chain management system enabled information flows within the enterprise, and further encouraged employees to align their value orientation with the needs of users.

Innovation is a key factor in Haier’s success. By constant effort on innovation, it developed from a local Chinese manufacturer into a worldwide leader in its field in twenty-six years. Haier is also devoted to increased localization and adaptation to the local conditions. According to its annual report, it has adapted several product lines to match the specific market conditions of Africa and the Middle East under the request of its local distributors and consumers. For example, in African market, which has both expensive electricity and frequent blackouts, Haier developed a refrigerator that can run through 100 hours of power failure. The high-capacity washing machine, and the air conditioner for desert and tropical conditions are also good examples of its adaptation strategy.
(2) Location advantage

With a population of about 173 million people, Nigeria is the largest country in Africa and accounts for 47% of West Africa’s population (The World Bank). Nigeria is currently one of the world’s major investment destinations and one of the fastest growing economies in the world with GDP reaching $510 billion. It has abundantly skilled and flexible human resources and access to a vast local market. A burgeoning middle class has created huge opportunities for businesses in consumer markets like financial services, food, energy and telecommunications (Templeton, 2012).

Nigeria is a resource rich nation. The country is Africa’s largest crude oil producer and gains huge revenues from exporting oil. Most of Nigeria’s land area is arable and the country has an array of non oil mineral resources many of which are yet to be exploited (Templeton, 2012). Although the Nigerian economy is heavily dependent on revenues from oil and gas, the Nigeria Government is committed to diversifying the nation’s economy and reducing dependence on crude oil exports (Bankole and Adewuyi, 2008). In order to diversify the economic base, focus in recent times has been shifted to agricultural sector which presently accounts for 30% of the GDP (Templeton, 2012).

Nigeria government places a priority on attracting foreign investment. The Nigerian Investment Promotion Council (NIPC) has been strengthened to enable it serve as a one-stop office for clearing all the requirements for investment in the country (Templeton, 2013). Nigerian government’s policy of economic deregulation and liberalization has also opened up new windows of opportunity to all investors wishing to invest in the country’s economy. In this connection, an interest rate regime supportive of the real sector of the economy as well as an exchange rate that is market determined are the object of government policy (World Trade Organization, 2005).
addition, Nigerian government is also taking actions to improve Nigeria’s notoriously poor infrastructure. For example, the reform of electricity sector will lead to significant improvements in power supply in the near future.

(3) **Internalization advantage**

In the internalization process, enhancement of transaction value and reduction of transaction cost are the two simultaneously motivation of multinational enterprises from the developing countries (Li, Liu & Yang, 2009). When invest in the less developed country like Africa, the Chinese firms possess comparative advantages in intangible assets such as technology and expertise. Therefore it is appropriate to transfer or exploit their ownership specific advantages from home country to host country within their own organization instead of exporting or licensing to avoid transaction cost.

Unlike in advanced economies such as the North America or Japan where Haier enters to learn and build up new capabilities, market seeking is the dominant motivation in Nigeria. Haier posses the comparative advantage in terms of technologies. Consequently, Haier chose to transfer technologies that suit the local conditions in terms of products’ need and price levels. To achieve that, Haier set up technology support centers and training centers in Nigeria for internalization of immediate product including technology and knowledge. By internalizing, Haier will be able to exert more control over its operations and reduce the risks associated with property rights, brand image. Haier also employed local technical workers to form technology and product service team and imparted them technologies and knowledge through trainings (Haier annual report, 2009). By joint venture, Haier will not only makes full use of the low-cost advantage of local technical workers, but also able to exploit technology advantages within its multinational organizations to avoid loss and uncertainty of transaction in external markets.
5.3.3 The CAGE framework

(1) Culture distance

Nigeria is one of the most culturally rich yet traditional nations of the world. According to Hofsted five dimensions, Similarly to China, it ranks high in masculinity (60) and power distance (80), which means it is male-centric country with men making most of the important household decisions. It is also class conscious, people respect those with titles and degrees and view class and age as determinant of a person’s intelligence. Older people and those are high educated are often given the privilege of leading a group. Compare with China, Nigerian is more individualism, which means they considering individual family life more important than material wealth. Despite this unconventional business practices, Nigerians are reportedly the happiest people in the world(Adewunmi, 2011).In general, China and Nigeria share lots of similarity in terms of culture.

In business field, Nigerians view price as negotiable, which is also similar to Chinese. Focusing on building relationships with their business partners rather than fulfilling signed contracts results in harmonious dealings in the realm of business. As individuals, Nigerians are especially easy to do business with.

The culture of Nigeria is heavily influenced by its politics. According to Business Travel Nigeria (BTN), “Nigeria is currently experiencing the longest period of civilian rule and democracy in its history. The fact that Nigeria is so diverse has given Nigerians a sense of collective identity within distinct subcultures.” English is the official language of Nigeria, used in all government interactions and in state-run schools. In a country with more than 250 individual tribal languages, English is the only language common to most people. (Omofolambo, 1998)
(2) Administrative Distance

Politically, Nigeria is divided into thirty-six states. The nation's capital was moved from Lagos to Abuja in 1991. Abuja is in a federal territory that is not part of any state. While Abuja is the official capital, its lack of adequate infrastructure means that Lagos remains the financial, commercial, and diplomatic center of the country (Adeeb & Hassan, 1996).

Nigeria was once a British colony. It retains a political and legal structure similar to those of Britain, and English remains the official language of the country which could be a favored factor attracting Chinese investors. In an effort to promote internationalism, Chinese is also learning English. Kids start to learn English from kindergarten. Most Chinese businessman is capable to speak fluent English. The government is funding extensive teacher training programs to find new models for language learning and develop new textbooks (Ward & Francis, 2010). Therefore the communication would be much easier in Nigeria than in other non-English speaking countries.

On diplomatic relations, various exchanges of visits and signed agreements and many Memoranda of Understanding are indicative of the cordial relationship. (Ogunkola & Adewuyi, 2008) Chinese government has also offered various technical assistance in the military, education and health, and technology to Nigeria. For example, Chinese has offered an aid of 46 million Yuan to Nigeria for the purpose of purchases of anti-malaria medicines and for training of Nigerian health personnel on malaria control and prevention. (Olawale & Abiodun, 2008).

According to Adewuyi, there are no legal barriers preventing foreign investment entry into local business in Nigeria, except the minimum qualifications required by the various professional bodies. However, existing laws impose limits on foreign management and content in the petroleum industry and other legislation is being
considered to expand local content requirements and preferences to other sectors of the economy. Foreign companies seeking to do business in Nigeria are expected to do so with incorporated companies or otherwise incorporate their subsidiaries locally (UHY).

Nigeria’s legal system comprises the English common law, the constitutional law, and the Islamic law. The lack of an adequate legal structure in Nigeria is accompanied by corruption in the political realm. Racial tension and oil disputes have led to dishonesty among Nigerian political parties and authority figures (CLIFF LIN, 2013). Nigeria is ranked as the 16th worst country in the world on the issue of corruption. “Corruption is embedded in all major Nigerian institutions and the payment of bribes as part of the day-to-day business of government is considered normal” (Nnodim, 2012). Corruption—that is, paying bribes to corrupt government bureaucrats to get “favors” such as permits, investment licenses, tax assessments, and police protection—is generally viewed as an additional cost of doing business or a tax on profits (Ali Al-Sadig, 2012). Corruption has a negative impact on the level of investment and economic growth (Mauro, 1995) foreign investors would tend to avoid investing in countries with high levels of corruption. High corruption levels in Nigeria will increase the risk for Chinese investors who are not acquainted with those latent rules.

Extremism and outrageous terrorist activities in Nigeria remains rampant. The main terrorist threat in Nigeria comes from Islamist extremist groups Boko Haram and Ansaru. Boko Haram is an Islamist extremist group in Nigeria that has been proscribed by the UK as a terrorist organization. The group aspires to establish Islamic law in Nigeria, destabilize the Nigerian government and remove western influence from the country (Nason, Ian, 2011). The group has been linked with Al Qaeda in the Islamic Maghreb. Boko Haram regularly mounts attacks in northern Nigeria. Most attacks occur in the north east, particularly in Borno, Yobe and Adamawa states where Boko Haram has its operating base. The terrorism activities
could be a threat for Haier, since businesses and firms, especially the ones operating to or from insecure countries, are frequent victims of terrorist events. (Karaisl and Schneider, 2008)

(3) Geographic distance
Nigeria is in West Africa, along the eastern coast of the Gulf of Guinea, and just north of the equator. It is bordered on the west by Benin, on the north by Niger and Chad, and on the east by Cameroon (Patricia, 1996). Distance from China to Nigeria is 10956 kilometers; Time difference between Nigeria and China is 7 hours.

The total surface area of Nigeria is 923,768 km², 98.6% of which is land and 1.4% of which is water (Cliff Lin, 2011). By comparison, the total surface area of China is 10 times larger, albeit with 8.92% in water. Nigeria, is eighth most populous country on the planet with a limited area of habitable living space. Living in an unsanitary environment, 47% of Nigerians do not have access to clean water (Daily Trust). The number of health risks for Nigerians is very high. Water-born diseases increase infant mortality rate and drastically lower the life expectancy of adults. This could be an fatal risks for foreign merchants doing business in Nigeria.

(4) Economic distance
Nigeria is a middle income, mixed economy and emerging market. It is the largest economy in Africa. Nigeria’s GDP in 2014 was $514 billion (PPP), with an average annually growth rate at 6% (The world bank, 2014). The GDP per capita doubled from $1400 per person in 2000 to an estimated $2,800 per person in 2012 (MOFCOM, 2012). The Central Bank of Nigeria is relative success at maintaining single-digit inflation – averaging 9.5 percent for all of 2013 (The Economist, 2013). So the general economic outlook is quite promising and favorable.
Approximately 25% of Nigeria’s GDP depends on the oil industry. However, with the recent shift to green technologies, Nigeria faces a negative growth in its oil revenue. As a result, government spending is likely to decrease in the future (2013, Cliff Lin). The national per capita poverty rate remained very high. According to the United States Central Intelligence Agency’s World Factbook, about 70% of Nigerians live below the poverty line with little evidence of recent progress in poverty reduction. A study conducted by Aigbokhan (2010) states that the percentage of the Nigerian population living below the poverty line is still increasing. In 2004, 55% of people were living in absolute poverty. By 2010, this had risen to 61%. Approximately 105 million Nigerian live in desperate circumstances (Aigbokhan, 2010). Water prices in Nigeria are even higher than those in New York and Tokyo in terms of purchasing power parity.

The state of infrastructure in Nigeria generally is poor. For example, the rail system is outmoded and mostly no longer functional; air transport service within the country is limited to major cities; most roads are in bad condition; and the power supply is erratic (UNODC, 2011). The weak infrastructure condition and ineffective transportation have kept the costs of starting the business or producing the services high, so it is also one of the main barriers for foreign investments.

**Part conclusion**
Steady progress in African has been achieved thought the consistent effort of local government. Over the last 10 years, governance and political stability have improved significantly. The economy development is promising and government is also making effort to create an environment for attracting foreign investment. China FDI in Africa also brings lots of other advantages such as transfer of technology, knowledge and skills; promotion of competition and innovation, increasing productivity and raising the living standards of millions of Africans. But it also brings negative influence on local environment.
The Chinese investment is diversifying away from natural resources to various areas. Compare to the western counties, the proportion of Chinese investment into nature resource is relative small. China is not a major player in Africa's resources and energy markets. The huge market potential of Africa is an important factor that attracting Chinese private enterprises.

In terms of culture, China and Nigeria share lots of similarity, especial in business field. Language will not be a barrier since English is Nigerian mother tongue and most of Chinese businessmen are also capable of specking fluent English. Although the two sides has very solid politic relationship, notable constraints exist on FDI inflows into the country such as poor infrastructural facilities, inadequate and costly telecommunications services, and frequent disruptions in power supply, inadequate water supply and a poorly maintained network of roads. The existence of corruption, poverty and limited infrastructure mean that the continent can still be a risky place to do business.
Part 6 Conclusions

The main purpose of this thesis is to give a systematic analysis of China outwards direct investment. Three problem formulations are discussed throughout the thesis: Is China following the traditional investment path that has been identified by other nations? What are the motivations and obstacles of China OFDI in developed and developing countries respectively? What is the impact of China OFDI for local economies?

The development path of China:
By analysis the historical development path of Chinese foreign investment from 1978-2015, it can be concluded that in general the Chinese foreign investment consists with the Dunning’s investment development path (IDP) theory, and currently China is in the 3rd stage whereas outward FDI is increasing faster than inward FDI. The recent surge in Chinese outbound FDI is attributable to a concerted government policy to promote overseas investment and rapid economic development domestically.

The impact of China OFDI for the local economies:
For EU, Chinese investment will generate numerous employments by injecting capital into the European economy. The investment helps make up for the shortfall in some European countries’ capital and investment needs. Chinese FDI in EU also promotes the development of productivity and help European firms to increase their world market share and competitiveness.

For Africa, China FDI brings lots of advantages such as transfer of technology, knowledge and skills, promotion of competition and innovation, increasing productivity and raising the living standards of millions of Africans. But it also brings negative influence on local environment. Although Chinese government has made a concerted effort to improve environmental guidelines, accomplishment is limited because of the poor implementation.
The motivations and obstacles of China OFDI

In advanced countries like the EU, technology exploration is the most important motivation driving Chinese investment. The favored institutional environment and stable economy in EU offers Chinese enterprise excellent opportunities. However, the rising political pressure triggered by the growing trade deficit will exert more pressure on bilateral economic cooperation. Big culture distance exists between the western and eastern counties. Language could also a barrier for the two sides built comprehensive partnership.

In Africa, focus of Chinese investment has been shift from resource-seeking to market seeking. Chinese government plays a critical role in encouraging Chinese companies to invest in Africa, state owned enterprises (SOE) represents two third of the total value of Chinese investment in Africa. By applying the CAGE framework, we can see that Africa is still perceived as a risky direction for investment because of the existence of corruption, limited infrastructure and threat from terrorism.
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