THE INSTITUTIONAL DETERMINANTS OF CHINA’S OUTWARD FOREIGN DIRECT INVESTMENT INTO AFRICA: A POLITICAL ECONOMY APPROACH

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A Thesis submitted in partial fulfilment for the degree of Doctor of Philosophy

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DECLARATION

I declare that this dissertation and the work presented in it are my own and has been produced by me as a result of my original research

Roger Mongong Fon, April 2018
ACKNOWLEDGEMENTS

Doing my PhD Research has been the most exciting and challenging time in my life so far without a doubt. Exciting in the sense that coupled with the fact that I am passionate about research in general, I also had the opportunity to research a phenomenon in a region of the world that I am deeply fascinated about – Africa. Challenging in the sense that doing a PhD is the most emotionally, physically and intellectually demanding journey anyone can undertake. Thus, it is not an adventure anyone can do on his or her own. As a result, throughout this process, I had much support from several people that helped me to complete this process. First and foremost, I want to give all the glory and thanks to God almighty for seeing me through this journey, and without His favour, I simply wouldn’t have managed it.

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ABSTRACT

Since the advent of the ‘Go Global’ policy in the year 2000, China’s Outward Foreign Direct Investment (OFDI) into Africa has been on the rise. China is now the leading investor in greenfield investments regarding capital expenditure overtaking the United States in 2016 (Klasa Adrienne 2017).

The literature (Cheung et al. 2012; Shan et al. 2018; Drogendijk and Blomkvist 2013; Kolstad and Wiig 2011; Haglund 2008) on China’s OFDI into Africa does not account for an important Political Economy (PE) dimension of China’s OFDI into Africa that is needed to provide a comprehensive understanding of the location decision of Chinese Multinational Enterprises (CMNEs) in Africa. This PE dimension refers to the significant influence of the Chinese government in the FDI location choice of CMNEs in its role as the owner of large Chinese SOMNEs – and the provider of development aid – closely integrated with FDI based on a policy of non-interference. This study accounts for this PE dimension in two ways – by separating investments carried out by Chinese state-owned multinational enterprises (SOMNEs) and Privately-Owned Multinational Enterprises (POMNEs) – and by examining the moderating effect of Chinese development aid on the institutional determinants of Chinese FDI in Africa.

Methodologically, the study adopts a deductive research approach by using quantitative methods. We collect and analyse quantitative data for the period 2003-2015 and linking our results to hypotheses that developed in the conceptual framework. We find that institutional quality deters Chinese OFDI while institutional distance does not deter Chinese OFDI. We also find that regulative quality deters Chinese OFDI while regulative distance does not deter Chinese OFDI.
After splitting our sample into investments carried out by Chinese SOMNEs and POMNEs, we find that Chinese SOMNEs are more attracted to low institutional quality than Chinese POMNEs while low regulative quality attracts Chinese SOMNEs but does not matter for Chinese POMNEs. The results for our institutional distance variables show that Chinese SOMNEs are more attracted to high institutional distance than Chinese POMNEs. A high regulative distance attracts Chinese SOMNEs but does not matter for Chinese POMNEs. We find evidence of a moderating effect of Chinese aid on the relationship between institutional quality, institutional distance regulative quality and regulative distance on Chinese OFDI into Africa.
PUBLICATIONS AND CONFERENCES

Parts of this thesis have been submitted to African Affairs (ABS 3*), Journal of International Business Studies (ABS 4*)

- The Changing Rationale of China’s Non-Interference Policy in Africa: Spotlight on its Role in Legitimising Chinese State-Owned Oil Companies in Sudan and Angola, African Affairs

- The roles of Institutional Quality and Institutional Distance in Explaining North-South and South-South FDI: The Case of Foreign Direct Investment into Africa, Journal of International Business Studies

Parts of this theses have been presented at the following conferences


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## TABLES OF CONTENTS

| DECLARATION | II |
| ACKNOWLEDGEMENTS | III |
| ABSTRACT | V |
| PUBLICATION AND CONFERENCES | VII |

### CHAPTER 1: INTRODUCTION

1.1. Introduction ........................................................................................................... 1
1.2. Research Problem ................................................................................................. 3
1.3. Research Aim and Questions ................................................................................. 5
1.4. Research Justification and Theoretical Contribution ............................................. 7
1.5. Overview of Thesis ............................................................................................. 11

### CHAPTER 2: CHARACTERISTICS OF CHINA’S OFDI

2.1. Introduction .......................................................................................................... 15
2.2. The Changing Nature of Sino – African Relations in a Historical Context ....... 15
2.2.1. The Era of Self-Determination (1955-1978) ................................................... 17
2.2.2. ‘Open Door’ Policies (1978-1991) ................................................................ 19
2.2.3. Post-Tiananmen Square Era (1991-2000)....................................................... 20
2.2.4. The ‘Go Global’ Policy and FOCAC (2000 – Present) .................................... 21
2.3. China’s OFDI into Africa: Key Trends ................................................................. 23
2.4. Top Destination Countries ................................................................................... 24
2.5. Industry Analysis: Business Activity ................................................................. 27
2.6. Top Investing Companies ................................................................................... 31
2.7. Summary of Characteristics of China’s OFDI into Africa .................................. 33

### CHAPTER 3: LITERATURE REVIEW

3.1. Introduction .......................................................................................................... 35
3.2. Literature Search Strategy ................................................................................... 36
3.3. Traditional Theories of FDI ................................................................................ 38
3.3.1. The Internalisation Theory .............................................................................. 38
3.3.2. The Eclectic or OLI Paradigm of International Production ......................... 40
3.3.3. The Investment Development Path .................................................................. 41
3.4. The Limitations of Traditional IB Theories in Explaining China’s OFDI into Africa .................................................................................................................. 43
3.4.1. The Dominance of Chinese SOMNEs in Africa ............................................. 44
3.4.2. The Institutional Environment of African Countries ....................................... 46
3.4.3. The Close Integration of Aid and FDI ............................................................ 47
3.5. New Institutional Economics ............................................................................... 49
3.5.1. The NIEs Approach to IB Research ............................................................... 51
3.5.2. The Limitations of the NIEs Approach to IB .................................................. 66
3.6. China’s OFDI into Africa: A PE Perspective ....................................................... 67
3.6.1. The ‘One China’ Policy and The Challenge to US Global Hegemony .......... 68
3.6.2. The Strategic Bundling of FDI and Aid ........................................................... 71
3.7. The Determinants of FDI by SOMNEs ............................................................... 76
3.8. The Determinants of OFDI from EMs– Extending Traditional IB Theories ...... 89
3.9. The Determinants of OFDI from China ............................................................... 93
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.11. Conclusion</td>
<td>101</td>
</tr>
<tr>
<td><strong>CHAPTER 4: CONCEPTUAL FRAMEWORK</strong></td>
<td>103</td>
</tr>
<tr>
<td>4.1. Introduction</td>
<td>103</td>
</tr>
<tr>
<td>4.2. The Need for a Novel Conceptual Framework for China’s OFDI into Africa</td>
<td>104</td>
</tr>
<tr>
<td>4.2.1 The Theoretical Approach of NIEs and China’s OFDI into Africa</td>
<td>104</td>
</tr>
<tr>
<td>4.3. Concepts</td>
<td>108</td>
</tr>
<tr>
<td>4.3.1. Institutional Quality</td>
<td>108</td>
</tr>
<tr>
<td>4.3.2. Regulative Quality</td>
<td>109</td>
</tr>
<tr>
<td>4.3.3. Institutional Distance</td>
<td>110</td>
</tr>
<tr>
<td>4.3.4. Regulative Distance</td>
<td>111</td>
</tr>
<tr>
<td>4.3.5. Development Aid</td>
<td>111</td>
</tr>
<tr>
<td>4.3.6. State-Owned Multinational Enterprises</td>
<td>112</td>
</tr>
<tr>
<td>4.4. Conceptual Framework and Hypotheses</td>
<td>113</td>
</tr>
<tr>
<td>4.4.1. Institutional Quality and Location Choice of CMNEs in Africa</td>
<td>115</td>
</tr>
<tr>
<td>4.4.2. Regulative Quality and Location Choice of CMNEs in Africa</td>
<td>120</td>
</tr>
<tr>
<td>4.4.3. Institutional Distance and Location Choice of CMNEs in Africa</td>
<td>123</td>
</tr>
<tr>
<td>4.4.4. Regulative Distance and Location Choice of CMNEs in Africa</td>
<td>126</td>
</tr>
<tr>
<td>4.4.5. The Moderating Effect of Chinese Development Aid Inflows</td>
<td>128</td>
</tr>
<tr>
<td>4.5. Conclusion</td>
<td>133</td>
</tr>
<tr>
<td><strong>CHAPTER 5: METHODOLOGY</strong></td>
<td>134</td>
</tr>
<tr>
<td>5.1. Introduction</td>
<td>134</td>
</tr>
<tr>
<td>5.2. Research Philosophy</td>
<td>134</td>
</tr>
<tr>
<td>5.2.1. Our Ontological Position</td>
<td>135</td>
</tr>
<tr>
<td>5.2.2. Positivism and Social Constructivism</td>
<td>136</td>
</tr>
<tr>
<td>5.2.3. Our Epistemological Position</td>
<td>138</td>
</tr>
<tr>
<td>5.2.4. Our Methodological Position</td>
<td>139</td>
</tr>
<tr>
<td>5.3. Research Approach</td>
<td>141</td>
</tr>
<tr>
<td>5.4. Research Context</td>
<td>143</td>
</tr>
<tr>
<td>5.4.1. OFDI from China</td>
<td>143</td>
</tr>
<tr>
<td>5.4.2. Africa As a Research Context for China’s OFDI</td>
<td>144</td>
</tr>
<tr>
<td>5.5. Research Data</td>
<td>150</td>
</tr>
<tr>
<td>5.5.1 Description of Data</td>
<td>152</td>
</tr>
<tr>
<td>5.6. Variables and Measurement</td>
<td>154</td>
</tr>
<tr>
<td>5.6.1. Dependent Variable</td>
<td>154</td>
</tr>
<tr>
<td>5.6.2. Independent Variables</td>
<td>154</td>
</tr>
<tr>
<td>5.6.3. Moderating Variable</td>
<td>158</td>
</tr>
<tr>
<td>5.6.4. Control Variables</td>
<td>159</td>
</tr>
<tr>
<td>5.6.4.1. Traditional Macroeconomic Factors Affecting FDI</td>
<td>159</td>
</tr>
<tr>
<td>5.6.4.2. Colonial Ties</td>
<td>163</td>
</tr>
<tr>
<td>5.7. Regression Model</td>
<td>166</td>
</tr>
<tr>
<td>5.7.1. The Assumptions of the OLS Model</td>
<td>167</td>
</tr>
<tr>
<td>5.7.2. The Assumptions of Moderation Analysis</td>
<td>170</td>
</tr>
<tr>
<td>5.8. Summary Statistics and Correlations</td>
<td>171</td>
</tr>
</tbody>
</table>
CHAPTER 6: BENCHMARKING THE DETERMINANTS OF CHINA’S OFDI AGAINST OFDI FROM DEVELOPED AND DEVELOPING ECONOMIES

6.1. Introduction ........................................................................................................ 181
6.2. The Effect of Host Country Institutional Quality on China’s OFDI into Africa Compared to OFDI from Developed and Developing Economies ........................................ 183
  6.2.1. The Effect of Host Country Institutional Quality .......................................... 183
  6.2.2. The Effect of Host Country Regulative Quality ............................................ 190
6.3. The Effect of Institutional Distance on China’s OFDI into Africa Compared to OFDI from Developed and Developing Economies ........................................ 192
  6.3.1. The Effect of Home-Host Country Institutional Distance ............................. 192
  6.3.1.1. The Impact of Positive and Negative Institutional Distance ...................... 194
  6.3.2. The Effect of Home-Host Country Regulative Distance ............................... 200
  6.3.2.1. The Effect of Positive and Negative Regulative Distance .......................... 201
6.4. Control Variables ............................................................................................... 205
6.5. The Effect of Institutional Quality on FDI by Chinese SOMNEs and POMNEs ................................................................................................................... 211
  6.5.1. The Effect of Host Country Institutional Quality on FDI by Chinese SOMNEs and POMNEs ........................................................................................................... 211
  6.5.2. The Effect of Host Country Regulative Quality on FDI by Chinese SOMNEs and POMNEs ........................................................................................................... 212
6.6. The Effect of Institutional Distance on FDI by Chinese SOMNEs and POMNEs ................................................................................................................... 215
  6.6.1. The Effect of Home-Host Country Institutional Distance on FDI by Chinese SOMNEs and POMNEs ........................................................................................................... 216
  6.6.2. The Effect of Regulative Distance on FDI by Chinese SOMNEs and POMNEs ................................................................................................................................. 220
6.7. Conclusion ......................................................................................................... 221

CHAPTER 7: THE MODERATING EFFECT OF CHINESE DEVELOPMENT AID INFLOWS ON INSTITUTIONAL QUALITY AND INSTITUTIONAL DISTANCE

7.1. Introduction ........................................................................................................ 224
7.2. The Effects of Institutional Quality and Aid on China’s OFDI into Africa .... 224
  7.2.1. The Effects of Regulative Quality and the Moderating Effect of Aid on Chinese OFDI into Africa ................................................................. 230
7.3. The Effects of Institutional Distance and the Moderating Effect of Aid on China’s OFDI into Africa ................................................................. 232
  7.3.1. The Effects of Regulative Distance and the Moderating Effect of Aid on China’s OFDI into Africa ................................................................. 236
7.4. Conclusion ......................................................................................................... 238
LIST OF TABLES

Table 2.1. China’s OFDI into Africa trends by year (USD millions) 2003-2016.....24
Table 2.2. China’s FDI trends by destination country (USD millions) 2003-2016....26
Table 2.3. Institutional quality and distance of top destination countries 2003-2016.............................................................................................................................27
Table 2.4. Chinese FDI trends by business activity (USD millions). .........................28
Table 2.5. Chinese loans to African Countries 2000-2015 (USD millions)..............30
Table 2.6. Top investing companies by capital expenditure (2003-2016),...........32
Table 2.7. The changing nature of Sino-African relations.................................34
Table 3.1. IB theories and explanation of China’s OFDI into Africa....................49
Table 4.1. Overview of empirical models............................................................114
Table 5.1. Comparison of two major research philosophies in Business and Management research............................................................138
Table 5.2. List of Variables and Measurement.....................................................165
Table 5.3. Summary Statistics.............................................................................173
Table 5.4. Correlations.........................................................................................178
Table 6.1. OLS models with robust standard errors: institutional and regulative quality as determinants of FDI from developed, developing and Chinese economies.................................................................189
Table 6.2. Results of t-test for FDI by DCMNEs and EMNEs............................190
Table 6.3. Results of t-test for FDI by DCMNEs and CMNEs.............................190
Table 6.4. Results of t-test for FDI by EMNEs and CMNEs...............................190
Table 6.5. OLS models with robust standard errors: institutional and regulative distance as determinants of FDI from developed, developing economies and China.................................................................198
Table 6.6. OLS models with robust standard errors: The effect of positive and negative institutional distance on FDI from developed, developing economies and China.................................................................199
Table 6.7. OLS models with robust standard errors: The effect of positive and negative regulative distance on FDI from developed, developing economies and China.................................................................203
Table 6.9. OLS models with robust standard errors: The effect of institutional, and regulative quality on FDI by Chinese SOMNEs and POMNEs......................214
Table 6.10. Results of t-test and for FDI inflows from Chinese SOMNEs and POMNEs.........................................................................................215
Table 6.11. OLS models with robust standard errors: The impact of institutional, and regulative distance on FDI by Chinese SOMNEs and POMNEs..............219
Table 6.12. Summary of results and hypotheses on FDI from developed, developing and Chinese economies.................................................................223
Table 6.13. Summary of results and hypotheses on FDI by Chinese SOMNEs and POMNEs.........................................................................................223
Table 7.1. OLS models with robust standard errors: the effects of institutional quality and aid on Chinese OFDI into Africa................................................229
Table 7.2. Marginal effects of institutional, and regulative quality on Chinese OFDI........................................................................................................................230
Table 7.3. OLS models with robust standard errors: institutional distance and aid as determinants of Chinese OFDI into Africa.............................................................235
Table 7.4. Marginal effects of institutional, and regulative distance on Chinese OFDI........................................................................................................................236
LIST OF FIGURES

Figure 2.1. Number of Chinese FDI projects by destination country 2003-2016....26
Figure 2.2. Number of FDI projects by business activity 2003-2016................27
Figure 2.3. Chinese loans to Africa 2000-2015........................................31
Figure 5.1. Kernel Density Plot of the Dependent Variable (FDI inflows)........168
Figure 7.1. Marginal Effect of Institutional Quality with 95% CIs..................227
Figure 7.2. Marginal Effect of Regulative Quality with 95% CIs......................231
Figure 7.3 Marginal Effects of Institutional Distance with 95% CIs.................233
Figure 7.4 Marginal Effects of Regulative Distance with 95% CIs....................237
LIST OF ABBREVIATIONS

CMNEs – Chinese Multinational Enterprises
EMNEs – Emerging Multinational Enterprises
DCMNEs – Developed Country Multinational Enterprises
SOMNEs – State-Owned Multinational Enterprises
POMNEs – Privately-Owned Multinational Enterprises
MNEs – Multinational Enterprises
FDI – Foreign Direct Investment
UNCTAD – United Nations Conference for Trade and Development
OFDI – Outward Foreign Direct Investment
IMF – International Monetary Fund
FOCAC – Forum for China Africa Cooperation
NIEs – New Institutional Economics
NIT – New Institutional Theory
PE – Political Economy
LOF – Liability of Foreignness
IB – International Business
ICRG- International Country Risk Guide
EM – Emerging Markets
OAs – Ownership Advantages
FSAs – Firm-Specific Advantages
IDP – Investment Development Path
OECD – Organization for Economic Cooperation and Development
SOEs – State-Owned Multinational Enterprises
AGOA – Africa Growth and Opportunity Act
AMEs – Average Marginal Effects
MEs – Marginal Effect
Chapter 1: Introduction

1.1. Introduction

The internationalisation of multinational enterprises from emerging markets (EMNEs) has captured the interest of management scholars (Aharoni 2014; Sun et al. 2017; Peng et al. 2008; Luo & Tung 2007; Buckley et al. 2018). The most significant outward investor among these economies is The People’s Republic of China (from now on China) (UNCTAD 2017). This growth in OFDI from China is mostly due to the encouragement and support for OFDI by the Chinese government since the launch of its ‘Go Global’ policy (Luo, Xue and Han 2010).

However, nested within this growth in Chinese OFDI is a relatively novel phenomenon – the growth in Chinese FDI flows into Africa. According to the 2017 Africa Investment Report, China is currently the biggest investor in greenfield investments followed by the United States with the majority of the investments carried out by Chinese State Owned Multinational Enterprises (SOMNEs). China’s new status as the second largest economy in the world indicates a predominantly economic relationship with Africa. The consequence of this economic relationship has been an increase in Chinese OFDI (Drogendijk and Blomkvist 2013) into the continent, prompting suggestions that China could eventually become the engine for African development that developed economies have hesitated to become (Besada, Wang and Whalley 2008). However, the growth in Chinese OFDI into Africa has escaped any detailed empirical analysis by International Business (IB) scholars on the drivers of this increase in investments by Chinese Multinational Enterprises (CMNEs) (Drogendijk and Blomkvist 2013; Shan et al. 2018). Moreover, the few studies that have attempted to investigate the drivers of Chinese OFDI into Africa fail to account for a critical PE dimension that is necessary for a comprehensive explanation of this novel
phenomenon. By the PE dimension of China’s OFDI into Africa, we mean the significant influence of the Chinese government in the location of China’s OFDI into Africa – through its ownership of SOMNEs and the provider of development aid – closely integrated with FDI projects.

The uniqueness of the PE approach of this study rests on the inclusion of development aid to capture the influence of the Chinese government in the FDI location decision of Chinese MNEs. This approach builds on existing PE perspectives in IB that advocate capturing the role of the government in the FDI activities of EMNEs in particular by paying particular attention to the FDI motivations of SOMNEs due to their affiliation to their home government (Luo, Xue and Han 2010; Shi, Hoskisson and Zhang 2016; Cuervo-Cazurra 2014; Rudy, Miller and Wang 2016). This approach pays particular attention to the effect the home institutional environment plays – through the significant role of the government in the economy. By also focusing on the role of Chinese development aid, this study highlights the important role of political relations between the home and host country of the MNE as a source of political advantage – acquired through the provision of development aid backed by a policy of non-interference.

The provision of development aid that is strategically integrated with FDI projects based on a policy of non-interference suggest that China’s contemporary engagement with Africa goes beyond simple investment flows (Mario Biggeri and Sanfilippo 2009; Sanfilippo 2010) – representing an alternative development paradigm for Africa advocated by China, known as the ‘Beijing Consensus’ (Large 2008). Thus, overall, this study makes two core contributions. The first contribution is the separation of OFDI carried out by Chinese SOMNEs and POMNEs and the second core contribution
is capturing the effect Chinese development aid plays in the location decision of CMNEs in Africa.

Thus, in this study, we seek to provide a comprehensive explanation of the growth in China’s OFDI into Africa by investigating the institutional determinants of China’s OFDI into Africa and integrating the PE perspective in this explanation. The theoretical approach of choice of our study is the New Institutional Economics (NIEs) approach to IB (Grosse & Treviño 2005; Meyer et al. 2009; Peng et al. 2008) because this approach offers a partial explanation to our phenomenon that as explained later traditional IB theories fail to. However, we still need a cross-fertilisation of the institutional approach and PE perspectives to explain our phenomenon fully. We explain the limitations of traditional IB theories in explaining China’s OFDI into Africa later.

1.2. Research Problem

The growth in China’s OFDI into Africa coincides with the rise of an institution-based view explaining the growth in Chinese OFDI and the rise of the CMNE (Peng, Wang and Jiang 2008). This view suggests that the growth in Chinese OFDI is contingent upon the nature of the home institutional environment from which Chinese firms originate (Yang & Stoltenberg 2014; Wu & Chen 2014). This home institutional environment is characterised by significant government ownership of business, encouragement, and support of domestic firms to engage in OFDI activities that can have an impact on the internationalisation strategies of CMNEs (Luo, Xue and Han 2010).

The above institution-based view focuses on the home-country institutional environment in China. However, the institutional quality of African countries is also
important from a theoretical perspective. Before engaging in FDI activities, MNEs need to take into consideration the institutional quality of their target host locations and the home-host country institutional distance (Buchanan et al. 2012; Fukumi & Nishijima 2010; van Hoorn & Maseland 2016; Bae & Salomon 2010). The former tends to affect the transactions cost of operations for MNEs (Meyer 2001; Peng, Wang and Jiang 2008) while the latter increases the liability of foreignness for the investing firm (Kostova & Zaheer 1999; Kostova & Roth 2002).

The majority of African countries can be characterised as having a low institutional quality (Asiedu 2006). However, despite this relatively low institutional quality China’s OFDI has been increasing (Drogendijk and Blomkvist 2013; Cheung et al. 2012). CMNEs are more willing to invest in countries that are traditionally considered to be too risky and not favoured by DCMNEs. For instance, Chinese investments are known to be prevalent in African countries recovering from decades of civil war such as Angola (Power and Cristina 2012) and countries under economic sanctions imposed by the West due to human rights abuses like the Sudan and Zimbabwe (Patey 2007; Eisenman 2005).

The above investment pattern by CMNEs in Africa poses a challenge to the NIEs approach to IB. From a NIEs perspective (North 1990) firms are more likely to locate their FDI activities in countries with high institutional quality (Grosse & Trevino 2005; Ali et al. 2010) or even adjust their entry strategies when entering markets with low institutional quality (Meyer et al. 2009). Thus, the growth in China’s OFDI into African countries with low institutional quality presents a theoretical challenge from a NIEs standpoint. This challenge raises the need to investigate the extent to which the host country institutional quality impacts on China’s OFDI into Africa. Moreover, the dominance of Chinese SOMNEs with significant backing from the Chinese
government raises the question whether the impact of host country institutional quality differs between FDI carried out by Chinese SOMNEs and POMNEs.

Furthermore, the increased nexus between FDI and aid – provided by the Chinese government with no conditions on the development of domestic institutional capacity points to a high degree of influence by the Chinese government in the FDI location choice of CMNEs. Thus, there is a need for the integration of a PE perspective in the analysis of China’s OFDI into Africa.

1.3. Research Aim and Questions

This study aims to examine the institutional determinants of China’s OFDI in Africa – focusing on the roles of host country institutional quality and institutional distance – and adopting a PE approach. The level of institutional quality of a country tends to have an impact on the level of inward investment it receives (Buchanan et al. 2012; Globerman & Shapiro 2002; Meyer & Nguyen 2005). Everything being equal, countries with higher institutional quality attract higher levels of inward FDI while those with low institutional quality attract low levels of inward FDI (Globerman & Shapiro 2002). This difference is because countries with strong institutional frameworks reduce transactions costs for both foreign and domestic firms (Meyer and Peng 2005; Meyer 2001). However, African countries characterised by low institutional quality haven been attracting high levels of FDI from China. Thus, in this study, we seek to investigate what impact if any the institutional quality of African countries have on FDI from China. Thus, we formulate the first research question of this study as follows:

1) **What is the impact of the host-country institutional quality on China’s OFDI into Africa?**
Secondly, MNEs are not only discouraged by low institutional quality but are also deterred by the dissimilarity between home and host countries as they prefer to invest in locations with similar levels of institutional quality (Aleksynska and Havrylchyk 2013; Cezar and Escobar 2015). In this study, we also seek to investigate the impact of the dissimilarities of the home and host country institutional quality (institutional distance) on China’s OFDI into Africa. The institutional distance between the home and host-country dictates the degree of liability of foreignness (LOF) (Eden and Miller 2004) and the degree of institutional pressure exerted on the MNE to conform to its external environment, i.e. obtain legitimacy (Xu & Shenkar 2002). Thus, we formulate our second research question as:

2) How does the institutional distance between China and the host-country affect China’s OFDI into Africa?

Chinese SOMNEs differ from their counterparts in the private sector regarding their motivations for FDI (Ramasamy et al. 2012; Duanmu 2012). Due to their soft-budget constraints and political support from the home government, Chinese SOMNEs are more likely to be less risk-averse than Chinese POMNEs when planning to enter foreign markets (Ramasamy et al. 2012; Amighini et al. 2013). Also, in a bid to enhance their legitimacy, Chinese SOMNEs are more likely to adapt their foreign entry strategies than their private counterparts due to the high levels of distrust of foreign SOMNEs in countries with highly developed institutions (Meyer et al., 2014). Thus, based on the potential differences in investment motivations between Chinese SOMNEs and POMNEs, we split our investigation into FDI carried out by Chinese SOMNEs and POMNEs.

The above approach enables us to examine how the institutional quality of host-country and the institutional distance between the home and host-country impacts the
FDI location decision of Chinese SOMNEs and POMNEs. Based on the above discussion, the impact of institutional quality can be different between Chinese SOMNEs and POMNEs. We formulate our third research question in the following way:

3) To what extent does the impact of the host-country institutional quality and the institutional distance between China and the host country differ between FDI by Chinese SOMNEs and POMNEs?

1.4. Research Justification and Theoretical Contribution

In this section, we explain the research justification as well as the theoretical contribution of the thesis. We begin by providing a research justification followed by the theoretical contribution.

The investigation of the institutional determinants of China’s OFDI into Africa is motivated by the fast growth in China’s OFDI into Africa since the advent of the ‘Go Global’ policy and the limitations of extant academic research on China’s OFDI in Africa.

China’s OFDI into Africa has been rising at a fast rate since the advent of the ‘Go Global’ policy of the Chinese government (UNCTAD 2017) than in any period of Sino-African relations. This growth has captured the attention of scholars and the media alike leading to suggestions of a new ‘scramble’ for influence and resources in Africa (Frynas and Paulo 2006; Economist 2016). This fast growth in China’s FDI in Africa has led to calls for research into the primary drivers of Chinese OFDI into the region to better understand the phenomenon (Cheung et al. 2012; Biggeri & Sanfilippo 2009). Thus, the quick increase in Chinese OFDI into Africa is one of the research justifications of this study.
Another research justification of this study is the limitations of extant research on China’s OFDI into Africa. Large-scale empirical analyses of the determinants of China’s OFDI into Africa are limited, and the few studies (e.g. Kolstad & Wiig 2011; Drogendijk & Blomkvist 2013; Cheung et al. 2012) that examine this phenomenon fail to provide a comprehensive explanation of the determinants of China’s OFDI into Africa. The above studies are limited in three ways. Firstly, research on China’s OFDI has shown that Chinese SOMNEs and POMNEs carry out FDI activities for different reasons (Ramasamy et al. 2012; Huang & Renyong 2014). However current research on the drivers of China’s OFDI into Africa does not account for such potential differences in investment motivations between Chinese SOMNEs and POMNEs investing in Africa. The lack of a separation between FDI carried out by Chinese SOMNEs, and POMNEs has led to calls for research on the location decision of Chinese SOMNEs in comparison to POMNEs in Africa (Drogendijk and Blomkvist 2013). Although the majority of Chinese firms carrying out FDI activities in Africa can be categorised as SOMNEs, the number of projects by Chinese POMNEs have also been on the rise (Gu 2009). Thus, a comparison of the investment motivations of both types of firms can shed more light on the location decision of CMNEs in Africa.

Secondly, from an empirical standpoint, the impact of institutional quality on Chinese FDI in Africa has produced mixed results with some suggesting a negative relationship (Kolstad and Wiig 2011) while others find a positive relationship (Drogendijk and Blomkvist 2013). This discrepancy in results may be related to issues of measurement of institutional quality as all studies that examine this phenomenon use different single institutional indicators that can yield different results (Ali et al. 2010). Thus, we need to account for the full impact of institutions on China’s OFDI into Africa through the
use of a measure that encompasses both political and economic institutions as carried out in this study.

To the best of our knowledge, there are currently no studies on the impact of institutional distance on China’s OFDI into Africa. There are no studies that examine how institutional distance impacts the location decision of CMNEs in Africa. Thus, one of the aims of this study is to examine the effect of institutional distance on China’s OFDI into Africa. The focus on institutional distance is motivated by evidence that MNEs are not only discouraged by weak institutional frameworks but are also discouraged by the distance between the institutional environments of their home and host countries (Estrin, Baghdasaryan and Meyer 2009; van Hoorn and Maseland 2016; Bénassy-Quéré, Coupet and Mayer 2007; Cezar and Escobar 2015).

Thirdly, a PE dimension of China’s FDI in Africa is lacking in current studies. This dimension is necessary to provide a comprehensive understanding of China’s FDI in Africa (Cheung et al. 2012). The Chinese government plays a significant role in the FDI activities of Chinese firms – particularly Chinese SOMNEs (Luo, Xue and Han 2010). Therefore, a separate examination of the investments by Chinese SOMNEs will partly account for this PE perspective. However, to adequately account for the PE dimension of China’s FDI in Africa, there is a need to examine the moderating impact of Chinese development aid on the investments of CMNEs in Africa (Kolstad and Wiig 2011). The close integration of aid and FDI projects with no political conditions depicts a high level of government involvement that may provide political advantage to CMNEs and lead to a high propensity to invest in risky environments. This dimension is currently unaccounted for in current studies and is achieved in this study.
From a theoretical standpoint, the limitations of existing theoretical perspectives and the paucity of extant research on China’s FDI in Africa make our study important also from a theoretical perspective. Firstly, we cross-fertilise the IB and PE literature in Chapter 3 enabling us to build a conceptual framework that combines concepts from the IB and PE literature. The PE literature comprises of literature that accommodates the role of the Chinese government in contemporary Sino-African relations. Through an interdisciplinary approach, our conceptual framework helps provide a more comprehensive explanation of the location decision of CMNEs in Africa. Particularly, the impact that the overall host country institutional quality regulative quality, overall institutional distance and regulative distance have on China’s OFDI into Africa. This study suggests that aspects of the PE of Chinese FDI in Africa are a necessary dimension that needs to be amalgamated with existing institutional approaches as it can help explain the distinctive investment pattern of CMNEs in Africa that defies the predictions of the NIEs approach to IB.

We extend the strictly economic NIEs approach by adding a political cost to the strict transactions costs analysis of the location decision of MNEs. We believe that the influence of the government in China’s OFDI into Africa – as the owner of Chinese SOMNEs and the provider of aid means CMNEs face a lower political cost capable of offsetting any transactions costs associated with operating in countries with weak institutions. This lower political cost provides CMNEs in Africa with a competitive political advantage over other MNEs in Africa, notably DCMNEs.

In a nutshell, our contribution to theory lies in our alternative theoretical approach - an interdisciplinary one, which combines concepts from both the IB and PE literature. From an institutional perspective, there exist clear explanations on the aspects that guide the decisions of MNEs to engage in value-added activities across borders (see
Section 3.4.2). However, the explanation of these approaches does not accommodate some of the characteristics of the investments by MNEs from developing economies into other developing economies like the investments by CMNEs in African countries.

1.5. Overview of Thesis

In this section, we provide an overview of the structure of the thesis as well as a brief overview of each chapter.

The organisation of the thesis can be separated into two main parts – the theory building and theory testing. Firstly, in the theory-building part, we begin with a presentation of the characteristics of China’s OFDI into Africa as well as a discussion of Sino-African relations in their historical context from an economic and political dimension (Chapter 2). Next, we conduct a critical review of current literature (Chapter 3) that is closely related to the phenomenon of interest in this study – the institutional determinants of China’s OFDI into Africa. The literature review is followed by a discussion of the conceptual framework of the thesis (Chapter 4).

The theory testing part of this study starts with the discussion of the chosen methodology and research methods of the study (Chapter 5). We use our chosen research methodology and methods to test the validity of our conceptual framework developed in Chapter 4 through the use of regression analysis by benchmarking (Chapter 6) and by moderation analysis (Chapter 7). Chapter 8 provides the conclusion of the thesis and recommendations for future research. Overall, this thesis is comprised of eight chapters; an overview of each chapter is provided below.

Chapter 1 – Introduction

Chapter 1 begins by highlighting the phenomenon under investigation in this study as well as providing an overview of the existing academic literature of China’s OFDI into
Africa. The chapter then identified the research gaps, the research problem, research aim and questions, research justification and theoretical contribution – and finally, an overview of the thesis is provided together with a brief overview of each chapter.

**Chapter 2 – The Characteristics of China’s OFDI into Africa**
Chapter 2 highlights the distinctive characteristics of China’s OFDI into Africa helping to set the stage for a comprehensive literature review. The chapter begins with an analysis of the changing nature of China’s relationship with Africa from a historical perspective followed by some stylised facts on China’s OFDI into Africa in the era after the launch of the ‘Go Global’ policy and the Forum for China Africa Cooperation (FOCAC).

**Chapter 3 – Literature Review**
Chapter 3 provides a comprehensive review of extant literature relevant to the research topic of the study. The chapter adopts an interdisciplinary approach by providing a comprehensive review of key literature in the areas of NIEs approach to IB, political economy perspective of China’s OFDI into Africa, state-owned multinational enterprises, emerging market multinational enterprises, Chinese multinational enterprises, and Chinese OFDI into Africa.

**Chapter 4 – Conceptual Framework**
Chapter 4 provides the conceptual rationale for the study. Specifically, the chapter presents the theoretical background of the proposed conceptual framework by adopting an interdisciplinary approach that draws on concepts from the IB and PE literature. The chapter provides an explanation of the various concepts and the relationship between them. The proposed conceptual framework captures the dependent variable and the main independent variables (institutional quality regulative quality institutional distance, regulative distance) in addition to the moderating
variable of development aid. The chapter also relates the concepts to Chinese OFDI into Africa by formulating various hypotheses to be tested empirically in the theory testing chapters of the thesis – Chapter 6 and 7

**Chapter 5 - Methodology**

Chapter 5 presents and discusses the methodology and method employed to test the hypotheses formulated in Chapter 4 empirically. The chapter explains the research context of the study and describes the research data utilised in the study. A presentation of all the variables and their measures utilised in this thesis are also provided as well as all the various statistical models specified.

**Chapter 6 - Benchmarking the Determinants of China’s OFDI into African against OFDI from Developed and Developing Economies**

Chapter 6 empirically tests the relationships between our dependent (FDI inflows) and independent variables – institutional quality, regulative quality, institutional distance, regulative distance. The chapter uses OFDI from developed and developing economies as benchmarks to compare OFDI by Chinese investors with OFDI carried out by developed and developing economy investors. The chapter also tests the effects of our key institutional variables on OFDI carried out by Chinese SOMNEs and POMNEs as one of the facets of the PE dimension that this study seeks to account for in the analysis of the location decision of CMNEs in Africa.

**Chapter 7 - The Moderating Effect of Chinese Development Aid inflows on Institutional Quality and Institutional Distance**

Chapter 7 captures the second facet of the PE dimension accounted for in this study by empirically testing the moderating effect of Chinese development aid on the key institutional variables – institutional quality, regulative quality, institutional distance and regulative distance.

**Chapter 8 - Conclusion**
Chapter 8 presents a summary of the overall argument of the thesis, a summary of the key research findings of the study based on the research questions (Section 1.3) – and the limitations of the study. It presents the overall research contribution of the thesis – and the theoretical and empirical contributions of the study. Based on the findings of the study, the chapter provides policy and managerial implications and concludes with an outlook for future research – particularly on the role of political economy in IB research.
Chapter 2. The Characteristics of China’s OFDI into Africa

2.1. Introduction

This chapter aims to highlight the distinctive characteristics that make China’s OFDI into Africa a peculiar phenomenon. We uncover the peculiarities of China’s OFDI by first providing an analysis of the changing nature of Sino-African relations in their historical context setting the stage for the stylised facts on the nature of China’s OFDI into Africa in the era after the launch of the ‘Go Global’ policy. The rationale for this chapter is based on the need to understand the context of China’s OFDI into Africa thereby setting the stage for the literature review in Chapter 3 by helping to highlight the insufficiencies in the literature on China’s OFDI into Africa. We organise the chapter as follows: Section 2.2, examines the changing nature of Sino-African relations since the period of self–determination for African countries. Section 2.3 describes the size of Chinese greenfield investments in Africa including the number of FDI projects and capital expenditure. In section 2.4, we discuss the distribution of Chinese greenfield investment in Africa by examining the top destination countries for FDI. In section 2.5, we examine Chinese OFDI into Africa from an industry level while section 2.6 looks at the top Chinese companies investing in Africa. Section 2.7 provides a summary of the key characteristics of Chinese OFDI into Africa.

2.2. The Changing Nature of Sino – African Relations in a Historical Context

This section aims to place China’s renewed engagement with Africa in its historical context. The analysis distinguishes between four different periods depicting the evolution of Sino-African relations since the creation of the People’s Republic of China (PRC) in 1949. The chosen periods reflect both the political and economic perspectives of this relationship, particularly the major underlying forces that underpin
this relationship. The periods also reflect how the political and economic dimensions of this relationship have changed over the past decades as China develops into the global power, and the second largest economy it is today. China’s contemporary relations and engagement with the African continent are widely recognised (Large 2008).

However, it is worth noting that the ‘dragon’ has not just arrived (Jiang 2009; Pritchett 2010). African countries have more than half a century of interactions with China (Achberger 2010) that can be related to certain historical periods. Each period is characterised by political, or economic factors that have helped shape the nature of this relationship over the past five decades as well as presently: the era of self-determination, the era of open door policies, the post-Tiananmen Square era and the period after the launch of the ‘Go Global’ policy.

The final period may be described as the period of the formulation, and implementation of the ‘Go Global’ strategy from the year 2000 and onwards. The birth of this policy marked the rising strength of the Chinese economy, and notably the birth of the CMNE – highly competitive, and prepared to engage in value-added activities in various locations of the world wherever the opportunities arise. Such an approach to FDI meant that African countries despite their highly risky environments for business became a popular destination for Chinese capital due to its wealth in energy, and natural resources (Jiang 2009). Thus, the beginning of the 21st century witnessed a significant re-engagement with Africa both politically, and economically on a scale never seen since the time of the Bandung conference of 1955. We elaborate on each of the above four periods of the Sino-African relations below showing how the relationship has evolved over the decades to China’s current re-engagement with Africa.
2.2.1. The Era of Self-Determination (1955-1978)

The ‘wind of change’ that swept through the African continent during the mid-20th century witnessed a significant number of African countries attain independence after a prolonged period of widespread demand for self-determination across the continent (Ndlovu-Gatsheni 2012). This demand escalated into independence movements and wars for national liberation from decades of colonialism.

China supported these struggles for independence in Africa (Konings 2007). This support was first manifested during the first large-scale Afro-Asian conference in Bandung in 1955 of which 29 Asian and African countries were in attendance (Muekalia 2004). The Bandung conference marked the first official contacts between China and continental Africa. The objective of the conference was to foster economic and cultural cooperation between the Asian and African countries while opposing imperialism in any form (Ampiah 2007). The conference also sought to inspire colonised countries to struggle for national liberation, hence playing a role in the promotion of anti-colonial movements in Africa (Muekalia 2004). This cooperation was a significant step toward the formation of the Non-Aligned Movement with third world countries advocating abstention from Cold War alliances and against colonialism (Willetts 1978).

Post-Bandung, China continued to cultivate ties with African countries by offering even military support to African countries in a bid to encourage wars of national liberation, though this support tended to focus on African countries that were following a socialist path such as Ghana, Guinea, Zambia, and Tanzania (Konings 2007). These continued relations with the continent were epitomised by the tour of 10 African countries by Prime Minister Zhou Enlai from December 1963 and February 1964 when he indicated China’s support for African struggles against colonialism, a policy of non-
interference and respect for sovereignty by all other countries. Such open political support against colonialism was backed up by some economic projects carried out throughout Africa with assistance from the Chinese government (Payne and Veney 1998).

The most well-known and perhaps the largest of such projects was the 1860-km TAZARA railway, constructed from 1970 to 1975 between Kapiri Mposhi, Zambia, and Dar-es-Salam, Tanzania (Monson 2013). Known to the locals as the ‘Uhuru’ or freedom railway, it was constructed with the assistance of the Chinese government who offered an interest-free loan of USD500 million (Monson 2009). It was proving difficult for Zambia (a landlocked country) to transport goods mainly copper through former Rhodesia which had unilaterally declared independence under Ian Smith (Anglin 1980). The other coastal neighbour, Angola was going through a violent struggle for independence from the Portuguese (Le Billion 2001). The provision of economic assistance through the financing of large-scale projects by the Chinese government like the TAZARA railway project had a political underpinning (Sautman and Hairong 2007). As most African countries gained independence, China sought political legitimacy by gaining diplomatic recognition from other nations in the ‘third world’ (Jackson 1995; Adie 1962). This realignment, with newly independent countries in Africa, had symbolic consequences for legitimacy and diplomatic recognition for China.

One of the significant outcomes of this alignment with the ‘third world’ was the recognition and reestablishment of the Peoples Republic of China to China’s seat in the United Nations Security Council in 1971 at the expense of the Republic of China today known as Taiwan (Wei 1982). This recognition of The People’s Republic of China in the United Nations had much to do with the votes of 26 African countries in
the United Nations (Wei 1982), thus marking the event as perhaps the most significant in Sino-African relations. This event was even more significant for the newly independent African countries who often on the periphery of world politics, now influenced decisions on the world stage following their newly independent status. However, Sino-African relations during this period was predominantly political than economic (Cornelissen and Taylor 2000).

2.2.2. ‘Open Door’ Policies (1978-1991)

The death of Chairman Mao and the coming to power of Deng Xiaoping in 1978 saw the beginning of a quiet period in Sino-African relations right up to the late 1980s (Muekalia, 2004). Politically, the African continent had changed dramatically as the majority of African countries but for a few had gained independence (Nugent 2012). Thus, the calls for revolutionary struggles against colonialism were rather muted. In China, development efforts were concentrated inwards as Deng initiated wide-ranging market-oriented reforms with his ‘Open Door’ policies (Huan 1986). These policies were aimed at reforming the industrial structure at home and to hasten the integration of the Chinese economy into the globalised economy, with China joining the World Bank and IMF in April 1980 (Jacobson & Oksenberg 1990).

The period between 1986 to 1991 witnessed the development paradigm shift gradually from an import substitution strategy to an export-led growth strategy (Voss et al. 2008). This export-led growth strategy requires the abundance of natural resources notably in energy, to sustain it (Shan and Sun 1998). Thus, one can argue that the decision to adopt an export-oriented growth strategy sowed the seeds for China’s current re-engagement with Africa. The gradual shift in economic strategy also witnessed an endeavour to create a favourable institutional environment to attract Western MNEs to invest in China (Zhang 2003). However, despite these efforts on
domestic reforms, China’s institutions like most EMs remain relatively weak with low labour cost playing a significant role in the attraction of foreign investment. Regarding OFDI, the few largest and most important Chinese SOEs were awarded preferential treatment by the government (Zhang 2003). For example, the target location for the OFDI activities during this period was in already developed economies mainly through joint ventures which enabled technology cooperation and transfer back to China (Guo 1984). Such support from the Chinese government depicts early signs of government encouragement of OFDI activities, though not yet an official government policy during this period.

2.2.3. Post-Tiananmen Square Era (1991-2000)

This period witnessed the continuation of the ‘Open Door’ policies of Deng and a push toward market liberalisation (Voss et al. 2008). There was also a revival of Sino-African relations following the end of the Cold War and the Tiananmen Square incident of June 4th, 1989. The Tiananmen Square incident (Hershkovitz 1993) resulted in widespread condemnation by the West of China’s suppression of the protest movement. In the face of this criticism from the West, African governments were far more supportive of Beijing (Taylor 2006). This support made Beijing realise that Africa represented a vital faction of support for Beijing during disputes with the West (Taylor 2004; Taylor 1998).

After the Tiananmen Square incident, China focused on revitalising relations with individual African countries ranging from political, economic and multilateral cooperation on issues of common interests on the world stage (Naidu and Mbazima 2008). Politically China sought to build individual diplomatic relationships with African countries following criticisms from the West during the aftermath of the Tiananmen incident (Konings 2007). Economically, due to China’s new liberalisation
momentum, OFDI increasingly became an essential tool of China’s new plan for economic development (Zhang, 2003). The Chinese economy had begun experiencing high economic growth, and China began to acknowledge Africa’s significant role in sustaining this level of economic growth mainly through its riches in natural resources (Patey 2007).

However, a more significant proportion of OFDI carried out during this period by Chinese companies were still of a strategic asset seeking nature in industrialised countries like the United States with some natural resource seeking investments in the extractive sector in Canada and Australia (Voss et al. 2008). Chinese OFDI into Africa began to rise but were still relatively small as compared to the latest fifteen years of Sino-African relations according to data from the Almanac of China’s Foreign Economic Relations and Trade & Ministry of Commerce 2016. However, it is worth noting that towards the end of this period, Africa became a prominent regional location for Chinese OFDI – driven by the implementation of the ‘Go Global’ policy and the joining of the WTO in 2001 (Naidu and Mbazima 2008).

2.2.4. The ‘Go Global’ Policy and FOCAC (2000 – Present)

The launch of the ‘Go Global’ policy in the year 2000 marked a turning point in recent Sino-African relations. The policy symbolised the growing economic strength of China and the CMNE (Zhao 2007) with the latter internationalising not only to strengthen their competitive advantage, but also to support, and sustain the economic development of Chinese economy (Voss et al. 2008). As a consequence, the distribution of Chinese OFDI gradually shifted in favour of developing countries with an overall increase of 22% during this sub-period with Africa witnessing the highest percentage of this growth (Voss et al. 2008).

Since its inaugural meeting, some areas of cooperation have repeatedly featured on the agenda of these meetings mainly in the domain of economic cooperation. An examination of the items on the agenda of all FOCAC meetings so far flags up the areas investment, trade, infrastructural development and cooperation in energy and resource security as areas that feature persistently on the agenda. These aspects of cooperation show that although Sino-African relations still have a political underpinning, it has gradually shifted to a predominantly economic one since the implementation of the ‘Go Global’ policy and the inaugural FOCAC meeting in 2000 in Beijing. This notion is also backed up by the sharp rise in China’s OFDI into Africa since the first FOCAC summit in the year 2000 – necessitating the need to investigate

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1 According to Geng Shuan Spokesperson for China’s Foreign Ministry on January 2018
2 Please see declaration for all FOCAC meetings in the ‘FOCAC archives’, available online at http://www.focac.org/eng/ltda/
This relatively new phenomenon (Drogendijk and Blomkvist 2013; Cheung et al. 2012).

However, the granting of loans and high-level cooperation between the Chinese governments and SOMNEs on the one hand and African governments on the other highlights the nexus between politics and economics in Chinese OFDI into Africa that cannot be ignored when examining the drivers of Chinese OFDI into Africa. In the following section, we provide stylised facts on the nature of China’s OFDI into Africa from the most recent era of Sino-African relations that is, the era since the launch of the ‘Go Global’ and the FOCAC.

2.3. China’s OFDI into Africa: Key Trends

China’s OFDI into Africa has been on the rise since the first ministerial conference of the FOCAC in the year 2000 (China Statistical Yearbook 2016). Greenfield data from FDI Markets shows that in the year 2003, China’s OFDI flows into Africa stood at USD5.513 billion. In 2016 alone, China’s OFDI into Africa was valued at USD36.143 billion. Between 2003 and 2016, a total of 321 FDI projects were carried out by Chinese firms (see Table 2.1).

Table 2.1 shows that that the total capital investment of these projects stood at USD73.66 billion – an average investment of USD229.50 million – creating a total of 135,104 jobs. From Table 2.1 the most substantial number of projects was announced in the year 2016, with a total of 66 projects – representing a total of USD36.14 billion. According to the African Investment Report 2017 published by the Financial Times, China overtook the United States as the leading investor in greenfield projects

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3 FDI Markets provides data on greenfield FDI projects only
regarding capital expenditure in the year 2016 – indicating China’s growing economic influence in the region (Klasa Adrienne 2017).

Table 2.1. China’s OFDI into Africa Trends by Year (USD Millions) 2003-2016

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Projects</th>
<th>Jobs Created</th>
<th>Capital Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Total</td>
<td>Average</td>
</tr>
<tr>
<td>2016</td>
<td>66</td>
<td>38,417</td>
<td>582</td>
</tr>
<tr>
<td>2015</td>
<td>32</td>
<td>14,073</td>
<td>439</td>
</tr>
<tr>
<td>2014</td>
<td>35</td>
<td>14,017</td>
<td>400</td>
</tr>
<tr>
<td>2013</td>
<td>19</td>
<td>5,186</td>
<td>272</td>
</tr>
<tr>
<td>2012</td>
<td>38</td>
<td>8,786</td>
<td>231</td>
</tr>
<tr>
<td>2011</td>
<td>24</td>
<td>6,942</td>
<td>289</td>
</tr>
<tr>
<td>2010</td>
<td>13</td>
<td>6,643</td>
<td>511</td>
</tr>
<tr>
<td>2009</td>
<td>18</td>
<td>5,751</td>
<td>319</td>
</tr>
<tr>
<td>2008</td>
<td>25</td>
<td>18,383</td>
<td>735</td>
</tr>
<tr>
<td>2007</td>
<td>14</td>
<td>4,368</td>
<td>312</td>
</tr>
<tr>
<td>2006</td>
<td>7</td>
<td>3,446</td>
<td>492</td>
</tr>
<tr>
<td>2005</td>
<td>14</td>
<td>4,473</td>
<td>319</td>
</tr>
<tr>
<td>2004</td>
<td>5</td>
<td>1,119</td>
<td>223</td>
</tr>
<tr>
<td>2003</td>
<td>11</td>
<td>3,500</td>
<td>318</td>
</tr>
<tr>
<td>Total</td>
<td>321</td>
<td>135,104</td>
<td>420</td>
</tr>
</tbody>
</table>

Source: Author’s calculations based on data from FDI Markets (2017)

Regarding job creation, the year 2008 has seen the highest average project size of 735 jobs per project. Such rapid growth in Chinese OFDI into Africa calls for a comprehensive explanation of the drivers behind this phenomenon and the implications for the continent at large (Drogendijk and Blomkvist 2013).

It is often suggested in the popular media and academia alike that Chinese OFDI into Africa is attracted to countries with very low levels of institutional quality (Haglund 2008; Patey 2007; Cheung et al. 2012). In the following section, we provide descriptive statistics on the top destination countries that attract Chinese OFDI alongside their institutional quality scores.

2.4. Top Destination Countries

Between 2003 and 2016, Chinese investors carried a total of 192 projects in 34 African countries (FDI Markets 2017). However, figure 2.1 shows that the top five destination countries – including South Africa, Egypt, Ethiopia, Kenya and Nigeria account for the majority of projects. This distribution suggests that although the African continent
has witnessed a sharp increase in Chinese investments over the past decade and a half, these projects are highly concentrated in a limited amount of countries.

South Africa is the top destination country regarding the number of projects accounting for up to 30% of all the projects carried out during this period. Regarding capital expenditure and jobs created, Table 2.2 shows that Ethiopia has received the highest number of total jobs and had the largest project size with 1032 jobs per project. On the other hand, Egypt has both the highest total and highest average investment at USD23.78 billion overall and USD699.50 million per project.

Table 2.3 shows the absolute institutional quality and distance regarding institutional quality for the top destination countries for Chinese OFDI into Africa. Our measure is a composite of all 12 institutional indicators, and institutional distance is the difference of the value of absolute institutional quality of China and the destination country. Data on institutional indicators are from the International Country Risk Guide 2017 database. Both Ethiopia and Egypt have an institutional quality score of 48.83 and 56.71 (out of 100 points) that is below our average institutional quality score of 57.6 for all destination countries (see Table 2.3). We also observe that the average institutional quality score of China is also higher than for both Ethiopia and Egypt producing an institutional distance value of 14 and 6.12 respectively. Such institutional distance values indicate proximity regarding institutional quality between China and Ethiopia and Egypt.
South Africa remains the most developed economy in the African continent and a member of the BRICS group of emerging economies. Its relatively stable institutional environment in a continent with the majority of countries characterised by weak institutional capacity provides the country with a comparative advantage in attracting FDI over other countries in the continent (Kolstad and Wiig 2011).

Thus, it is not surprising that it attracts the highest number of projects. Moreover, with its population of slightly over 55 million inhabitants, South Africa has a large market potential for Chinese manufacturing goods and also to serves as a hub for adjacent markets.
Table 2.3. Institutional Quality and Distance of Top Destination Countries 2003 -2016

<table>
<thead>
<tr>
<th>Destination</th>
<th>Institutional Quality</th>
<th>Absolute Institutional Distance</th>
<th>Standard Deviation</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>62.83</td>
<td>4.84</td>
<td>56.4</td>
<td>70</td>
<td></td>
</tr>
<tr>
<td>All Destinations</td>
<td>5.23</td>
<td>57.6</td>
<td>8.78</td>
<td>36.9</td>
<td>76.1</td>
</tr>
<tr>
<td>South Africa</td>
<td>-3.78</td>
<td>66.61</td>
<td>2.03</td>
<td>63.3</td>
<td>71</td>
</tr>
<tr>
<td>Egypt</td>
<td>6.12</td>
<td>56.71</td>
<td>5.54</td>
<td>48.0</td>
<td>64</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>14</td>
<td>48.83</td>
<td>1.39</td>
<td>47.2</td>
<td>53</td>
</tr>
<tr>
<td>Kenya</td>
<td>9.17</td>
<td>53.66</td>
<td>3.12</td>
<td>49.8</td>
<td>61</td>
</tr>
<tr>
<td>Nigeria</td>
<td>17.54</td>
<td>45.29</td>
<td>1.43</td>
<td>41.5</td>
<td>48</td>
</tr>
<tr>
<td>Zambia</td>
<td>0.02</td>
<td>62.81</td>
<td>1.51</td>
<td>56.5</td>
<td>64</td>
</tr>
<tr>
<td>Algeria</td>
<td>13.57</td>
<td>49.26</td>
<td>1.43</td>
<td>45.4</td>
<td>52</td>
</tr>
<tr>
<td>Ghana</td>
<td>-1.37</td>
<td>64.20</td>
<td>2.86</td>
<td>59.0</td>
<td>68</td>
</tr>
<tr>
<td>Morocco</td>
<td>-4.17</td>
<td>67.00</td>
<td>6.65</td>
<td>53.4</td>
<td>74</td>
</tr>
<tr>
<td>Angola</td>
<td>5.6</td>
<td>57.23</td>
<td>1.48</td>
<td>52.5</td>
<td>59</td>
</tr>
</tbody>
</table>

Author’s calculations based on data from ICRG (2017)

2.5. Industry Analysis: Business Activity

From a business activity standpoint, Figure 2.2 indicates that manufacturing is the top business activity for Chinese investors in Africa, with almost half of all the projects tracked for the period 2003-2016. Table 2.4 shows that manufacturing has also generated the highest number of total jobs created. Thus, from an industry perspective, the data shows that Chinese OFDI into Africa is diversified across sectors and not concentrated on the extractive or resource-oriented sectors. Thus, when analysing the motives for Chinese OFDI into Africa, we need to account for the effects, different sectors might have on our results.

Figure 2.2. Number of FDI projects by business activity 2003-2016
Author’s calculations based on data in FDI Markets (2017)

Regarding capital expenditure, it is the construction sector that has both the highest total and highest average investment with a total of USD27.03 billion in capital expenditure (Table 2.4). Regarding jobs created, construction also has the largest project size creating an average of 1297 jobs per project. Chinese SOMNEs have financed and carried out many infrastructure projects across Africa – including roads, ports, rail systems and telecommunication networks. Such relatively high amounts of Chinese infrastructure investments in Africa points to a distinctive characteristic of Chinese OFDI into Africa – the close integration of Chinese aid (in the form of concessional loans) with FDI projects (Biggeri & Sanfilippo 2009; Sanfilippo 2010). This close integration of aid and FDI projects highlights a distinctive characteristic of China’s OFDI into Africa that forms part of the PE of Chinese OFDI into Africa that other studies on China’s FDI in Africa do not take into account.

Table 2.4. Chinese FDI Trends in Business Activity (USD Millions)

<table>
<thead>
<tr>
<th>Business activity</th>
<th>No of projects</th>
<th>Jobs Created</th>
<th>Capital expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Total</td>
<td>Average</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>148</td>
<td>92,194</td>
<td>622</td>
</tr>
<tr>
<td>Sales, Marketing &amp; Support</td>
<td>41</td>
<td>739</td>
<td>18</td>
</tr>
<tr>
<td>Business Services</td>
<td>20</td>
<td>351</td>
<td>17</td>
</tr>
<tr>
<td>Education &amp; Training</td>
<td>16</td>
<td>1,409</td>
<td>88</td>
</tr>
<tr>
<td>Extraction</td>
<td>16</td>
<td>10,317</td>
<td>644</td>
</tr>
<tr>
<td>Logistics, Distribution &amp; Transportation</td>
<td>15</td>
<td>9,906</td>
<td>660</td>
</tr>
<tr>
<td>Retail</td>
<td>11</td>
<td>450</td>
<td>40</td>
</tr>
<tr>
<td>Construction</td>
<td>10</td>
<td>12,971</td>
<td>1,297</td>
</tr>
<tr>
<td>Electricity</td>
<td>9</td>
<td>1,128</td>
<td>125</td>
</tr>
<tr>
<td>Headquarters</td>
<td>8</td>
<td>848</td>
<td>106</td>
</tr>
<tr>
<td>Other business activities</td>
<td>27</td>
<td>4,791</td>
<td>177</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>321</strong></td>
<td><strong>135,104</strong></td>
<td><strong>420</strong></td>
</tr>
</tbody>
</table>

Source: Author’s calculations based on data from FDI Markets (2017)

A case in point was the building of a railway linking Addis Ababa, Ethiopia and the port of Djibouti in October 2016 that provides landlocked Ethiopia with access to the
Djibouti seaport of Doraleh⁴. Another example is the standard gauge railway line connecting the port city of Mombasa to Kenyan capital Nairobi – completed in June 2017⁵. Finance for the latter project was provided by the Exim Bank of China with no conditions on the improvement of domestic institutions – and carried out by the China Road and Bridge Corporation – a Chinese SOMNE.

Table 2.5. Chinese Loans to African Countries 2000-2015 (USD Millions)

<table>
<thead>
<tr>
<th>Country</th>
<th>Exim bank</th>
<th>China Development Bank</th>
<th>Supplier's Credits</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Angola</td>
<td>6937</td>
<td>8775</td>
<td>22</td>
<td>3491</td>
<td>19224</td>
</tr>
<tr>
<td>Benin</td>
<td>777</td>
<td>0</td>
<td>131</td>
<td>908</td>
<td></td>
</tr>
<tr>
<td>Botswana</td>
<td>90</td>
<td>0</td>
<td>841</td>
<td>931</td>
<td></td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Burundi</td>
<td>47</td>
<td>0</td>
<td>52</td>
<td>99</td>
<td></td>
</tr>
<tr>
<td>Cameroon</td>
<td>3632</td>
<td>45</td>
<td>43</td>
<td>3723</td>
<td></td>
</tr>
<tr>
<td>Cape Verde</td>
<td>81</td>
<td>0</td>
<td>56</td>
<td>137</td>
<td></td>
</tr>
<tr>
<td>CAR</td>
<td>0</td>
<td>0</td>
<td>43</td>
<td>104</td>
<td></td>
</tr>
<tr>
<td>Chad</td>
<td>606</td>
<td>0</td>
<td>0</td>
<td>606</td>
<td></td>
</tr>
<tr>
<td>Comoros</td>
<td>8</td>
<td>0</td>
<td>0</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>ROC</td>
<td>2433</td>
<td>0</td>
<td>165</td>
<td>2836</td>
<td></td>
</tr>
<tr>
<td>Cote d'Ivoire</td>
<td>2449</td>
<td>0</td>
<td>72</td>
<td>2521</td>
<td></td>
</tr>
<tr>
<td>Djibouti</td>
<td>1301</td>
<td>0</td>
<td>616</td>
<td>1917</td>
<td></td>
</tr>
<tr>
<td>DRC</td>
<td>3067</td>
<td>0</td>
<td>20</td>
<td>3088</td>
<td></td>
</tr>
<tr>
<td>Egypt</td>
<td>77</td>
<td>300</td>
<td>54</td>
<td>432</td>
<td></td>
</tr>
<tr>
<td>Equatorial Guinea</td>
<td>1121</td>
<td>0</td>
<td>23</td>
<td>1622</td>
<td></td>
</tr>
<tr>
<td>Eritrea</td>
<td>488</td>
<td>0</td>
<td>16</td>
<td>504</td>
<td></td>
</tr>
<tr>
<td>Ethiopia</td>
<td>7245</td>
<td>655</td>
<td>1003</td>
<td>13067</td>
<td></td>
</tr>
<tr>
<td>Gabon</td>
<td>750</td>
<td>0</td>
<td>278</td>
<td>1027</td>
<td></td>
</tr>
<tr>
<td>The Gambia</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Ghana</td>
<td>1536</td>
<td>1000</td>
<td>172</td>
<td>3176</td>
<td></td>
</tr>
<tr>
<td>Guinea</td>
<td>608</td>
<td>0</td>
<td>38</td>
<td>646</td>
<td></td>
</tr>
<tr>
<td>Guinea-Bissau</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Kenya</td>
<td>6319</td>
<td>240</td>
<td>290</td>
<td>6849</td>
<td></td>
</tr>
<tr>
<td>Lesotho</td>
<td>0</td>
<td>0</td>
<td>8</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Liberia</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Libya</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Madagascar</td>
<td>56</td>
<td>0</td>
<td>0</td>
<td>56</td>
<td></td>
</tr>
<tr>
<td>Malawi</td>
<td>239</td>
<td>0</td>
<td>0</td>
<td>239</td>
<td></td>
</tr>
<tr>
<td>Mali</td>
<td>903</td>
<td>0</td>
<td>79</td>
<td>981</td>
<td></td>
</tr>
<tr>
<td>Mauritius</td>
<td>377</td>
<td>0</td>
<td>54</td>
<td>431</td>
<td></td>
</tr>
<tr>
<td>Mauritania</td>
<td>381</td>
<td>0</td>
<td>89</td>
<td>470</td>
<td></td>
</tr>
<tr>
<td>Morocco</td>
<td>501</td>
<td>0</td>
<td>14</td>
<td>516</td>
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</tr>
<tr>
<td>Mozambique</td>
<td>1686</td>
<td>100</td>
<td>93</td>
<td>1878</td>
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</tr>
<tr>
<td>Namibia</td>
<td>489</td>
<td>0</td>
<td>222</td>
<td>729</td>
<td></td>
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<tr>
<td>Niger</td>
<td>684</td>
<td>0</td>
<td>19</td>
<td>703</td>
<td></td>
</tr>
<tr>
<td>Nigeria</td>
<td>2610</td>
<td>0</td>
<td>500</td>
<td>3499</td>
<td></td>
</tr>
<tr>
<td>Rwanda</td>
<td>151</td>
<td>0</td>
<td>74</td>
<td>224</td>
<td></td>
</tr>
<tr>
<td>Sao Tome &amp; Principe</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Senegal</td>
<td>1497</td>
<td>0</td>
<td>21</td>
<td>1518</td>
<td></td>
</tr>
<tr>
<td>Seychelles</td>
<td>62</td>
<td>0</td>
<td>1</td>
<td>63</td>
<td></td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>48</td>
<td>0</td>
<td>12</td>
<td>60</td>
<td></td>
</tr>
<tr>
<td>Somalia</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>South Africa</td>
<td>0</td>
<td>411</td>
<td>0</td>
<td>411</td>
<td></td>
</tr>
<tr>
<td>Sudan</td>
<td>4837</td>
<td>0</td>
<td>598</td>
<td>1043</td>
<td></td>
</tr>
<tr>
<td>South Sudan</td>
<td>182</td>
<td>0</td>
<td>0</td>
<td>182</td>
<td></td>
</tr>
<tr>
<td>Swaziland</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Tanzania</td>
<td>2086</td>
<td>200</td>
<td>62</td>
<td>2348</td>
<td></td>
</tr>
<tr>
<td>Togo</td>
<td>570</td>
<td>0</td>
<td>14</td>
<td>584</td>
<td></td>
</tr>
<tr>
<td>Tunisia</td>
<td>123</td>
<td>0</td>
<td>3</td>
<td>126</td>
<td></td>
</tr>
<tr>
<td>Uganda</td>
<td>2806</td>
<td>0</td>
<td>71</td>
<td>2877</td>
<td></td>
</tr>
<tr>
<td>Zambia</td>
<td>1768</td>
<td>176</td>
<td>512</td>
<td>2456</td>
<td></td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>1325</td>
<td>40</td>
<td>290</td>
<td>1715</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>62,952</strong></td>
<td><strong>11,943</strong></td>
<td><strong>6,946</strong></td>
<td><strong>10,147</strong></td>
<td><strong>91,987</strong></td>
</tr>
</tbody>
</table>

Author’s calculations based on data from CARI 2016
Data on Chinese loans to African countries from the China-Africa Research Initiative (CARI) 2016 database shows an upward trend in Chinese loans to Africa since the launch of the FOCAC in the year 2000 (see figure 2.3). Table 2.5 shows that the Export-Import Bank of China provides the majority of Chinese loans to African countries. Out of a total of USD91,987 billion of Chinese loans granted to African countries for the period 2000-2015, USD62,952 billion was granted by the China Exim bank of China known to be behind the financing of large infrastructure projects in Africa (Corkin and Burke 2006).

![Figure 2.3. Chinese loans to Africa (2000-2015)](image)

Author’s calculations based on data from CARI (2016)

2.6. Top Investing Companies

Table 2.6 ranks the top 20 Chinese companies investing in Africa by capital expenditure for the period 2003-2016 – and also categorise these firms into the SOMNE and POMNE category. Firstly, the top 20 companies account for a combined total of USD60.154 out of a total of USD73.661 billion for all investments for the period 2003-2016 meaning that the bulk of Chinese OFDI into Africa is carried out by a relatively small number of firms. Secondly, the majority of the top investing companies, are Chinese SOMNEs, indicating that although investments by Chinese
POMNEs are on the rise in Africa (Gu 2009), Chinese SOMNEs still carry out the majority of investments in Africa.

The dominant presence of Chinese SOMNEs in Africa might indicate that the motivations for Chinese OFDI into Africa might be mainly of a strategic than strictly an economic one. It also highlights the influential role the Chinese government plays in Chinese OFDI into Africa in its capacity as the owner of Chinese SOMNEs. We believe that such a dominant presence of Chinese SOMNEs – and involvement of the Chinese government through its role as the owner of Chinese SOMNEs in Africa constitute a facet of the PE of China’s OFDI into Africa that needs to be included when analysing the drivers of China’s OFDI into Africa.

Table 2.6. Top Investing Companies by Capital Expenditure (2003-2016)

<table>
<thead>
<tr>
<th>Investing Company</th>
<th>SOMNE/POMNE</th>
<th>Capital Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Fortune Land Development (CFLD)</td>
<td>POMNE</td>
<td>20,000</td>
</tr>
<tr>
<td>China National Petroleum (CNPC)</td>
<td>SOMNE</td>
<td>13,786</td>
</tr>
<tr>
<td>CITIC Group</td>
<td>SOMNE</td>
<td>3,535</td>
</tr>
<tr>
<td>China State Construction Engineering</td>
<td>SOMNE</td>
<td>3,300</td>
</tr>
<tr>
<td>China Petroleum and Chemical (Sinopec)</td>
<td>SOMNE</td>
<td>3,079</td>
</tr>
<tr>
<td>China Nonferrous Metals Mining (CNMC)</td>
<td>SOMNE</td>
<td>2,570</td>
</tr>
<tr>
<td>Shanghai Electric</td>
<td>SOMNE</td>
<td>2,558</td>
</tr>
<tr>
<td>Huawei Technologies</td>
<td>POMNE</td>
<td>1,984</td>
</tr>
<tr>
<td>Wuhan Iron and Steel Co Ltd (Wisco)</td>
<td>SOMNE</td>
<td>1,314</td>
</tr>
<tr>
<td>Guangzhou Sunda International Trading</td>
<td>POMNE</td>
<td>1,027</td>
</tr>
<tr>
<td>Shanghai Saibon Water Service</td>
<td>POMNE</td>
<td>1,000</td>
</tr>
<tr>
<td>Sany</td>
<td>POMNE</td>
<td>865</td>
</tr>
<tr>
<td>Shandong Iron &amp; Steel Group (Shandong Steel)</td>
<td>SOMNE</td>
<td>850</td>
</tr>
<tr>
<td>Beijing Automotive Industry Holding</td>
<td>SOMNE</td>
<td>832</td>
</tr>
<tr>
<td>Sinosteel</td>
<td>SOMNE</td>
<td>696</td>
</tr>
<tr>
<td>Zhuhai Minghong Group</td>
<td>SOMNE</td>
<td>644</td>
</tr>
<tr>
<td>Dongfang Electric (DEC)</td>
<td>SOMNE</td>
<td>558</td>
</tr>
<tr>
<td>China Metallurgical Group Corporation (MCC)</td>
<td>SOMNE</td>
<td>558</td>
</tr>
<tr>
<td>Jiangsu Lianfa Textile</td>
<td>SOMNE</td>
<td>500</td>
</tr>
<tr>
<td>Broad Homes Industrial</td>
<td>POMNE</td>
<td>498</td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td>13,507</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>73,661</strong></td>
</tr>
</tbody>
</table>

Author’s calculations based on data in FDI Markets (2017)

In a nutshell, China’s OFDI into Africa has been growing. From an industry perspective, manufacturing represented the most significant proportion of business activity while investments in the construction sector attract the highest portion of Chinese investments in capital expenditure terms. From an ownership structure
perspective, the top investing companies are large SOMNEs that are usually referred to as ‘national champions’ and tend to be highly politically connected (Luo, Xue and Han 2010; Wang and Hong 2012).

2.7. Summary of Characteristics of China’s OFDI into Africa

Table 2.7 presents a summary table of the changing nature of Sino-African relations in the political and economic domain from a historical perspective. It also shows the motivations driving this relationship during different periods within the last five decades or so of Sino-African relations. Although current Sino-African relations can be categorised as predominantly economic, political forces also play a significant role in influencing the current economic relationship. Thus, at present, we can distinguish the characteristics Chinese OFDI into Africa into three broad aspects – the relatively low institutional quality of host countries, the close integration of loan with FDI projects, and the dominance of Chinese SOMNEs.

From an FDI perspective, the above characteristics indicate the influence of the Chinese government in Chinese OFDI into Africa. Firstly, as the de facto owner of Chinese SOMNEs, the Chinese government can influence the OFDI activities of large SOMNEs investing in Africa. Due to the likelihood of high government influence, such a dominant presence of Chinese SOMNEs in Africa constitute a facet of the PE of Chinese OFDI into Africa. The provision of loans for mainly construction related projects indicates the influence of the Chinese government on Chinese OFDI in its capacity as the provider of these loans. We believe the influence of the Chinese government through its provision of loans constitute the second facet of the PE of Chinese OFDI into Africa.
Table 2.7. The Changing Nature of Sino-African Relations

<table>
<thead>
<tr>
<th>Historical Period</th>
<th>Political</th>
<th>Economic</th>
<th>Motivations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-determination era (1955-1978)</td>
<td>✓</td>
<td>x</td>
<td>Predominantly political as China seeks to create a ‘third world’ alliance to counter the bipolar system of USSR and USA</td>
</tr>
<tr>
<td>Period of ‘Open Door’ policies (1978-1991)</td>
<td>x</td>
<td>x</td>
<td>The setback in Sino-African relations as China turns inward for economic modernisation</td>
</tr>
<tr>
<td>Post-Tiananmen Square era (1991-1999)</td>
<td>✓</td>
<td>✓</td>
<td>Resource seeking and market seeking and also desire to forge diplomatic alliance during the aftermath of the Tiananmen incident</td>
</tr>
<tr>
<td>‘Go Global’ policy and FOCAC implementation (2000-present)</td>
<td>✓</td>
<td>✓</td>
<td>The strengthening of economic ties. Politics also plays a role through government involvement through the dominance of large SOMNEs and provision of loans</td>
</tr>
</tbody>
</table>
Chapter 3: Literature Review

3.1. Introduction

In this chapter, we aim to provide a critical review of extant literature closely related to the research topic of this thesis – the institutional determinants of China’s OFDI into Africa. Considering our interdisciplinary approach of drawing on insights beyond the IB field – notably the PE of China’s OFDI, we relate our phenomenon of interest to a larger body of literature beyond IB. This approach provides us with an opportunity to construct a conceptual framework (Chapter 4) that draws on insights from both the IB, PE and institutional approaches, thus providing a comprehensive explanation of our topic of interest. Our decision to adopt an interdisciplinary approach to the literature review is due to the distinctive characteristics of Chinese OFDI into Africa highlighted in the previous chapter (Chapter 2), i.e., the dominance of Chinese SOMNEs, the relatively low institutional quality of host countries and the close integration of loans and investments.

In this chapter, we also critically evaluate the explanatory power of existing theoretical approaches in line with our topic of interest by evaluating the extent to which extant theoretical perspectives employed in existing research explain China’s OFDI into Africa. This evaluation allows us to highlight the possibilities for the extension of existing theoretical approaches and contribute to existing literature relating to our topic by showing what has been done and what we think still needs to be done to explain the drivers of Chinese OFDI into Africa.

This chapter is structured as follows: Firstly, we discuss briefly the search strategy adopted in this study in section 3.2. This strategy is used to identify and obtain closely related and relevant literature to our topic of interest. Secondly, we critically review
traditional IB theories while also highlighting their limitations to fully explain our phenomenon of interest in sections 3.3 and 3.4 respectively. These sections are followed by a review of the literature on the institution-based view of IB and its application to research on FDI flows in section 3.5. Next, we review the literature examining the PE perspective of China’s OFDI into Africa in section 3.6. Then, we adopt a general to specific approach by first reviewing the literature focusing on OFDI from EMs in general in section 3.8, followed by OFDI from China in section 3.9 and finally OFDI from China to Africa specifically in section 3.10.

3.2. Literature Search Strategy

The literature review process helps to generate and refine the research ideas of this thesis while providing an underpinning on which the research is built. It is a critical analysis of what other authors have written (Jankowicz 2005). A critical review of closely related and relevant literature was carried out to establish what research has been published in our research area, thereby helping further clarify the research questions of this thesis (Chapter 1, Section 1.3). It also helps to build propositions (Chapter 4) that are statistically tested using data (Chapters 6 and 7). We begin with a literature search. Although an early activity of the literature review process, the literature search is seen as a continuous activity throughout this study (Hart 2001) as this provides access to relevant and up to date literature in our research area.

In the search strategy adopted in this thesis, a plan was initially developed. A plan aims to define the parameters of the literature search to be conducted regarding subject area, geographical coverage and the type of literature that is of interest in the conduct of our study. Regarding identifying the type of literature we are interested in, we follow the recommendations of Saunders et al. (2011) by focusing on primary, secondary and tertiary sources. In our review of the relevant literature, we made the highest use of
secondary literature (i.e., books and journal articles). Thus, studies closely related to our research topic of interest that are referenced in books and journal articles were initially identified and obtained for further reading, enabling the refinement of our research questions. The majority of the journal articles we review are predominantly in the Management field. These articles are published in top Management-related academic journals such as the ‘Journal of International Business Studies’, ‘Academy of Management Journal’, ‘Strategic Journal of Management’, ‘Journal of Management Studies’, ‘Journal of World Business’, ‘Academy of Management Review’ and the ‘International Business Review’ etc.

The Management field is interdisciplinary and thus utilises a wide range of literature in closely related disciplines such as Economics, Finance and Human Resource Management (van Baalen and Karsten 2012). Thus, we also review relevant studies in these disciplines were appropriate. Furthermore, our interdisciplinary approach to our research topic of interest means we also review literature in the field of PE, specifically the PE of China-Africa relations. We review closely related and relevant studies predominantly published in academic journals such as ‘African Affairs,’ ‘Review of African Political Economy,’ ‘Journal of African Business,’ Journal of Modern African Studies’ and the ‘Third World Quarterly.’ The majority of studies published in these journals examine contemporary China-Africa relations from a PE approach. We access the above studies mainly through the internet using the university library resources, mainly from Business Source Complete as well as Google Scholar.

The research questions also acted as a guide to our search strategy. The impact of institutional quality in explaining the location choice of CMNEs in Africa is one of the research questions this study sought to answer. As a result, extant literature focusing on the role of institutions as a determinant of FDI location was given priority in the
literature search, and thus helped provide the direction of the search for extant literature. The growing interest in the institution-based view of IB research coincides with the emergence of an increased role in IB of major EMs such as China and India (Meyer et al. 2009). The focus of this dissertation is China, the largest EM regarding economic growth (UNCTAD 2017) and the location decision of its MNEs in Africa. Thus, keywords like ‘China’ and ‘Africa’ also facilitated the literature search in finding relevant literature.

3.3. Traditional Theories of FDI

In this section, we review some of the traditional FDI theories of the existence of MNEs and the foreign value-added activities that they own and control. We also highlight the limitations of these theories to explain the topic of interest in this study – the institutional determinants of China’s OFDI into Africa. The traditional theories of FDI and MNE activity discussed and evaluated in this section include the internalisation theory (Buckley and Casson 1976), the eclectic (OLI) paradigm of international production (Dunning 1977; Dunning 2001), and the investment development path (IDP) (Dunning 1986).

The above traditional theories have also come under criticisms from IB scholars calling for specific modifications to traditional IB theories in light of the emerging role of institutions, and the rise in OFDI from EMs like China (Ramasamy et al. 2012; Stoian 2013; Buckley et al. 2007; Child & Rodrigues 2005).

3.3.1. The Internalisation Theory

Drawing upon the earlier insights of Coase (1937), the internalisation theory (Buckley & Casson 1976) seeks to explain why cross-border activities of intermediate products are likely to be internalised by MNE hierarchies. The internalisation theory posits that
firms are likely to internalise the market for their intermediate products up to the margin when they perceive the benefits (from the transactions arising from them) exceed those offered by market transactions (Dunning and Lundan 2008). This notion of transactions costs has been extended to the analysis of institutions and FDI activities of MNEs whereby the impact of institutions is linked to its effect on transactions costs, thus making the NIEs approach to IB the theoretical approach of choice of this study (Williamson 1981; Williamson 1985; Williamson 2000).

All in all, the internalisation theory posits that because different stages of production are best carried out in different countries due to uneven distribution of factor endowments, firms will internalise the markets for intermediate products; when they perceive that the net benefits of their collective ownership exceed the option of external supply relationships (Buckley and Casson 2009).

The internalisation theory has been criticised for its inability to predict circumstances in which firms might choose to internalise foreign markets, as the types of market failure in intermediate products that shape one type of FDI activity may be different from that of another (Dunning & Lundan 2008). This difference indicates that the theory focuses more on the internalisation of intermediate product markets rather than the value-added activities of firms, attained by the coordination of varied activities within a firm (Dunning 2003). As a result, one of the early advocates of the internalisation theory himself argues that the theory can be best represented as a paradigm than a theory (Buckley 1990). Also, the need for location-specific variables in conjunction with the internalisation theory to fully explain the pattern of FDI activities gave rise to a holistic paradigm that encapsulates both the internalisation and location-specific dimensions in conjunction with the ownership specific variables advocated by Hymer (1960; 1976) – known as the OLI paradigm.
3.3.2. The Eclectic or OLI Paradigm of International Production

The eclectic paradigm (Dunning 1977; Dunning 2001) offers a holistic framework for analysing the level and pattern of both FDI carried out by the enterprises of a country, and that undertaken domestically by foreign firms. The grouping of the various explanations of the activities of firms across national boundaries is illustrated in the central propositions of the paradigm.

The Central Propositions of the Eclectic Paradigm

Dunning & Lundan (2008) suggest the extent and pattern of FDI undertaken by MNEs at any given time will be determined by the configuration of three sets of elements:

- The extent to which firms of one country possess unique non-transferable ownership advantages (OAs) relative to firms of other nationalities operating in particular markets.

- The extent to which the firm perceive it to be in its competitive advantage to internalise rather than sell the rights to use its OAs to foreign firms.

- The last dimension of the OLI paradigm assumes that the spatial distribution of location bound resources, across countries, can provide a competitive advantage to countries that possess them over those that do not at all, or lack in sufficient quantities (Rugman and Verbeke 2008). Thus, the more the global interests of the firm are served by utilising its OAs in a foreign location with compatible location advantages (LAs), then the more likely for the firm to engage in OFDI.

Another framework seeks to capture the above interaction from a country-level perspective is the investment development path (IDP).
3.3.3. The Investment Development Path

The investment development path (IDP) (Dunning 1981; Dunning 1986), represents a framework that seeks to explain, from the perspective of individual countries, how the evolving OAs of firms and LAs of countries interact to explain the level and pattern of inward and outward FDI (Dunning & Lundan 2008). The IDP is made up of five stages.

**IDP stage 1**

In the first stage of the IDP, the LAs of a country are assumed to be inadequate to attract inward FDI (Dunning, Dunning and Narula 2003). However, the possession of natural resources is considered the primary LA of the country, and an attraction of inward FDI. In this stage, the country is deficient in what Dunning & Narula (1996) called created assets such as high human capital, developed institutions, for a conducive environment for business to flourish. As a result, there is likely to be very little OFDI activity by domestic firms, due to a lack of sufficient OAs.

**IDP stage 2**

In stage 2, inward FDI starts to rise while OFDI activities by domestic firms remain low. This increase in inward FDI is due to the growing importance of the size and purchasing power of the domestic market (Buckley and Castro 1998). OFDI emerges at this stage but is likely to be resource and market seeking investments in other developing and adjacent countries (Barry et al. 2003).

**IDP stage 3**

The NOI position of the country increases in stage 3 of the IDP. This increase is due to a slow decline in the rate of growth of inward FDI, while the rate of growth of OFDI increases. Depending on their size, technological capabilities, and their institutional
quality, most countries at this stage will be almost reaching the economic maturity and income level of those of developed countries (Verma and Brennan 2011). At this stage, there is a transition from export-led to innovation-driven growth as there is now a growing stock of created assets in the host country due to an increase in expenditure on tertiary education, and innovatory activities (Durán, ÚBEDA Taylor and Ltd 2005).

**IDP stage 4**

In stage 4, the rate of growth of OFDI is now rising faster than inward FDI such that the country’s stock of OFDI, begins to equal or exceed the inward FDI stock from foreign firms (Dunning 1981). The sufficient OAs of domestic firms at this stage depicts an increasing reliance on their possession of managerial, and organisational competencies. Such reliance on their competencies also means an increasing tendency to internalise the market of these OAs by engaging in OFDI, rather than externalise them to foreign firms. Inward FDI, from another stage 4 country, is likely to be of an efficiency-seeking or strategic asset-seeking nature.

**IDP stage 5**

Introduced by Dunning & Narula (1996), stage 5 sees a continuous rise of both inward FDI, and OFDI simultaneously. This stage is exemplified by advanced industrialised countries such as the US, and Japan. Very few of the OAs of MNEs in these economies are drawn from the home country, but rather from their ability to acquire income generating assets while exploiting the advantages of governing value-added activities across national boundaries.

In the following section, we discuss the limitations of the traditional IB theories discussed above, i.e., the internalisation theory, the OLI paradigm and the IDP theory – in explaining China’s OFDI into Africa.
3.4. The Limitations of Traditional IB Theories in Explaining China’s OFDI into Africa

The internationalisation of firms from China has attracted a great deal of research interest from Management scholars. This rise in research interest has led to questions by scholars on its implications for the above-discussed traditional theories of FDI (e.g., Buckley et al. 2007; Child & Rodrigues 2005; Deng 2009). For example, Buckley et al. (2007) and Child & Rodrigues, (2005) suggest that traditional IB theories were built mainly on the experience of DCMNEs. These scholars argue that imperfect capital markets in China have resulted in the availability of capital at below market rates mainly to SOMNEs with assistance from the government resulting in a ‘special’ OA. Such a ‘special’ OA is as a result of the impact of domestic institutional factors in EMs like China not accounted for in traditional IB theories.

Child & Rodrigues (2005) suggest that traditional IB theories tend to view the internationalisation of the firm primarily through an economic rather than a social or political lens. However, the authors do not elaborate under what circumstances the political dimension determines the direction of Chinese FDI and how it can generate advantages towards the competitiveness of CMNEs. It has also been suggested that the strong economic connections among the Chinese diaspora otherwise known as guanxi (Wang 2000) not only influence the direction of China’s OFDI but is also an advantage to CMNEs that helps reduce transactions cost (Erdener and Shapiro 2005).

In Chapter 2 of our study, we highlighted some characteristics of China’s OFDI into Africa. These characteristics include the dominance of Chinese SOMNEs, the relatively low institutional quality of host countries that attract Chinese OFDI, and the close integration of aid with Chinese FDI. In consideration of these characteristics, we explain the reasons why traditional IB theories are unable to explain China’s OFDI
into Africa fully. By traditional IB theories we mean the internalisation theory, the OLI paradigm and the IDP (Section 3.3). We refer to these theories as traditional IB theories because they place particular emphasis on the firm-specific resources of the firm as the primary driver of its ability to engage in OFDI (Ramasamy et al. 2012).

3.4.1. The Dominance of Chinese SOMNEs in Africa

Theoretical adjustments to traditional IB theories are needed to understand the location decisions of Chinese SOMNEs (Ramasamy et al. 2012). Traditional IB theories focus greatly on the firm itself as an agent that engages in FDI but less on its political and institutional embeddedness in the broader society in which it operates (Child and Rodrigues 2005). As a result, traditional IB theories tend to view the subject of FDI primarily through an economic rather than an institutional or political lens (Child and Rodrigues 2005).

In the case of China’s OFDI into Africa, it is difficult to disregard the dominant presence and political embeddedness of predominantly Chinese SOMNEs engaging in FDI as highlighted in Chapter 2 of our study. Such dominance of Chinese SOMNEs might have implications for theory internationalisation strategies as Chinese SOMNEs are more likely to engage in OFDI based on political objectives than strictly for economic ones due to their high political connections (Liang, Ren, & Sun 2014). Indeed, the “Go Global” policy in itself has a political underpinning based on appeals of national interest (Luo et al. 2010). Such political objectives for engaging in FDI in Africa are not captured by the primarily economically focused traditional IB theories such as the OLI paradigm and the IDP.

Secondly, Chinese OFDI into Africa is also guided by a political strategy adopted by the Chinese government (as the owner of Chinese SOMNEs) in a bid to boost the competitiveness, of late-coming CMNEs in Africa. This approach sets aside
governance concerns of African countries which have restrained FDI flows from OECD countries into Africa in the past (Besada, Wang and Whalley 2008). This approach provides a competitive advantage for Chinese SOMNEs in African countries that Western MNEs have seemingly deemed too risky (Patey 2007). From the perspective of the CMNE in Africa, this represents a government generated OA and a novel approach to the internationalisation of the firm not captured by traditional IB theories such as the OLI paradigm. For instance, the OLI paradigm posits the firms engage in OFDI due to the possession of distinctive OAs that arises from tangible and intangible income generating assets (Dunning 2001). However, government-led investments carried out by Chinese SOMNEs in African countries runs contrary to the notion of the firm-specific capabilities of the firm as the sole driver of FDI.

The dominance of Chinese SOMNEs in Africa also highlights the unique nature of the institutional environment in China. This distinctiveness is due to the role of the home institutional environment as a facilitator in the building of necessary OAs by domestic firms themselves takes on a whole different meaning in the case of China. This difference, perhaps more specific to China, is mainly due to the direct role of government in the internationalisation process of Chinese firms (Child & Rodrigues 2005; Luo et al. 2010). Direct financial support implies the existence of capital market distortions whereby capital is available at below market rates to Chinese SOMNEs in particular (Buckley et al. 2007; Song, Storesletten and Zilibotti 2011). This aspect of Chinese FDI may require a particular application of traditional IB theories like the OLI paradigm, which does not accommodate the existence of capital market imperfections in EMs like China (Buckley et al. 2007). Under such circumstances of capital market distortions, it is not necessarily due to the possession of ‘OLI type’ assets that Chinese
SOMNEs have been able to engage in FDI in Africa but through government assistance.

Therefore, considering the dominance of Chinese SOMNEs in Africa and the significant influence of the Chinese government on Chinese SOMNEs (Liang, Ren and Sun 2014), we believe that a PE approach is needed that takes into account the likely influence of the Chinese government on the location decision of Chinese SOMNEs in Africa.

3.4.2. The Institutional Environment of African Countries

According to data from the International Country Risk Guide (ICRG) 2017 database, the majority of African countries have a relatively low institutional quality. Such low levels of institutional quality imply a very unfavourable environment for business (Ngobo and Fouda 2012), leading to relatively low levels of FDI in comparison to other regions in the world (UNCTAD 2017). However, as previously highlighted in Chapter 2, the relatively low institutional quality of African countries that attract Chinese investments is one of the major characteristics of China’s OFDI into Africa.

Chinese firms may be prepared to engage in FDI in African countries avoided by MNEs from developed economies, considered to be too risky (Alden and Davies 2006) because these are the countries with opportunities for investment due to little or no competition. The willingness to invest, in such risky environments, is likely related to that fact that Chinese SOMNEs, in particular, may be less risk-averse than their counterparts from developed economies as a result of government backing both politically and economically (Duanmu 2012).

Another reason for Chinese investments in African countries with very low institutional quality is due to the interplay between home and host country institutional
factors regarding distance. The institutional quality in China is still relatively low compared to that in developed economies. Thus, CMNEs may be attracted to African countries with a relatively low distance regarding institutional quality (Chapter 2, section 2.3). Thus, we presume there is a need for an integration of institutional perspectives not only from a home or host country perspective but the perspective of the nexus between home and host country institutional factors when examining China’s OFDI into Africa. Such a perspective is currently lacking in traditional IB theories such as the internalisation theory and OLI paradigm that does not account for the impact of institutions notably from the perspective of the home country of the MNE (van Hoorn & Maseland 2016; Meyer et al. 2009; Child & Rodrigues 2005).

3.4.3. The Close Integration of Aid and FDI

Research has shown that China’s OFDI by large CMNEs in Africa, notably in the extractive and construction sectors is predominantly integrated with aid (in the form of loans) in projects designed to meet China’s resource needs (Sanfilippo 2010; Mario Biggeri and Sanfilippo 2009; Lew and Arvin 2015). In Chapter 2, we highlighted the close integration of aid and FDI as one of the characteristics of China’s OFDI into Africa. We show that the construction sector (the sector with investments most likely to be integrated with aid) is the leading sector of China’s OFDI into Africa regarding capital expenditure (see Chapter 2, section 2.4).

In comparison to FDI from other investors in Africa, this characteristic makes China’s OFDI into Africa distinctive (Sautman and Hairong 2007; Kolstad and Wiig 2011). In general, investments by DCMNEs have been unbundled from aid (Kaplinsky and Morris 2009). Moreover, investments by DCMNEs in the resource sectors have been mainly for exports into the global markets, rather than predominantly for domestic consumption in the home country of the MNE as is the case with China. The close
integration of aid and FDI indicates a high influence of the Chinese government on Chinese OFDI into Africa – as the provider of the loans to African governments.

The above peculiar characteristic of the close integration of aid and FDI indicates a high degree of influence of the Chinese government in the FDI location decision of Chinese MNEs, thus depicting a PE dimension. This influence of the Chinese government is through its role as the provider of loans through state-run institutions such as the Export-Import Bank of China. Considering the non-conditions based approach to development aid of the Chinese government, the strategic integration of aid and FDI may mean CMNEs are more willing to invest in African countries with very low institutional quality due to the influence of the Chinese government. Such influence of the Chinese government through its provision of development aid (strategically integrated with FDI) is what constitutes the second facet of the PE dimension currently not captured in traditional IB theories.

Overall, there is the need to think more carefully about the institutional environment in which the firm operates (Wang et al. 2012). The internationalisation process of CMNEs appears to be significantly influenced by the role of the Chinese government as implied by the characteristics of China’s OFDI into Africa highlighted in Chapter 2 of our study. The failure of traditional IB theories to explain the location decisions of MNEs from EMs in particular (Stoian & Mohr 2016; Wang & Hong 2012; Aharoni 2014), has led to an Institution-Based View of IB. This view draws on the tenets of the New Institutional Economics (NIEs) (North 1990; Williamson 2000) approach to IB.

Although the NIEs approach have the potential to help explain some of the characteristics of China’s OFDI (Wu & Chen 2014; Wang et al. 2012), a PE approach
needs to be incorporated to provide a comprehensive understanding of China’s OFDI into Africa. This approach accounts for the role of the Chinese government through two mediums – through the dominance of Chinese SOMNEs and the provision of aid in the form of loans that are closely integrated with FDI. Thus, the theoretical underpinning of our study is from the NIEs institutional approach to IB in amalgamation with a PE approach to FDI.

In the sections below, we first discuss the assumptions of the NIEs approach to IB (Liou, Chao and Yang 2016; Peng, Wang and Jiang 2008; Peng 2002) and provide a critical review of existing studies that adopt this view.

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<tr>
<th>IB Theories</th>
<th>Explain China’s OFDI into Africa</th>
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<tr>
<td>Internalisation theory</td>
<td>No</td>
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<tr>
<td>OLI paradigm</td>
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<td>IDP</td>
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3.5. New Institutional Economics

NIEs (North 1990; North 1991; Williamson 2000) seeks to explain the vastly different performances between economies over an extended period. According to the influential study of North (1990), such significant differences in the economic performance between economies is contingent on the institutional context and institutional change in which economic exchange processes take place. Institutions set the limits of what is acceptable behaviour, the degree to which it guarantees property rights, and provide enforcement mechanisms (North 1990).

In NIEs tradition, institutions are ‘the rules of the game in a society or, more formally, the humanly devised constraints that shape human interaction’ (North 1990 p.3). These constraints do not only shape the interaction of humans who devise them, but also the interactions of organisations who utilise the opportunities presented by institutions in
shaping the economic performance of economies (North 1990). Thus, efficient and strong institutional frameworks reduce uncertainty through the establishment of a stable structure, which determines the transactions cost which together with all other costs make up the total costs faced by firms (Meyer 2001). These transactions costs arise from the existence of imperfect contracting, information asymmetries, asset specificity and the propensity of opportunistic behaviour by economic actors (Williamson 1985). Hence, when it is highly costly to transact, institutions matter for the establishment, and enforcement of property rights, and controlling opportunistic behaviour by economic actors.

In the institutional tradition of NIEs, institutions can be both formal, and informal (North 1990). Formal institutions include formal rules and regulations that underpin the economic environment of countries such as constitutions, the guaranteeing of property rights, and a sound judicial system (Seyoum 2009). Informal institutions cover the cultural aspects of a society such as the belief systems, value and norms in a society (Aguilera-Caracuel et al. 2013). The latter is what North (1990) argues is mostly responsible for the continued poor economic performance of developing countries, who have copied the structure of the formal institutions of developed economies but their informal institutions such as values and belief systems, do not provide the right recipe for economic development in a capitalist economy.

Thus, an institutional system is not complete without both formal, and informal institutions. One the characteristics of China’s OFDI into Africa is the relatively lower institutional quality of the African countries that attract Chinese OFDI. Thus, a theoretical approach that focuses on the quality of the institutional environment particularly formal (regulative) institutions is crucial to our understanding of the institutional determinants of China’s OFDI into Africa. In the following section, we
review existing research that adopts the NIEs approach to explaining the location decision of MNEs.

3.5.1. The NIEs Approach to IB Research

In this section, we provide a review of extant research on the NIEs approach to IB. The NIEs perspective adopts a macroeconomic approach, whereby the MNE views its external institutional environment primarily through a cost-economising lens (Coase 1937; Williamson 1985).

Institutions matter for MNEs because institutional heterogeneity presents diverse sets of opportunities and challenges for MNEs (Wan & Hoskisson 2003). Strong and weak institutional frameworks can “both enable and constrain international business” (Peng, Wang & Jiang 2008, p.927). Thus, countries with weak institutions present uncertainty and pose a strategic challenge for the MNE. On the other hand, strong institutions matter because they reduce the transactions cost (Williamson 1985) of operations by establishing a stable structure to facilitate interactions in an economy (Meyer 2001). For instance, DCMNEs planning on entering transition economies may face unclear regulatory frameworks, underdeveloped court systems, and corruption (Meyer 2001).

In this light the MNE has to decide what type of foreign market entry mode to adopt and if to enter such a foreign market at all (Henisz 2000; Delios & Henisz 2003).

Within the IB literature, the role of institutions in explaining the internationalisation of MNEs has received a great deal of attention, mainly the impact of institutional quality on the FDI activities of MNEs. Several studies (Henisz 2000; Wan & Hoskisson 2003; Delios & Henisz 2003; Henisz & Delios 2001; Meyer 2001) suggest that MNEs are less likely to locate value-adding activities in countries characterised by low institutional quality. Operating in countries with low institutional quality can
bring high costs to FDI and present very high levels of uncertainty due to government inefficiency and the lack of reliable enforcement mechanisms (Henisz 2000; Meyer 2001; Wan & Hoskisson 2003; Delios & Henisz 2003). Strong institutions also have a positive effect on the overall performance of the firm (Wan & Hoskisson 2003; Ngobo & Fouda 2012). Indeed, there exists a considerable amount of evidence suggesting a positive relationship between institutional quality and FDI flows. The focus of these studies has been primarily on the impact of high institutional quality on FDI flows.

Globerman & Shapiro (2002) examine the effects of institutional quality conceptualised as ‘governance infrastructure’ on FDI inflows for a sample of developed and developing economies, and they find that high institutional quality does not only attract inward FDI but also creates conditions under which domestic MNEs emerge and engage in FDI. Furthermore, the authors find that the benefits of high institutional quality are more pronounced in developing countries with low institutional quality. As such, developing countries that reform their domestic institutions are bound to attract higher levels of FDI (Gastanaga, Nugent and Pashamova 1998; Ajide and Raheem 2016). Similarly, focusing on US MNEs, Globerman & Shapiro (2002) find that countries with that fail to attain a minimum threshold of institutional quality are less likely to receive FDI from the US.

Studies by Disdier & Mayer (2004) and Bénassy-Quéré et al. (2007) on the location decisions by French MNEs in developing economies and firms from countries that make up the Organisation for Economic Cooperation and Development (OECD) respectively find a similar positive relationship between host-country institutional quality and inward FDI. Similar to Globerman & Shapiro (2002), Buchanan et al. (2012) used an aggregate measure of six governance indicators to examine the effect of governance on FDI inflows into a mixture of developed and developing economies.
and find that high institutional quality attracts FDI. Bevan et al. (2004) examine the differential effect of formal (regulative) and informal (normative) institutions in their examination of FDI into transition economies in Eastern Europe. The study finds that FDI inflows are positively related to high-quality formal institutions, but no such evidence was found for informal institutions controlling for the effects of formal institutions (Bevan et al. 2004). This result might be because the development of high-quality formal institutions is associated with the rise of informal institutions.

Slangen & Beugelsdijk (2010) find a negative relationship between ‘institutional hazards’ – formal governance deficiencies and the FDI activities by US foreign subsidiaries. However, the negative effect of low institutional quality is contingent on whether the type of FDI carried out is vertical – efficiency and resource-seeking or horizontal – market seeking. The authors argue that weak governance is a more significant threat to vertical FDI than to horizontal FDI (Slangen and Beugelsdijk 2010). This difference is due to the negative effects of weak governance facing vertical subsidiaries usually have negative consequences for other MNE subsidiaries. Ali et al. (2010) find that certain institutional aspects matter most for FDI in a panel of 107 developed and developing countries – property rights, the rule of law and risk of expropriation are the most significant in attracting FDI inflows. However, MNEs do not make location decisions based on a single institutional factor but a combination of several institutional factors (Pajunen 2008). Thus, in this study, we use a composite measure of institutional quality that accounts for a broad range of political and economic institutions to examine the overall impact of institutional quality on China’s OFDI into Africa.

Another area of focus of the literature has been on the effect of political institutions in particular on FDI flows. For example, Delios & Henisz (2003) and Henisz (2000)
examined the effect of political institutions in host countries on the FDI location decisions of Japanese and a sample of 462 firms from a both developed and developing economies in the manufacturing sector respectively. Both studies suggest that uncertainty from unstable political environments has a negative effect on the international expansion of firms. Busse & Hefeker (2007) examine the role of political risk and institutions in 83 developing countries covering 1984 to 2003. The authors suggest that political risk and political institutions matter the most in influencing the location decision of MNEs. Employing 12 different indicators of political risk, the authors find that factors like government stability, the absence of internal and ethnic tensions and respect for the rule of law are highly significant for attracting FDI into developing economies. The use of single political, institutional indicators to examine the effect of a multifaceted aspect of a country like political institutions can lead to a variety of results. To capture the full effect of political institutions necessitates the combination of a variety of political, institutional factors in a composite index (Kaufmann, Kraay and Mastruzzi 2005; Kaufmann, Kraay and Mastruzzi 2010).

The effect of democratic institutions (Li & Resnick 2003; Adam & Filippaios 2007; Harms & Ursprung 2002) has also been an area of focus in the literature. Li & Resnick (2003) suggest that there exists a ‘reversal of fortunes’, as democratic institutions can have a ‘double-edged sword’ effect on inward FDI, boosting and also jeopardising FDI inflows to developing countries. Democratic institutions in host countries jeopardise FDI inflows by limiting the monopolistic and oligopolistic tendencies of MNEs while providing support for the domestic industry (Li & Resnick 2003). Firms invest abroad to take advantage of their ownership-specific advantages that can result in a monopolistic market structure in the host economy. More democratic host governments presumably encourage inward FDI, to improve the performance of the
domestic economy and to benefit their electoral constituencies. Thus, any possibility of a decrease in market competition, caused by an MNE entering the market may result in an attempt to limit the monopolistic position of the MNE through legislation. However, the same democratic institutions impact inward FDI positively through ensuring the securement of property rights and reducing the costs of operations for MNEs (Li & Resnick 2003).

Harms & Ursprung (2002) use a composite index of political and civil liberties and find that MNEs are attracted to countries with higher levels of civil liberties and political rights. On the other hand, Adam & Filippaios (2007) decompose the effect of democracy on US FDI into civil and political liberties and find that political liberties matter more than civil liberties – this is mostly due to the efficiency-seeking motive of US MNEs advocating the suppression of trade unions and interest groups. Thus, we need to understand under which circumstances authoritarian regimes attract FDI. Chinese SOMNEs might be attracted to African countries with authoritarian regimes due to the stability they provide for their reliance on good political relations between the Chinese government and the host country government (Li and Liang 2012).

Focusing on corruption, other studies (Wei 2000; Habib & Zurawicki 2002) suggest that host-country corruption has a negative impact on FDI inflows. However, Cuervo-Cazurra (2006) find that corruption results not only in a reduction in FDI inflows but is also contingent on the origin of the investor. For instance, corruption results in relatively lower FDI from countries that have signed the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (Cuervo-Cazurra 2006). This difference in the type of investor suggests that laws against bribery abroad can deter the engagement in corruption, by MNEs of signatory countries. On the other hand, corruption results in relatively higher FDI from countries
with significant levels of corruption (Cuervo-Cazurra and Genc 2008), thus suggesting, that investors who have been exposed to bribery in their home country may not be deterred from investing in countries where corruption is widespread.

Considering the relatively low corruption distance (Duanmu 2011; Karhunen and Ledyaeva 2012) between China and most African countries, CMNEs might be more equipped in dealing with the high corruption levels in Africa than MNEs from developed economies (Morck, Yeung and Zhao 2008). Corruption levels also affect firms transactions costs (Husted 1994). The soft budget constraints of Chinese SOMNEs in particular (Song, Storesletten and Zilibotti 2011) might act as a buffer for the high transactions costs in high corruption countries in Africa compared to firms without such preferential access to cheap capital. Thus, although a low dissimilarity between the levels of corruption in China and host countries in Africa can be an important factor, the role of government in providing cheap capital to CMNEs mean CMNEs can cope much better with the associated risks of high transactions costs in countries with high levels of corruption in Africa.

Another area of focus in the literature has been on the multiple external environments of the MNE that exert opposing institutional pressures on the MNE (Kostova, Roth & Dacin 2008) and various levels of subsidiary interdependence and independence (Bartlett & Ghoshal 1999).

Handling the different institutional pressures exerted on the MNE is contingent on the degree of institutional distance between the home-country of the MNE and the various host-countries in which it operates (Salomon & Wu 2012; Eden & Miller 2004; Xu & Shenkar 2002). Institutional distance is the dissimilarity between the institutional environment of the home country of the MNE and that of its host-country (Xu &
Shenkar 2002; Ghemawat 2001). Institutional distance comprises of three dimensions of institutions – regulative, normative and cognitive institutions otherwise known as the “three pillars of institutions” (Scott 1995, p.51). The regulative institutional pillar constitutes the regulative aspects of institutions, such as the setting of highly formalised rules, and enforcement mechanisms that organisations must adhere to (Scott 1995).

The normative institutional pillar reflects the values and norms of human and organisational behaviour in a country. By values, we mean “conceptions of the preferred or the desirable, together with the construction of standards to which existing structures or behaviour can be compared and assessed” (Scott 1995, p.54). Norms specify “how things should be done; they define legitimate means to pursue valued ends” (Scott 1995, p.55). The cognitive institutional pillar reflects widely shared social conceptions that influence the way a phenomenon is seen and interpreted by people in a given country (Kostova & Roth 2002).

In IB research, institutional distance has been utilised in the study of different aspects of MNE activities – their choice of FDI location (Liou et al. 2016), their entry and ownership strategy (Moore et al. 2015; Gaur and Lu 2007), transfer of organisational practices (Kostova 1999) and firm performance (Shirodkar and Konara 2017).

Scholars have examined the effect of institutional distance on the transfer of organisational practices from the parent company of the MNE to its foreign subsidiaries. For example, Kostova & Roth (2002) suggest that the degree of institutional distance between home and host countries does influence the adoption of organisational practices from the parent company. They argue that although the institutional distance between the home and host country influences the transfer of
organisational practices, the values of the recipient subsidiary and the relationship between the subsidiary and the parent company influence the transfer of organisational practices (Kostova 1999).

Kostova & Roth (2002) examine how sixty subsidiaries of a privately-owned US MNE adopt organisational practices under conditions of ‘institutional duality’ – the institutional distance and the relationship between the subsidiary and the parent company. The authors suggest that external institutional pressures of host countries have a significant impact on the degree of internalisation of organisational practices by subsidiaries. Conceptually, the authors argue that the larger the institutional distance between the home and host countries of the MNE, the higher the institutional pressure from the institutional environment of host countries, which consequently affects the degree of internalisation of practices transferred from the parent company (Kostova & Roth 2002). The primary focus of both Kostova & Roth (2002) and Kostova (1999), is the impact of institutional distance on the internal environment of the MNE. However, there is a lack of an explanation of how institutional distance influences the external environment of the MNE.

Other studies focus on the effects of institutional distance on the entry and ownership strategies of MNE in foreign markets. For instance, Eden & Miller, (2004) examine how institutional distance impacts the ownership strategies of MNEs from developed economies. They suggest that institutional distance between the home and host countries of the MNE determines the degree liability of foreignness (LOF) faced by MNEs. According to Eden & Miller (2004), this LOF is as a result of mainly one dimension of the institutional environment – the normative domain. Zaheer (1995) examine the exit patterns of twenty-four foreign exchange trading rooms of the MNEs from US and Japan and suggest that MNEs could reduce their LOF caused by
institutional distance by either importing firm-specific advantages from their parent company or by mimicking the organisational practices of local firms. However, this study finds that importing firm-specific advantages are preferable to local isomorphism in helping to overcome the LOF and compete against local firms.

Building upon the work of Zaheer (1995), Zaheer and Mosakowski (1997) examine the exit pattern behaviour of all currency trading rooms worldwide over a twenty year period. The authors find that exit patterns for MNEs were similar to those for domestic firms during the first two years and after sixteen years of entry. In-between the first two years and after sixteen years, MNE exit rates were higher suggesting the existence of LOF exists. However, exit rates decline with host country experience and eventually disappears. The above studies examine the impact of institutional distance in a particular industry (the finance industry) and on MNEs from developed economies only. Thus, more studies are needed to examine how institutional distance influences the location of decisions of EMNEs.

Xu & Shenkar (2002) decompose institutional distance into its three domains – regulative, normative and cognitive distances to examine how each domain impacts the ownership strategy of MNEs. The authors provide a conceptual argument that MNEs will choose low ownership control when there is a large regulative and normative institutional distance and high control when the regulative and normative distance is small. This notion is based on the difficulties that MNEs face in conforming to the host-country institutional environment when confronted with a large home-host country institutional distance. Hernández & Nieto (2015) also examine the effect of regulative institutional distance on the choice of international entry mode of European firms and find that entry into countries with lower levels of regulative institutional development than the home-country of the MNE is related to modes of entry that
require a lower resource commitment. On the other hand, entry into countries with higher levels of regulative institutional development to the home country is related to entry modes with higher resource commitments. Both studies are performed on a sample of developed economies and do not examine the effects of institutional distance on MNE from developing economies.

However, Liou et al. (2016) find that when faced with a large regulative institutional distance MNEs from EMs choose a dominant ownership control while in conditions of a large normative institutional distance, these firms prefer a low ownership position as such a position alleviate threats to organisational legitimacy. Such a difference between regulative and normative institutional differences is due to the desire by MNEs from EMs to take advantage of the governance efficiency in countries with better developed regulative institutions Luo & Tung (2007).

A few studies focus on the effect of institutional distance on the FDI location choices of MNEs. For example, using inward and outward FDI data on OECD countries, Cezar & Escobar (2015) examine the link between institutional distance and FDI. They find that a large institutional distance will not only reduce the likelihood that a firm will engage in FDI but also the volume of the investment carried out. However, Aleksynska & Havrylchyk (2013) find that when choosing to invest in countries with worse institutional quality than their home-country, a large institutional distance discourages FDI inflows by EMNEs, but the availability of natural resources in the host country outweighs the deterring effect of institutional distance. Adopting an industry-level perspective, Pogrebnyakov & Maitland (2011) find a positive relationship between higher normative distance and the FDI location decision of predominantly European mobile operators and a negative relationship between cognitive distance and their FDI location decision.
Overall, we summarise the findings regarding the literature on the effect of institutional quality on FDI flows as follows. Firstly, the vast majority of the above studies suggest that however measured, high institutional quality attracts FDI. However, there are rare studies that find the opposite effect of institutional quality on FDI. In the case of FDI into developing countries, there have been suggestions of an ‘Africa effect’ (Asiedu 2002; Jaspersen, Aylward and Knox 2000) – suggesting that African countries might be different regarding the effect of political risk on inward FDI. For example, Asiedu (2002) focus on the impact of political risk on FDI into developing countries and find that in the case of FDI into Africa, there is no significant relationship between political risk and FDI. Similarly, Kolstad & Wiig (2011) find no difference between Chinese investors and other investors in Africa – suggesting that all investors into the continent are attracted to the low institutional quality of the continent for exploitative purposes. These studies show that the evidence of a positive link between institutions and FDI flows is not homogenous. Thus, more investigation is needed especially in cases when FDI is attracted to countries with low institutional quality. This is conducted in this study by investigating whether China’s OFDI into Africa is deterred by low institutional quality or attracted to weak institutions in African countries.

The above difference in results may be due to the use of single institutional indicators like corruption, democracy and the rule of law to capture the level of institutional quality. The use of single indicators in the literature leads us to our second finding of the literature on institutional quality and FDI flows, that of measurement. It has been suggested that the location decision of MNEs are contingent on a combination of several institutional factors and not just the presence or absence of a single institutional factor – as corruption or democracy (Pajunen 2008). MNEs are more likely to base
their investment decisions on the overall institutional quality of the host-country (Ali et al. 2010).

As depicted in the above literature on the NIEs approach to IB, several institutional indicators have been suggested to affect FDI flows such as democracy, corruption, political risk and law and order. Thus, the use of ‘the average of the number of assassinations and revolutions’ by Asiedu (2002) and the ‘rule of law’ index by Kolstad & Wiig (2011) as a proxy for institutional quality is likely to underestimate the effect of institutional quality on FDI. This limitation is due to the multifaceted nature of institutions that encompasses overlapping political and economic institutions. Thus, as investment decisions are usually based on a comprehensive assessment of a combination of a multitude of facets of the institutional environment rather than on a single one (Pajunen 2008), a comprehensive measure to capture the effect of institutional quality appears to be appropriate as a measure of institutional quality. For instance, Angola ranks as one of the top destination countries for FDI in Sub-Saharan Africa due to its vast oil reserves but also politically unstable. Thus the use of a political risk indicator as a measure of institutional quality would be inappropriate as the oil investments might provide sufficient returns on investment to compensate for the risk (Asiedu 2002).

Thirdly, the majority of studies account for mostly investments from developed economies into developing economies (e.g. Disdier & Mayer 2004; Globerman & Shapiro 2002; Bénassy-Quéré et al. 2007; Bevan & Estrin 2004) with very few studies on FDI from developing into other developing economies (e.g. Cuervo-Cazurra 2006). The growth in interest in the institution-based view of IB activities coincides with the rise of OFDI from key EMs (Peng, Wang and Jiang 2008; Wu and Chen 2014), thus
providing an interesting research context, in which to assess the explanatory power of NIEs approach to IB (Meyer & Peng, 2005).

The impact of institutional quality might differ between DCMNEs and EMNEs. EMNEs operate in conditions of low institutional quality, while DCMNEs operate in conditions of high institutional quality (Cuervo-Cazurra and Genc 2008). As a consequence, investments in countries with low institutional quality such as African countries may result in high levels of unfamiliarity to DCMNEs than EMNEs. For example, Yeung & Liu (2008) and Morck et al. (2008) suggest that when investing in developing economies, CMNEs may benefit from their experience in operating under relatively low institutional quality compared to DCMNEs. Thus, there is also the need to investigate the impact of institutional distance that can capture the impact of the above relative distance in institutional quality between the home country and host country of the firm.

Overall, the literature focusing on the impact of institutional distance highlights a number of findings. Firstly, the notion that institutional distance matters to MNEs is well established in the literature as FDI activities decline with higher institutional distance. Secondly, the majority of studies (e.g. Kostova & Roth 2002; Eden & Miller 2004; Zaheer 1995; Hernández & Nieto 2015; Cezar & Escobar 2015) focus on the impact of institutional distance on the FDI activities of DCMNEs with limited attention given to EMNEs. Thus, there is a growing need to investigate the effect of institutional distance of the locations decisions of EMNEs, mainly how the dissimilarity in institutional quality between the home and host country influences the location decision of EMNEs.
The above evidence in the literature that DCMNEs are not only discouraged by low institutional quality but also prefer to invest in countries with similar institutions have implications for EMNEs. The results for developed economies imply that EMNEs may possess an advantage when investing in other developing economies due to relative similarities in institutional quality. In this study, we employ the notion of institutional distance (regarding institutional quality) on the location choice of CMNEs in Africa from a cost economising perspective because the cost-economising perspective of NIEs forms the theoretical approach that underpins this study.

In the case of China’s OFDI into Africa, Chinese firms backed by the Chinese government will not only possess an advantage over their counterparts from developed economies but may view the weak institutional environment as an opportunity. Taking into account, on the one hand, the differences in how institutional quality matters to DCMNEs and EMNEs, and on the other hand the relative focus in the literature on DCMNEs, there is a need for more studies on the determinants of OFDI from developing economies into other developing economies. This study contributes to the literature on South-South FDI by investigating the institutional determinants of China’s OFDI into Africa.

Furthermore, the majority of SOMNEs are from EMs such as China and Russia (Bruton, Peng and Ahlstrom 2015). In the case of China, SOMNEs often benefit from strong political backing from the Chinese government that can be leveraged to reduce the risk of expropriation in countries with high political risk (Duanmu 2014). Also, scholars suggest that Chinese SOMNEs in particular often enjoy subsidised financial resources (Buckley et al. 2007; Child and Rodrigues 2005; Luo, Xue and Han 2010) that can compensate for the risk of high transactions costs when operating in countries with low institutional quality. As such, the high levels of government involvement in
the activities of EMNEs like China depicts a PE dimension that requires attention (Cuervo-Cazurra 2014; Luo, Xue and Han 2010). We discuss this PE perspective later.
3.5.2. The Limitations of the NIEs Approach to IB

This approach does not assume circumstances whereby MNEs may perceive the economic profits or the strategic objective of an investment to be relatively higher than any potential transactions costs that could be incurred in investing in a country with very low institutional quality. Also, as a result of very low institutional quality, there might be not much competition in a particular industry or sector, thus further justifying foreign investments in countries with low institutional quality. We argue that the growth in China’s OFDI in Africa in recent years depicts an opposite trend to the predictions of the NIEs approach to MNE activity. Despite the low institutional quality of the environment of most African countries, China’s OFDI in the continent has grown significantly in recent years with China now being the leading investor in greenfield investments in Africa – regarding capital expenditure (Klasa-Adrienne 2017)

We argue that not only is the increase in China’s OFDI in the region part of a broader economic and political strategy by the Chinese state but also that the weak and undeveloped institutions in these countries present an opportunity, rather than a deterrent to Chinese investments. Institutional disadvantages in China can become an advantage for CMNEs when investing in African countries with weak institutions due to their experience of operating under such institutional conditions back home (Cuervo-Cazurra & Genc 2008).

We take this argument further by saying that not only are the institutional constraints in China an advantage to Chinese firms investing in African countries, the location disadvantages – regarding institutional quality in African countries are now an ‘advantage’ when put into context with Chinese OFDI into the region. Also, in the case of Chinese OFDI into Africa, we argue that although institutions matter, how they
matter differs from the NIEs orthodoxy. This difference rests on our argument that, low institutional quality in African countries are seen as an opportunity to exploit the weak institutional environment. Exploratory research in the mining sector in Zambia has shown that Chinese investments in the mining sector have an adverse effect on the regulatory settings governing mining in Zambia (Haglund 2008).

The high levels of government influence in China’s OFDI into Africa as implied in the dominance of Chinese SOMNEs, the provision of loans that are closely integrated with FDI (Chapter 2) suggest an important role of the PE perspective of China’s engagement with FDI. We review existing research on the role of PE in the explanation of the FDI activities in general and the PE perspective of China’s OFDI into Africa in the following section.

3.6. China’s OFDI into Africa: A PE Perspective

Governments can be interested in the investment outcomes of the activities of MNEs, thereby influencing the patterns of FDI activities of MNEs (Dunning & Lundan 2008). In the IB literature, there have been calls (Cuervo-Cazurra 2014; Luo et al. 2010) for a cross-fertilisation of insights between the fields of PE and IB in explaining the internationalisation patterns of firms from EMs like China. At the centre of this PE perspective, is the significant role of the Chinese government in influencing the internationalisation activities of CMNEs (Luo, Xue and Han 2010). Based on the peculiarities of China’s OFDI into Africa (explained in Chapter 2), we believe the need for a PE approach is crucial in explaining the phenomenon. Thus, in combination with our assessment and above calls for a PE approach, we examine the literature on the PE perspective on China’s OFDI into Africa in this section.
The aim is to illustrate how the phenomenon of China’s OFDI into Africa is one that requires borrowing insights from PE through a cross-fertilisation of insights between extant IB perspectives, and the PE perspective. In China, the ‘state-capital dynamics’ is such that the ties between the government and large CMNEs are strong (Mohan & Power 2008) – through the ownership and support of Chinese SOMNEs and the bundling of aid and FDI. Thus, in this section, we review studies on Chinese OFDI into Africa that adopt a PE perspective. The key perspectives highlighted in the literature are – the ‘One China’ policy, the challenge to US global hegemony, and lastly the strategic bundling of aid and FDI.

Extant studies adopting an IB perspective (Kolstad & Wiig 2011; Drogendijk & Blomkvist 2013; Cheung et al. 2012; Biggeri & Sanfilippo 2009) examine the determinants of China’s OFDI into Africa consider China’s relationship with the African continent based purely on commerce. They highlight the quest to secure energy, and other natural resources at the forefront of Beijing’s re-engagement with the continent (Cheung et al. 2012; Kolstad and Wiig 2011; Jiang 2009; Haglund 2008). Though this analysis captures a critical dimension of this new phenomenon, it would be inaccurate to view Chinese OFDI into Africa from a purely economic dimension because such an approach does not offer a comprehensive understanding (Konings 2007; Alden 2005). Such an approach ignores a critical dimension of China’s OFDI, the PE dimension whereby the decision by the Chinese government to ‘Go Global’ in itself subsumes a political and geopolitical dimension based on appeals to issues of national security and national interests (Luo, Xue & Han, 2010).

3.6.1. The ‘One China’ Policy and The Challenge to US Global Hegemony

Scholars suggest that the ‘One China’ policy is a major political driver of current Sino-African relations (Pannell 2008; Alden, 2005; Konings 2007). The ‘One China’ policy
in Sino-African relations can be traced as far back as the post-war period (Wei 1982). The bedrock of this policy is the isolation of Taiwan in multilateral settings, and eventual reunification with the Chinese mainland by seeking political, and diplomatic support from African countries (Chapter 2, section 2.2.1).

Alden (2005) suggests that through the use of ‘symbolic diplomacy’ – the promotion of national representation abroad, through infrastructure investments like the construction of large projects of prestige such as houses of parliament, and stadiums, China has strengthened its diplomatic support in African countries. Such prestige projects highlight circumstances whereby political objectives play an important role in carrying out FDI (Kaplinsky, McCormick and Morris 2007). Although this policy is still relevant in contemporary engagement between China and Africa, it is worth mentioning that it was perhaps even more salient during the Cold War era when China battled for diplomatic recognition with Taiwan on the world stage.

During the aftermath of the Cold War, the US emerged as the undisputed global hegemon, and this resulted in a shift in policy on the part of China towards a challenge to the new status quo wherever possible. Africa at this stage represented not only the potential for a ‘third world’ alliance but also a source for natural resources and market for a newly reformed and growing Chinese economy (Cornelissen and Taylor 2000). It is suggested that the Chinese government uses concessional loans for so-called prestige FDI projects in African countries as a means of strengthening its diplomatic relations with African countries and on condition that recipient countries respect the ‘One China’ policy (Alden 2005; Alden and Davies 2006). Thus, such an approach may suggest that FDI projects may be carried out by large Chinese SOMNEs with clear directions from the Chinese government whose motivation is to accomplish political and diplomatic goals rather than for strictly economic purposes.
Other scholars (Mohan & Power 2008; Mohan 2013; Muekalia 2004; Campbell 2008; Carmody & Owusu 2007; Konings 2007) approach China’s renewed economic engagement with Africa from a geopolitical perspective. For example, Konings (2007) examine the reasons for China’s renewed strategic partnership with Africa in an era of neo-liberal globalisation. The author argues that China sees Africa as a partner in the fulfilment of its strategic goals like the quest for resources, access to new markets, and investment opportunities (Konings 2007). Furthermore, China is also interested in forging a political alliance with African countries. Such an alliance is to combat perceived western hegemony in international organisations like the UN, where China can increase its bargaining power at the Security Council by positioning itself as the head of the alliance of developing countries (Large 2008).

Muekalia (2004) and Mawdsley (2007) adopt a historical approach, by examining the historical relationship between China and Africa to understand China’s renewed strategic engagement with Africa. The authors argue that the current relationship epitomises China’s desire to seek diplomatic support, and to forge a strategic alliance with Africa to fulfil not only strategic but its geopolitical interest. Other scholars (Campbell 2008; Carmody & Owusu 2007) argue that this strategic alliance with Africa is due to the need to combat US global hegemony and the inequalities of global governance. According to Carmody & Owusu (2007), although China needs to satisfy the growing demands of its high levels economic growth witnessed in the past decade, it also needs to seek diplomatic allies as it integrates internationally both politically and economically.

However, there are criticisms of this notion of a geopolitical struggle and even a new ‘scramble’ for Africa between the US and China (Ayers 2013). For instance, Frynas & Paulo (2006) adopt a sectoral approach (oil sector) in critically evaluating the
historical, political, and business perspectives of China’s ‘New Scramble’ for African oil. The authors argue that although there is evidence of a greater political and commercial involvement of the US and China in Africa, this struggle is somewhat exaggerated as there exist several other actors at play such as other EMs like Brazil, and India (Frynas and Paulo 2006). The need to combat US global hegemony by forming a strategic alliance with ‘third world’ countries remains an important policy to date. In a bid to appear as an alternative partner to African countries, China has leveraged its long-standing foreign policy of non-interference in the domestic affairs of African countries in its current relationship with African countries advocating an alternative development paradigm – the Beijing Consensus. Therefore it is important that any analysis of China’s OFDI into Africa need to take into account the PE of China’s OFDI into Africa as political objectives and, not only economic objectives are at play in the FDI motivations of Chinese SOMNEs.

3.6.2. The Strategic Bundling of FDI and Aid

Some scholars (e.g. Sautman & Hairong, 2007; Kaplinsky & Morris, 2009; Mohan, 2013) highlight the PE of Chinese investments into Africa by examining the unique integration of FDI and Aid. Mohan (2013) adopts a critical political economy approach to evaluate the pervasive notion that the Chinese work in enclaved investments to secure the resources of African countries. Through an ethnographic study of Chinese investments in Ghana, Nigeria, and Angola, the author argues that the Chinese do not appear to be any different from other investors. However, where the Chinese do differ is in their bundling of FDI with aid. Kaplinsky & Morris (2009) adopt a sectoral approach by highlighting this distinctive aspect of Chinese OFDI by focusing on the investments of large Chinese SOMNEs in the resources, and infrastructure sectors. The authors argue that Chinese aid has complemented FDI flows in these sectors.
Thus, the close integration of FDI and aid indicates that the Chinese government as the provider of aid to African countries may be highly influential in investment motivations of Chinese firms that invest in projects that are closely integrated with aid. This influence may also result in investments being carried out for political and strategic objectives, thereby rendering the strictly cost economising approach of NIEs invalid in explaining the location decision of CMNEs in Africa.

Pehnelt (2007) argues that China uses ‘tied’ aid, in the form of concessional loans to achieve both political, and economic goals. Mohan & Power (2008) argues that this method of giving aid is distinctive, in that it is given as a grant rather than a moralising political discourse, like that of Western donors. A comparative perspective of Chinese and Indian aid in Africa by McCormick (2008) provides empirical evidence and sheds light on the nature of Chinese aid in Africa. The author finds differing patterns of Chinese and Indian aid. India concentrates on non-monetary aid like technical assistance and scholarships while China offers a wider range of both monetary and non-monetary aid packages that include infrastructural loans, tied to the use of Chinese goods and, services and respect for the ‘One China’ policy (McCormick 2008). However, these loans are not based upon any conditionality on good governance and institutional development that typifies the characteristics of Western donors and international institutions such as the IMF and the World Bank. This non-conditionality approach to loans by the Chinese government has led to the flow of Chinese investments into African countries with relatively weaker institutions such as the case in the Sudan and Angola (Patey 2007; Corkin 2011). Thus, there is a need to account for the PE perspective when examining the phenomenon of China’s OFDI into Africa.

Sautman & Hairong (2007) examine factors that make Chinese investments in Africa distinctive. The authors argue that the provision of aid without no conditions on issues
such as democratic reforms, human rights improvement, and economic reforms represents an alternative development paradigm. By advocating non-interference in what it regards as the internal affairs of African countries, China is consolidating its economic and political position in Africa. China’s ‘no strings attached’ approach (Pehnelt 2007) to development assistance is in contrast to the ‘conditionality approach’ to development assistance based on the general propositions of the Washington Consensus (Williamson 2000).

Western conditions for the provision of loans include the demands on issues like the improvement of domestic institutional capacity, trade policy reforms and fiscal probity (Rodrik 2006; Ancharaz 2003). The non-conditionality approach of the Chinese government suggests that CMNEs may possess a competitive political advantage in Africa due to the willingness of their government to do business in any African country irrespective of domestic institutional capacity. Kragelund (2009) takes a somewhat paradoxical view of these neo-liberal policies of the Washington Consensus regarding Chinese FDI in Africa. The author argues that the adoption by African countries of liberal investments policies imposed by Western donors in the past is now playing a significant role in the advancement of CMNEs in the African continent, considering that these policies ensured the opening up of these African economies to foreign investment.

Holslag (2011) evaluates the validity of this non-interference and non-conditionality approach by examining how China copes with political instability in Africa, through a case study of five coups which occurred between 2003 and 2010 in the Central African Republic (CAR), Mauritania, Guinea, Madagascar, and Niger. The author concludes that however destabilising illegitimate regime changes are for Africa, China’s foreign policy of non-conditionality and non-interference in the domestic affairs of African
countries has not changed. According to the author, China did not perceive the coups as a significant risk to its investments but acknowledge political instability as part of doing business in Africa by adapting to political realities (Holslag 2011). Considering the majority of Chinese firms that invest in Africa are SOMNEs (Chapter 2, section 2.5.1), the likelihood of political backing from the Chinese government in cases of risk of expropriation is high (Duanmu 2014).

This approach is in contrast with other perspectives on the intervention in Africa by Western countries – notably France (Luckham 2007; Utley 2002). For instance, Luckham (2007), explores the rationale for France’s militarism in Africa and argues that French forces have been involved in Africa far more than any other outside power. Moreover, the explanations of this intervention range from the need to preserve French investments in the continent, to cementing alliances with particular ruling classes and regimes in African countries, by quelling any potential threat to stability. The non-interventionist approach of China and the absence of any colonial relationship between China and Africa provides China with political capital that can be leveraged to acquire and establish legitimacy for CMNEs in Africa as they may be perceived positively by African governments and by local citizens.

A comparative perspective is presented by Cornelissen & Taylor (2000) after examining the PE of China and Japan’s relationship with Africa. This perspective argues that through the Japanese official development assistance (ODA) charter, Japanese developmental aid to the continent is implemented based on principles such as the promotion of democracy, and the introduction of a market-oriented economy (Lehman 2005). China’s approach, on the other hand, is not based on the implementation of any of the principles above. This depicts a dichotomy in the approaches to development by China and Japan in Africa. This non-interference
approach to aid by the Chinese government may augment the competitiveness of large Chinese SOMNEs in African countries with relatively weaker institutions (Taylor 2006).

CMNEs are regarded as relative latecomers as investors in Africa (Alden and Davies 2006). Large MNEs from European countries that possessed colonies in the continent are engaged in almost every strategic sector in the continent. Thus, CMNEs as ‘latecomers’ must invest in countries where Western MNEs have been barred from investing for moral reasons or considered too risky (Tull, 2006). Thus CMNEs face a higher opportunity cost of morality and governance oriented policies (Pehnelt, 2007) as they cannot avoid investing in a country based on issues of governance due to the longstanding presence of Western MNEs in most African countries – particularly in the extractive sector.

Alden & Davies (2006) argue that the non-conditionality on aid, and thus non-interference in the domestic affairs of host countries, and the political support for Chinese SOMNEs provides them with a competitive ‘political advantage’. Such an advantage stems from their willingness to invest in any country, irrespective of host country institutional quality. Considering Western MNEs in Africa have been able to benefit from a generation of connections with African countries dating as far back as the colonial era, CMNEs, are left with no option but to devise other strategies to be competitive in the region. Therefore, the role of the Chinese government is imperative in creating good political relations such as through the use of aid with no preconditions to open up investment opportunities for CMNEs especially in African countries with relatively weaker institutions. This role of the Chinese government makes the PE perspective important for our complete understanding of the determinants of China’s OFDI into Africa.
We believe that insights from the PE literature can enrich our understanding of Chinese OFDI into Africa by providing a more comprehensive explanation of the investment behaviour of CMNEs as regards the effects of institutions. By advocating non-interference and with political support from the Chinese government, Chinese SOMNEs, in particular, can invest in countries with the lowest institutional quality in Africa making them less risk-averse than DCMNEs.

In the following section, we review studies on the determinants of FDI by SOMNEs in particular to highlight some of the peculiarities of investments carried out by firms under this type of firm ownership.

3.7. The Determinants of FDI by SOMNEs

Research on the globalisation of SOMNEs is still limited in the IB field despite the scale of their global expansion (Bruton et al. 2015; Cuervo-Cazurra 2014). The majority of CMNEs are SOMNEs, and they also comprise the highest number of SOMNEs worldwide (Bruton, Peng and Ahlstrom 2015). Consequently, in this section, we review current studies on SOEs in general to highlight some of the specific attributes of FDI by SOMNEs. We uncover the different perspectives on the characteristics of FDI by SOMNEs crucial to our topic considering the high number of SOMNEs in China.

The literature on SOEs highlights the political connection of SOMNEs and its impact on FDI. Studies that focus on this perspective focus on the political and non-economic objectives of SOMNEs (Bass and Chakrabarty 2014; Cuervo-Cazurra 2014; Rudy, Miller and Wang 2016; Shi, Hoskisson and Zhang 2016), the home government political support of SOMNEs (Duanmu 2014), the effect of political connection on firm performance (Okhmatovskiy 2010), and the effect of political connection on the
degree of globalisation of SOMNEs (Liang, Ren and Sun 2014; Hung, Wong and Zhang 2012; Benito, Rygh and Lunnan 2016; Pan et al. 2014; Wei, Clegg and Ma 2015; Estrin et al. 2016; Zhou 2018).

Okhmatovskiy (2010) examine the performance implications of direct corporate board and ownership ties of state-owned banks to the Russian government. This study compares the implications of the direct board, and ownership ties to the government with the implications of board, and ownership ties to SOEs. The author finds that direct ties to SOEs are associated with higher profitability while firms with direct ties to the government are significantly less profitable (Okhmatovskiy 2010). The argument behind this difference in profitability is that, firms with direct ties to the government experience significant government involvement in their corporate governance process.

On the other hand, firms with ties to SOEs benefit from state-owned resources, but escape the associated costs with direct government involvement in the corporate governance of the firm – and influencing strategic decisions of the firm. Thus, according to Okhmatovskiy (2010), firms can preserve their autonomy by distancing themselves from the government and instead maintain indirect ties to the government through SOEs with direct ownership, and board ties to the government. However, there is an issue with generalisability of this argument as research has shown that in other EMs like China, politically connected SOMNEs usually have a chairman or CEO who is a former government bureaucrat (Hung et al. 2012) who is highly likely to follow a political agenda.

Liang et al. (2014) and Hung et al. (2012) examine the effect of political connections on the globalisation of SOMNEs. Liang et al. (2014) adopt a state control perspective in their analysis of government control mechanisms influencing the globalisation of
SOMNEs in China. The authors suggest that state ownership control and the political connections of SOE executives influence the globalisation decisions of SOMNEs and the degree of globalisation. Both state ownership control and the political connections of executives are contingent upon the home country’s evolving institutional environments (Hung, Wong and Zhang 2012). According to the authors, their influence on SOE globalisation differs between the periods before, and after domestic governance reform (Hung, Wong and Zhang 2012). For instance, according to the study, the influence of the political connections of SOE executives on the globalisation decisions of SOMNEs diminishes, after domestic governance reforms in China. Domestic governance reform in China resulted in SOE managers behaving more like professional executives due to the compatibility between market-oriented institutions of China, and international governance regimes brought about by domestic governance reform of SOEs.

The focus of Liang et al. (2014) is exploring the mechanisms of state control that influence the globalisation of SOEs rather than an explanation of the recent dramatic growth in the internationalisation of SOMNEs, a critical yet under-investigated phenomenon (Cuervo-Cazurra 2014; Rudy, Miller and Wang 2016). Thus there is a need for the separate investigation of the determinants of FDI by SOMNEs due to their connections with the government. This connection, therefore, requires a PE approach when examining the determinants of China’s OFDI into Africa – where the presence of Chinese SOMNEs is dominant.

Also, focusing on the degree of globalisation of SOEs, rather than on the choices of location does not take into consideration the peculiar manner in which SOMNEs are affiliated with different levels of government as well as the degree of state ownership and control (Wang & Hong 2012). Both factors can influence the willingness and
ability of SOMNEs to internationalise differently regarding the level of overseas investment, investment type (market vs resources seeking) and its location (developed vs developing countries) (Wang & Hong 2012). Chapter 2 of this study shows that the main origin of Chinese OFDI into Africa is the Beijing Municipality. Chinese SOEs from the Beijing Municipality are known as central SOEs with a high level of state ownership and control (Luo, Xue and Han 2010). Such high degree of government ownership might indicate a high degree of government influence in the internationalisation strategies of central SOEs making the need for a PE approach crucial in understanding China’s OFDI into Africa.

Hung et al. (2012) investigate why Chinese SOEs with strong political connections are more likely to internationalise than non-politically connected firms. The authors find evidence that politically connected firms list their firms overseas for both private and political benefits. Furthermore, managers of politically connected SOEs are far more likely to receive political media coverage and promotion to a senior government position than domestic firms after listing overseas. Thus, the political connections of Chinese SOEs suggest a different internationalisation strategy based on political and strategic objectives due to their close affiliation with the Chinese government. The dominance of Chinese SOMNEs in China’s OFDI into Africa necessitates the inclusion of a PE dimension to explain the phenomenon of China’s OFDI into Africa fully.

In line with the above political connections of SOEs, Pan et al. 2014 propose two moderating factors to the level of ownership of overseas subsidiaries of MNEs – governments as owners of firms and the legislative connections of firms. They find that the level of subsidiary ownership was less affected by the heterogeneity of the institutional environments in host countries for firms with very high levels of
government ownership and legislative connections. However, Zhou (2018) suggests that the level of government ownership matters as the internationalisation strategy of hybrid SOEs – with mixed government and private ownership adopt different internationalisation strategies. Notably, the authors suggest that SOEs with majority government ownership are more favourable to the governments FDI location decisions than SOEs with minority government ownership. In a similar approach, Benito Rygh and Lunnan (2016) examined a sample of listed Norwegian firms and suggests that majority state-owned enterprises benefit more from internationalisation than minority SOEs mainly due to government firm-specific advantages that they can use for their internationalisation process.

Estrin et al. 2016 examine how home country institutions exerting normative regulatory and governance-related controls affect the levels of internationalisation of SOEs and POEs. Based on a sample of 153 majority state-owned and 153 wholly privately firms from 40 different countries, the authors find when home country institutions are strong, the internationalisation strategies of SOEs tend to be similar to that of POEs.

Some studies focus on the political, and strategic objectives of SOEs (Cuervo-Cazurra 2014; Bass & Chakrabarty 2014; Rudy, Miller and Wang 2016; Shi, Hoskisson and Zhang 2016). In their analysis of the FDI location decision of SOMNEs, Cuervo-Cazurra (2014) argue for a cross-fertilisation of the IB and SOE literature by introducing two arguments: the extraterritoriality argument, and the non-business internationalisation argument. The extraterritoriality argument postulates that the two reasons for the existence of SOEs namely market imperfections, and ideology/political strategy, are only valid in domestic settings where the government owns the right to implement and maintain rules, and regulations in a bid to promote the welfare of its
citizens. According to Cuervo-Cazurra (2014), the investments by SOMNEs renders both objectives for the existence of SOEs invalid because such investments are carried out across borders which the home government, cannot pass laws which put into question the rationale that the government owns and control businesses to promote the welfare of its citizens. The ideological/political strategy rationale for the existence of SOEs also becomes questionable because FDI activities by SOMNEs add an extraterritorial dimension to the political ideology rationale, for the existence of SOEs as SOMNEs could become an indirect transporter of political ideology, or policy into the host economy. However, the authors argue that this is contingent on the size asymmetry, between the home, and host country, as governments of larger countries are far more likely to impose their political policies through their SOMNEs on governments of smaller countries.

We believe the size asymmetry between the home and host government is evident in the case of China’s OFDI into Africa as China has a stronger bargaining power in Africa due to the size of its economy. Thus, in the case of China’s OFDI into Africa, both the extraterritoriality argument and the non-business internationalisation argument holds making the drivers of OFDI by Chinese SOMNEs different and hence the need for a PE approach.

The non-business internationalisation argument states that even though investments carried out by SOMNEs may be carried out with profitability objectives akin to those of POMNEs, in some instances SOEs may be encouraged by the home government to invest abroad to attain strategic objectives with very little consideration for firm profitability. According to Cuervo-Cazurra (2014), this gives rise to possible incompatibilities in objectives between the managers of SOEs on the one hand and politicians on the other hand – thus complicating what constitutes success, and the
actions required to achieve it. Bass & Chakrabarty (2014) suggest that the strategic intent of governments as owners that may not necessarily have to do with economic profitability. The authors focus on the resource sector – specifically the petroleum industry, by examining the intent of the acquisition of scarce resources by MNEs globally. They find that when compared to POMNEs, SOMNEs tend to acquire resources for exploration (search and discovery of valuable resources for long-term resource security), while POMNEs are more likely to acquire resources for exploitation (using resources of known value for relatively shorter-term resource security). This difference in resource acquisition intent between SOMNEs and POMNEs is because governments as owners of SOMNEs are most concerned with securing the future well-being of their country. Thus, ownership has a significant influence on resource acquisition. Thus, the institutional quality of African countries with significant reserves of natural resources may not matter to Chinese SOMNEs involved in resource exploration to satisfy the demands of their home country.

Rudy, Miller and Wang (2016) adopt a strategic-asset seeking perspective. They reached a similar conclusion to Bass & Chakrabarty (2014) by suggesting that the unique motivations of SOEs mean that these type of firms are more likely to engage in FDI with the primary goal of acquiring specific resources and capabilities that can be exported back to their home country. Shi Hoskisson and Zhang (2016) adopt a geopolitical perspective by suggesting that geopolitical concerns are one of the key factors influencing the FDI location choice of SOEs mainly due to their direct political ties to the government. However, the authors argue that the geopolitical concerns of SOEs mean they may face strong opposition particularly in host countries with dissimilar religious belief and political regimes to that of the home country of the SOE.
Other empirical studies demonstrate that the institutional pressure on SOE managers to conform to the above non-economic objectives, and strategic intent of governments as owners are contingent upon the level of the firm’s resource dependence on home government institutions (Cui & Jiang 2012), and levels of government ownership (Wang & Hong 2012). Cui & Jiang (2012) employ institutional theory to investigate the effect of state ownership on Chinese firms’ FDI strategic decisions. The authors argue that state ownership increases the firm’s dependence on home government institutions. As a result, state ownership strengthens the institutional influence of the home government on firms’ strategic choices. Wang & Hong (2012) further demonstrate that it is not only the level of affiliation with the government, but also the level of state ownership (e.g., state, provincial and city level) that impacts the degree of government involvement, and the internationalisation patterns of Chinese SOMNEs. The authors argue that these different levels of government involvement, have different objectives and exert different levels of institutional pressures on SOEs that influences their ability to internationalise differently (Wang and Hong 2012).

Choudhury & Khanna (2014) examine the licensing of intellectual property rights (IP) of 42 Indian state-owned laboratories and empirically demonstrate that SOEs can break from the resource dependence, and establish resource independence from government institutions by becoming a multinational firm and generating global cash flows. The authors argue that the reason why SOEs might license IP to MNEs is mainly to seek resource independence from home government institutions by generating alternative global cash flows. This finding is limited to India’s public research and development (R&D) laboratories and fails to identify that SOEs do not only depend on their home government institutions for financial resources but also for political backing usually in host countries with high risk of expropriation (Duanmu 2014). The
investments by Chinese SOMNEs in African countries with a very high risk of expropriation suggest that these firms rely heavily on the support of the Chinese government (Patey 2007) and as a consequence of government support may take more risks when investing in Africa.

Using Chinese firm-level greenfield investment data between 2003, and 2010, Duanmu (2014) focuses on the political backing of SOMNEs by their home country governments in circumstances of host country expropriation risk. The author suggests that SOMNEs may counter the risk of expropriation by leveraging the political influence of their home government. However, the author also finds evidence that the magnitude of the political influence of the home government is contingent upon the strength of political relations between the home, and host country and the degree of economic dependence of the host country to the home market. Also, political relations between the home country (China), and the host country acts as a moderating factor to attenuate firms’ exposure to the risk of expropriation. Though both SOMNEs and POMNEs benefit from good political relations between the home and host country, SOMNEs benefit more (Li and Liang 2012).

Duanmu (2014) uses state ownership as a proxy for political power. Though state ownership in itself is an essential indicator of the political involvement of SOMNEs (Cuervo-Cazurra & Dau 2009), there exist other political strategies that may strengthen the competitiveness of SOMNEs in weak institutional environments. For instance, in the China African context, the provision of aid with no conditions has been used as a political strategy by the Chinese government (McCormick 2008; Tan-Mullins 2010) – augmenting the competitiveness of China’s SOMNEs in Africa especially in host countries with the worst institutional environment and human rights records.
Considering all the evidence above and arguments on the political connections, and non-economic objectives of SOMNEs, some scholars argue that the connections of SOMNEs and the government expose them to additional institutional pressures from home, and host country governments (Li et al. 2014; Meyer et al. 2014). For example, Li et al. (2014) characterise SOMNEs from EMs as institutionally heterogeneous entities and conceptualise this heterogeneity as an outcome of multiple institutional reform processes like administrative decentralisation, market liberalisation and industrial restructuring in EMs. The authors propose that the restructuring of central government SOEs in EMs into ‘national champions’ exposes these firms to stronger institutional pressure from home and host country governments (Li, Cui and Lu 2014). This additional institutional pressure is because these firms are seen as instruments of foreign policy for sustainable economic growth, and domestic industrial policies. From a host country perspective, Li et al. (2014) argue that this difference in FDI objectives of central SOEs triggers adverse reactions from host country governments, thus creating difficulties in establishing host country legitimacy. Thus, to counter this problem of legitimacy, the Chinese government as the owner of Chinese SOMNEs have used its political relations with African countries and the provision of aid with non-interference to secure the legitimacy of Chinese SOMNEs in African countries.

This argument shares insights with Cuervo-Cazurra (2014)’s extraterritoriality argument of SOEs as entities that transfer the political, and economic ideologies of their home governments. Thus, the national strategic prerogatives of central SOEs results in distrust by host country governments, thereby triggering host country legitimacy challenges (Li et al. 2014). Unlike central SOEs, Li et al. (2014) argue that local government SOEs have fewer responsibilities to serve national strategic objectives of the home country, but rather primarily rent-seeking objectives to attain
the fiscal needs of local governments. Such differences in their FDI objectives is what Li et al. (2014) argue will elicit different responses from host governments when dealing with FDI activities from central, and local SOEs.

Meyer et al. (2014) provide empirical support for the above arguments on distrust of SOEs by examining how Chinese SOMNEs adapt their foreign entry to the institutional pressures abroad. The authors argue that the weak legitimacy of ‘state ownership’ in itself trigger stronger institutional pressures in some host countries due to issues like ideological conflicts, perceived threats to national security, and unfair advantage due to home government support. Backed up by empirical evidence from Chinese listed firms, the authors suggest that as a result of this stronger host country institutional pressures, SOMNEs mode of adaptation and control decisions to host country conditions are different from POMNEs (Meyer et al. 2014).

According to Meyer et al. (2014), pressures for legitimacy are greater in host countries with high institutional and technological development. Firstly, technologically developed countries might be concerned about losing critical technological know-how to foreign governments, and secondly host countries with a strong rule of law that limits direct government interference in business, ideological incompatibilities are bound to arise when firms associated with foreign governments enter the host country market. For our study, this will imply Chinese SOMNEs investing in host African countries with low technological development and a weak rule of law, would face lower institutional pressure for organisational legitimacy. However, considering SOEs “may use means other than their entry strategy to adapt to or cope with local institutional pressures” (Meyer et al. 2014 p.1023), little is known about the different strategies and practices employed by SOEs in both institutionally developed and undeveloped host countries to establish and maintain legitimacy. In the case of China’s
OFDI into Africa, the use of loans with no conditions on the development of domestic institutions might be viewed as means of achieving legitimacy for Chinese SOMNEs in Africa in the eyes of important legitimating actors, i.e. the host country government.

A group of studies (Cull & Xu 2003; Song et al. 2011; Chen & Chen 2011) in the SOE literature focus on the soft budget constraints and foreign investments (Bai & Wang 1998) of SOMNEs. Soft budget constraints mean home governments of SOEs can bail out these firms in times of financial difficulties, thereby resulting in SOEs, taking more risk than their counterparts in the private sector (Cuervo-Cazurra 2014). Cull & Xu (2003) investigate the factors that determine the sources of finance for firm-level investment for a sample of Chinese SOEs from 1980 to 1994. The authors find that compared to the government, private banks allocated credit to more profitable SOEs, and these loans were more likely to be allocated to SOEs adopting market-oriented reforms that signalled good future performance. However, the authors also find that as the 1990s wore on bailout responsibilities increasingly shifted from the government to banks (Cull and Xu 2003). As a result, SOE profitability and reform as a prerequisite for the allocation of bank loans grew weaker.

Song et al. (2011) find that due to financial market imperfections, more risk-oriented firms using more productive technologies are forced to finance their investments through internal savings. On the other hand, SOEs with lower productivity can survive because of their preferential access to the credit market. Due to their preferential access to cheap capital, Chinese SOMNEs might be more financially equipped to cope with higher transactions costs in African countries with low institutional quality than Chinese POMNEs. Chen & Chen (2011) examine the effects of audit quality on the cost of equity capital for Chinese SOEs and POEs. They provide empirical evidence that the effects of audit quality on the cost of equity capital are more pronounced for
non-SOEs than for SOEs because while the state still retains two key control rights. These control rights include the ultimate decision on the disposal of assets and M&A and the appointment of CEOs (Chen and Chen 2011).

Overall, the literature on SOEs shows that there is a dearth of research on the internationalisation of SOEs (Cuervo-Cazurra 2014). So far, the few empirical studies on this dimension of SOE research has shown that this internationalisation of SOEs from EMs is mainly due to state ownership control (Wang & Hong 2012; Liang et al. 2014). Due to state ownership control, SOEs are much likely to follow political objectives when engaging in FDI activities overseas (Cuervo-Cazurra 2014). These political objectives result in stronger home (Cui & Jiang 2012) and host-country institutional pressure for SOMNEs that makes them adapt their foreign entry differently to POEs (Meyer et al. 2014). Considering SOEs are bound to face stronger institutional pressure in host countries with high technological and institutional development (Meyer et al. 2014) there is a lack of research on FDI activities by SOEs from EMs in host countries with institutional voids (Meyer et al. 2014). In this study, we fill this gap by examining the drivers of FDI by Chinese SOMNEs and POMNEs into Africa separately considering the likely influence of the Chinese government in the location decision of Chinese SOMNEs in particular.

Also, from the above literature on SOEs, SOEs have soft budget constraints which give them a higher risk tolerance and a higher survival rate than POEs (Song et al. 2011). They also face (at least in the case of China) lower expropriation risk in countries with relatively lower institutional quality because they can leverage the political influence of their home government (Duanmu 2014). Thus, soft budget constraints and lower expropriation risk mean SOMNEs face a lower transactions cost or are not as risk averse as POMNEs regarding the high transactions cost that usually
accompanies operations in countries with low institutional quality. In the case of China’s OFDI into Africa, this means the soft budget constraints of Chinese SOMNEs will make them less risk averse than Chinese POMNEs when investing in Africa. In the following section, we review existing studies on the determinants of OFDI from EMs.

3.8. The Determinants of OFDI from EMs– Extending Traditional IB Theories

The last decade and a half have witnessed a rise in OFDI from EMs (UNCTAD 2017). However, there exist significant differences in the OFDI motivation, strategy and behaviour of MNEs from different EMs like China, India, and Russia (Deng 2009). The focus of this thesis is China, the largest of all the EMs in GDP terms and global OFDI (UNCTAD 2017). The purpose of this section is to review the perspectives of extant literature on the growth in OFDI from EMs enabling us to identify and to highlight some of the unique perspectives of China’s OFDI compared to OFDI from other EMs, thus setting the stage for our investigation of China’s OFDI into Africa.

Countries that are mostly studied by the literature on OFDI from EMs are China (Ramamurti & Hillemann 2018; Buckley, Clegg, et al. 2018; Buckley et al. 2007; Child & Rodrigues 2005; Morck et al. 2008; Luo et al. 2010; Deng 2009; Wang et al. 2012; Duanmu 2012; Wang & Hong 2012; Zhang & Daly 2011; J. Sun et al. 2017), India (Bhaumik & Driffield 2011; Hattari & Rajan 2010; Bhaumik et al 2009; Nayyar 2008) and Russia (Kalotay 2008; Kalotay & Sulstarova 2010; Kalotay 2006). The extant literature on the determinants of OFDI from EMs varies in focus and results. Most studies examine either home (Morck et al. 2008; Luo, Xue & Han 2010; Tolentino 2010; Voss et al 2010; Kalotay 2008; Bhaumik et al. 2009) or host country factors (Chou, Chen & Mai 2011; Zhang & Daly 2011; Kang & Jiang 2012; Nayyar
2008; Hattari & Rajan 2010; Bhaumik & Driffield 2011) as determinants of OFDI from EMs.

Firstly, many studies focus on the strategic-asset seeking behaviour of EMNEs (Deng 2009; Cui et al. 2017; Luo and Tung 2017; Blomkvist and Drogendijk 2016; Child and Rodrigues 2005; Hattari and Rajan 2010; Mathews 2006; Nayyar 2008). This view asserts that the international expansion of EMNEs is mainly due to the desire by these firms to acquire strategic assets in developed economies. The desire for these type of investments is to compensate for their competitive disadvantages, due to their home institutional constraints (Luo and Tung 2007; Luo and Tung 2017) as well as to overcome their latecomer status compared to DCMNEs (Child & Rodrigues 2005).

Due to the low levels of institutional quality in EMs scholars argue that the rise of the EMNE poses a challenge to the explanatory power of traditional IB theories of FDI (Buckley et al. 2007; Child and Rodrigues 2005; Ramasamy, Yeung and Laforet 2012a; Stoian 2013; Buckley, Chen, et al. 2018). They argue that traditional IB theories like the OLI paradigm and the IDP were built mainly on the experience of DCMNEs (Buckley et al. 2007; Child & Rodrigues 2005). The weak institutional frameworks in EMs hampers the propensity for firms from these economies (Ramasamy, Yeung & Laforet 2012), to build the necessary ‘OLI type’ assets needed to engage in value-added activities across borders, thus making them less competitive than their counterparts from developed economies (Cuervo-Cazurra & Genc 2008). Thus, scholars suggest that the home institutional environment in EMs plays a crucial role in the explaining the FDI activities of EMNEs mainly through government support and encouragement of domestic firms (Child & Rodrigues 2005; Luo, Xue & Han 2010; Voss et al. 2010; Kalotay & Sulstarova 2010; Buckley et al. 2007). Domestic capital market imperfections in EMs ensure the provision of subsidised loans by home
governments (Luo & Tung 2007; Hattari & Rajan 2010; Nayyar 2008; Buckley et al. 2007) to mostly SOMNEs, thus influencing domestic OFDI patterns (Kalotay & Sulstarova 2010; Buckley et al. 2007).

Kalotay & Sulstarova (2010) evaluate the explanatory power of the OLI paradigm, within the context of Russian OFDI. The authors find that the home-country institutional environment, which comprises of state ownership of firms, and home country FDI policy change plays a vital role in shaping Russian OFDI. Similarly, Buckley et al. (2007) investigated the determinants of China’s OFDI, and find that China’s institutional environment is likely to have far-reaching effects in the internationalisation decisions of Chinese firms. For instance, the launch of the ‘Go Global’ policy in 1999 by the Chinese government played a crucial role in the government’s assistance of domestic firms to engage in OFDI.

Others focus on the effect the host-country institutional environment plays in the internationalisation of EMNEs. These studies (Cuervo-Cazurra and Genc 2008; Cuervo-Cazurra 2012; Morck, Yeung and Zhao 2008) suggest that EMNEs may be attracted to other developing countries based on their experiences in operating under similar institutional conditions in their home country. This experience provides EMNEs with an advantage over DCMNEs when investing in developing economies (Cuervo-Cazurra and Genc 2008). The quality of the home and host country of the firm has thus become central in explaining FDI from developing economies into other developing economies (South-South FDI) (Aleksynska and Havrylchyk 2013). Thus, we utilise the concept of institutional distance regarding institutional quality between the home and host country of the firm to examine the drivers of China’s OFDI into Africa.
Some scholars (Yamakawa et al. 2007; Marano et al. 2017; Stoian & Mohr 2016; Witt & Lewin 2007) adopt an institutional escapism view to explain the growing OFDI from EMs. This view argues that firms from EMs carry out value-added activities abroad in a bid to ‘escape’ the weak and undeveloped institutions at home (Witt & Lewin 2007). However, research has shown that firms from EMs are among the largest foreign firms in the least developed countries with weaker institutions (Cuervo-Cazurra & Genc 2008; Bhaumik & Driffield 2011). As a result, the institutional escapism notion does not explain OFDI activities by EMNEs into host countries with even weaker institutions. In the context of increasing investments from CMNEs into Africa – from a weak institutional environment to an even weaker institutional environment, the institutional escapism view fails to hold. In this case, we expect the role of the Chinese government as owners of SOMNEs and the no conditionality approach to aid to play a strong role in explaining the investments by China’s OFDI into Africa. Thus, in our study, we adopt a PE approach to examine the drivers of China’s OFDI into Africa.

In general, the literature examining the growth in OFDI from EMs highlights a few characteristics in explaining the investment patterns of EMNEs. Firstly, the literature suggests that the growth in OFDI from EMs is mainly due to their need to acquire strategic assets through the acquisition of DCMNEs that already possess strong technological and managerial competencies (Luo and Tung 2007). Secondly, from an institutional perspective, the literature emphasises that the nature of the home institutional environment – mainly the role of the government of EMs plays a crucial in the expansion of EMNEs abroad. The literature above pays very little attention to the FDI activities of EMs in other developing economies (South-South). Thus, in our
study, we focus on China’s OFDI into Africa a growing phenomenon of South-South FDI.

Amongst all the EMs with growing number of firms engaging in OFDI, China as far as we are aware is the only EM with an official policy encouraging and supporting its domestic firms to engage in OFDI (Voss, Buckley and Cross 2008). Such a policy has the potential to enhance firm-level differences in the “Go Global” adventure between Chinese SOMNEs and POMNEs (Duanmu 2012). This brings us to our EM market of interest – China. Thus, we review the current literature on the determinants of OFDI from China in the following section to better inform our analysis of the determinants of China’s OFDI into Africa.

3.9. The Determinants of OFDI from China

The literature on EMs depicts a dominant strategic-asset seeking behaviour by EMNEs suggesting the need to augment their competitive advantages through the acquisition of firms in developed economies (Cuervo-Cazurra 2012). Treating OFDI from China as just a subset of the above strategic assets seeking does not necessarily acknowledge the key differences between these economies, and firms from China. For instance, China is a leading EM with one of the highest economic growth rates within the past two decades, that necessitates a growing need for energy and natural resources to satisfy the demand that accompanies such high levels of economic growth (Kolstad & Wiig 2011). This growth has led to an increase in Chinese OFDI into regions such as Africa with vast reserves of natural resources in a bid to secure a steady supply of natural resources for the sustainable growth of the Chinese economy (Jiang 2009). Another key difference is the high amount of firms in China that engage in OFDI that can be classified as state-owned (Buckley et al. 2007) especially in the context of
China’s OFDI into Africa, indicating a high degree of government influence in the OFDI activities of Chinese SOMNEs.

Some studies highlight a strategic asset-seeking behaviour of CMNEs. For instance, examining the investments by a group of Chinese manufacturing companies, Deng (2007) suggests that the primary motivation of CMNEs investing in developed economies is their desire to acquire strategic assets. Also, conducting a multiple case study of three leading CMNEs – TCL, BOE and Lenovo, Deng (2009) suggests that CMNEs invest abroad to acquire strategic assets. Exogenous institutional pressure arises from the role of the government, and endogenously from corporate values and norms bounded by top management teams (TMTs) of Chinese firms.

Child & Rodrigues (2005) also reach this conclusion through their examination of the motives for engaging in OFDI through case studies of prominent market-seeking Chinese firms. The authors highlight a strategic asset-seeking investment behaviour with a particular reason to acquire technological assets in a bid to build up their competitive advantages. This strategic asset-seeking motivation by Chinese firms is mostly carried out in developed economies, with advanced institutional development. However, this view does not account for the growing role of the Chinese government in investments in the extractive sectors. Thus, there is a need to examine the location decision of CMNEs in other developing economies such as those in Africa which this study investigates.

The majority of studies suggest that China’s OFDI is highly associated with host countries with a significant stock of natural resource endowments (Buckley et al. 2007; Ramasamy, Yeung & Laforet 2012; Kolstad & Wiig 2012; Amighini, Rabellotti & Sanfillipo 2013; Zhang & Daly 2011; Deng 2004; Tan 2013). However, the literature
on EMs in general highlights strategic asset-seeking as a dominant motivation for conducting OFDI by firms from EMs. The dominant motivation of natural resource-seeking by CMNEs and the nature of their home institutional environment through significant government control of the economy does not make these firms a subset, but rather a particular case of OFDI from EMs (Buckley et al. 2007; Child & Rodrigues 2005). In contrast to other EMs, the Chinese government has established clear directions on the type of OFDI it would like to encourage domestic firms to undertake (Deng 2004).

The impact of the home country macroeconomic factors as determinants of OFDI from China has also been an area of focus in the literature. Tolentino (2010) examines the relationship between the openness of the home economy to international trade, and other macroeconomic factors like interest rate, and exchange rate and China’s OFDI. The author suggests that any changes in these factors have an impact on the level of OFDI from China. Morck, Yeung & Zhao (2008) also examine the effect of high domestic savings rate, weak corporate governance, and distorted capital allocation in the home country on OFDI levels. The authors suggest that all three factors have contributed to the surge in OFDI from China in recent years. The above studies examine home country macroeconomic factors only. On the other hand, Zhang & Daly (2011) examine the effect of host country macroeconomic factors as determinants of China’s OFDI for a mix of 23 countries as determinants of OFDI from China. They suggest that China’s OFDI is attracted to countries with high volumes of Chinese imports, high GDP growth, and high GDP per capita.

The predominantly natural resource-seeking investments exhibited by CMNEs as portrayed in the literature is due to the strategy of the Chinese state, executed by predominantly SOMNEs (Kolstad & Wiig 2012; Mohan 2013). The desire is to seek
highly needed resources to support the high economic growth of the Chinese economy experienced within the past three decades (Ramasamy, Yeung & Laforet 2012). The difference between Chinese SOMNEs and Chinese POMNEs has been an area of research focus notably because of the advantages enjoyed by Chinese SOMNEs. Next review the literature on the differences between the FDI location decisions of Chinese SOMNEs and POMNEs.

The internationalisation of SOEs is an important phenomenon in IB research (Cuervo-Cazurra 2014). The internationalisation of SOEs raises new questions about how firm ownership types (SOMNE or POMNE) impact on their internationalisation strategies (Buckley et al. 2007; Wang & Hong 2012). China is one major EM with the highest number of SOEs (Bruton, Peng and Ahlstrom 2015). SOEs constitute a significant part of the Chinese economy (Voss, Buckley and Cross 2008). Many of the SOEs among the largest MNEs are Chinese (Bruton, Peng and Ahlstrom 2015), and these firms differ from their private counterparts regarding motivations, access to resources, and corporate strategies (Meyer et al. 2014). The motivations for engaging in OFDI by Chinese SOMNEs and POMNEs can be put into context with the differences in the OFDI location decisions.

Ramasamy, Yeung & Laforet (2012) examine the international location decisions of both Chinese SOMNEs and POMNEs. The authors suggest that the motivations for conducting OFDI differed between both types of firms. SOMNEs are attracted to host countries with vast reserves of natural resources and risky political environments, while POMNEs tend to be more market seekers (Ramasamy et al. 2012). Relating to our phenomenon of interest, this means Chinese SOMNEs are the more likely investors in Africa, taking into consideration the hazardous institutional environment in Africa. This notion is confirmed by the dominant presence of Chinese SOMNEs in
Africa as implied by the top investing Chinese companies in Africa that are predominantly Chinese SOMNEs (Chapter 2, section 2.5).

The above finding is replicated by Amighini, Rabellotti, & Sanfilippo (2013) who also examine the host country determinants of Chinese SOMNEs, and POMNEs and suggest that Chinese POMNEs are attracted by large markets, and host country strategic assets. According to the authors, Chinese POMNEs are also wary of host country political risk, while Chinese SOMNEs follow home country strategic needs by investing more in natural resources and energy sectors and less wary of the political risk of host countries. Wei et al. (2014), Liang, Lu & Wang (2012) and Huang & Renyong (2014) all examine the location decision of Chinese POMNEs only. These studies suggest that Chinese POMNEs invest abroad due to their firm-specific attributes, and have so far concentrated on the market seeking and strategic asset seeking type investments. Considering the above characteristics of Chinese POMNEs, we examine the institutional determinants of Chinese investments in Africa by Chinese POMNEs.

Bass & Chakrabarty (2014) compared the cross-border investments of SOMNEs and POMNEs. They suggest that SOMNEs are willing to invest in resources for the long-term as security for the future due to the concern by governments, in securing access to natural and energy supplies which they consider to be crucial for the sustainability of the home economy. The dichotomy in investment motivations by Chinese SOMNEs and POMNEs highlights some of the peculiarities of SOMNEs that defy existing theoretical approaches to IB. For instance, their ability to internationalise to achieve political, or economic security goals has to a lesser degree to do with profitability, as governments as owners of these firms may encourage them to carry out OFDI to attain political rather than economic objectives. These type of investments is what Cuervo-
Cazurra (2014) coined the non-business internationalisation argument for the existence of SOMNEs.

For example, most of the investments by Chinese SOMNEs in Africa in the infrastructure, and energy resource sectors have been carried out for political objectives and not necessarily driven by profitability (Cuervo-Cazurra 2014; Haan 2011). These investments depict the intention by the Chinese government to extend its sphere of influence, while simultaneously achieving economic security through the exploration of natural and energy resources through its SOMNEs (Mohan 2013; Taylor 2006). Thus, there is a need for PE approach when examining the drivers of China’s OFDI into Africa. In the following section, we review the literature that focuses on the topic of this study – China’s OFDI into Africa.

3.10. China’s OFDI into Africa: A Review of the Empirical Evidence

Research on the determinants of China’s OFDI into Africa in general and the impact of institutional quality and distance remains limited – and this is mainly due to data limitations (Cheung et al. 2012). The few studies carried out on this phenomenon show that the primary motivation for the recent surge in China’s OFDI into the region is as a result of the need to secure natural resources (Kolstad & Wiig 2011; Drogendijk & Blomkvist 2013; Cheung et al. 2012; Biggeri & Sanfilippo 2009; Sanfilippo 2010). The primary rationale for natural resource-seeking FDI by CMNEs is to sustain China’s high levels of economic growth (Kolstad & Wiig 2011; Jiang 2009; Zafar 2007) and to secure a steady supply of oil and gas, rather than rely on global markets (Besada, Wang, Whalley 2008). The literature also shows market-seeking FDI by CMNEs in other sectors like in the construction sector (Kaplinsky & Morris 2009; Corkin & Burke 2006) that delivers projects up to 25% cheaper, than DCMNEs charge.
(Besada, Wang & Whalley 2008). The telecommunications sector has also seen large-scale investments from large CMNEs (Corkin 2007).

Adopting an institutional perspective, Kolstad & Wiig (2011) examine the dominant motives of China’s increasing FDI flows to 29 African countries in the period 2003-2006. The authors use the rule of law index as a measure of host country institutional quality and suggest that aside from the need to secure natural resources, these investments are also attracted to host countries with weak institutional frameworks. However, when compared to OFDI from developed economies, the authors suggest that there are no differences between CMNEs and DCMNEs as regards the effect of host country institutional quality (Kolstad and Wiig 2011). On the other hand, Drogendijk & Blomkvist (2013) find a positive link between political risk and Chinese OFDI into Africa. They suggest that evidence of a market, resource and strategic-asset seeking investment by CMNEs mean that they exhibit similar motivations for FDI to DCMNEs – and thus are in line with the predictions of traditional IB theories. Mario Biggeri & Sanfilippo (2009) suggest that CMNEs are cautious where there is armed conflict and in countries with less freedom – regarding political rights in Africa.

Overall, we can draw several findings from the literature dealing specifically with the determinants of China’s OFDI into Africa. Firstly, there is still very limited research on the topic with very few empirical studies carried out so far (Kolstad & Wiig 2011; Cheung et al. 2012; Drogendijk & Blomkvist 2013) – and the results regarding the effect of institutional factors are mixed. Moreover, there is a lack of studies on the role of institutional distance in determining the investment patterns of CMNEs in Africa. One possible reason for the mixed results may be the use of a heterogeneous set of variables to capture institutional quality. For instance, Kolstad & Wiig (2011) use the single index of the rule of law while Mario Biggeri & Sanfilippo (2009) use the
variable political rights and the number of conflicts to capture the impact of political risk. We argue that to adequately estimate the effect of institutional quality on Chinese OFDI into Africa; a more comprehensive measure seems more suitable as such a measure would account for every aspect of host country institutions (Groh & Wich 2009; Ali et al. 2010; Pajunen 2008). We use a composite measure of institutional quality for this study that captures both the political and economic institutions of the host country.

Secondly, all the empirical studies fail to distinguish between the determinants of Chinese OFDI between Chinese SOMNEs and POMNEs. Prior empirical evidence of this dichotomy has shown that Chinese SOMNEs tend to have a different FDI motivation from Chinese POMNEs (Ramasamy et al. 2012). Also, the data on greenfield investments by CMNEs in Africa shows that the majority of investments are carried out by Chinese SOMNEs as shown in Chapter 2, section 2.5 of our study. Chinese SOMNEs enjoy high levels of economic and political support relative to Chinese POMNEs – and thus can be less risk-averse in their FDI activities (Amighini et al. 2013). This difference has led to calls for the investigation of the drivers of Chinese OFDI into Africa from a firm ownership perspective, i.e. Chinese SOMNEs and POMNEs (Drogendijk and Blomkvist 2013).

Thirdly, there is the need to examine the close integration of Chinese aid and FDI activities from a PE perspective – notably how the non-interference policy impact on the investment pattern of CMNEs in Africa (Cheung et al. 2012; Kolstad and Wiig 2011). Such close integration of aid and FDI makes it challenging to separate Chinese aid from FDI (Ajakaiye, Mwega, & N’zue 2008). Mario Biggeri & Sanfilippo (2009) examine Chinese aid as a medium of international economic cooperation – suggesting that the provision of Chinese aid is a driving factor in China’s FDI into Africa.
However, aid also symbolises a political dimension that of non-interference in the domestic affairs of African countries. The impact of this foreign policy of non-interference on the OFDI patterns of CMNEs in Africa lacking in current studies is necessary to provide a comprehensive explanation of the location decision of CMNEs (Cheung et al. 2012).

3.11. Conclusion

In conclusion, the literature examining the impact of institutional quality on FDI flows suggest that institutional quality encourages FDI as it reduces transactions costs for MNEs and the risk of expropriation.

The literature also suggests that MNEs are not only deterred by weak institutional frameworks but also by a large institutional distance between the home and host country as they are attracted to countries with similar institutions. A large institutional distance increases the cost of building and establishing legitimacy as well as the LOF of the foreign firm. Focusing on the specific literature on Chinese OFDI into Africa, the few studies that have examined this phenomenon do not account for the differences in the investment motivations between Chinese SOMNEs and POMNEs. Also, the provision of development aid by the Chinese government that is strategically integrated with FDI – based on a policy of non-interference remains understudied in the literature. Furthermore, the literature on the PE perspective of China’s engagement with Africa of Chinese investments in Africa highlights significant government influence in the location decision of CMNEs by highlighting the political and strategic objectives of the Chinese government. Such influence depicts a PE dimension not currently accounted for in the literature on the impact of institutions and FDI.
This PE dimension is demonstrated in two ways – through the ownership and control of SOMNEs – and through the strategic bundling of development aid and FDI based on a policy of non-interference. As a consequence, we adopt an interdisciplinary approach to theory building in our next chapter that discusses the conceptual framework (Chapter 4) of this study by employing concepts that capture this PE dimension, that is, state-owned multinational enterprises and development aid. These concepts are subsequently operationalised empirically in the theory testing parts of the thesis (Chapters 6 and 7), firstly by separating investments by SOMNEs and POMNEs (Chapter 6) and secondly by examining the moderating effect of Chinese development aid on the relationship between institutional quality and institutional distance on China’s OFDI into Africa (Chapter 7).
Chapter 4. Conceptual Framework

4.1. Introduction

The primary aim of this chapter is to develop the conceptual framework that this study uses to analyse China’s OFDI into Africa. The conceptual framework comprises of the system of concepts, assumptions, expectations, and beliefs that inform our study (Miles and Huberman 1994). We seek to explain the main concepts studied and the relationships among them. Overall, we aim to formulate and present a novel conceptual framework that comprehensively explains the phenomenon at hand – China’s OFDI into Africa. We base the need to present a novel conceptual framework that comprehensively explains China’s OFDI into Africa on the outcomes of the literature review of our study (Chapter 3).

The review of the extant literature demonstrates the limitations of existing theoretical approaches and studies in explaining China’s OFDI into Africa. This limitation is mainly due to the lack of incorporation of a PE dimension of Chinese investments in Africa in extant studies of the determinants of Chinese OFDI into Africa. Thus, in this chapter, we seek to provide a conceptual model that fully explains the investment pattern of CMNEs in Africa by adopting an approach that integrates knowledge from the IB and PE literature.

The remainder of the chapter is organised as follows: In section 4.2, we justify the need for a novel conceptual framework. Section 4.3 introduces and explain the various concepts employed in our conceptual framework. This is followed by a discussion of the conceptual framework and hypotheses in section 4.4 that relates our concepts to China’s OFDI into Africa by formulating a series of testable hypotheses that will be
empirically tested in Chapter 6 and 7 of this dissertation. Section 4.5 provides a conclusion to the chapter.

4.2. The Need for a Novel Conceptual Framework for China’s OFDI into Africa

In this section, we justify the need for a novel conceptual approach by highlighting the insufficiencies of existing institutional approaches to IB. The two widely employed institutional approaches to IB are the NIEs, and NIT approaches (Wood & Demirbag 2012). We briefly how these two perspectives address the subject of MNE activities across national boundaries and the suitability of each theoretical approach in explaining China’s OFDI into Africa.

4.2.1 The Theoretical Approach of NIEs and China’s OFDI into Africa

The NIEs approach to IB is concerned with the quality of the institutional frameworks in a country and its impact on economic activity and FDI inflows (North 1990; Williamson 2000). The application of the NIEs approach to IB emphasises the importance of institutions as a determinant of the FDI location choice of MNEs. It suggests that the level of institutional quality matters to MNEs as institutions can both enable and constrain the international business activities of MNEs (Meyer & Nguyen 2005; Pajunen 2008; Slangen & Beugelsdijk 2010). This impact of institutions on MNE activity is due to its effect on transactions costs (Meyer & Peng 2005; Meyer 2001). As such, MNEs increasingly prefer FDI locations with high institutional quality to locations with low institutional quality (Henisz & Williamson 1999; Henisz 2000; Meyer et al. 2009) because high institutional quality reduces uncertainty and lowers transactions costs for firms (Meyer 2001).

The application of the above NIEs approach to China’s OFDI into Africa is somewhat limited. The specific focus on institutional quality and its effect on transactions costs
limits the explanatory power of this theoretical approach in explaining China’s OFDI into Africa. This limitation is due to its view of value-added activities of MNEs strictly from a cost economising lens (Williamson 2000) while paying no attention to the political or social lens (Child & Rodrigues 2005). According to the ICRG (2016) and the World Bank’s World Governance Indicators (2016), African countries are among the least institutionally developed. As a result, investing in Africa is not straightforward as low institutional quality continue to pose challenges for many investors making the region the least attractive for foreign investment (UNCTAD 2017). African governments have been encouraged to carry out reforms to improve the quality of their domestic institutions as a precondition for attracting more FDI (Asiedu 2006).

However, despite the apparent low institutional quality of the region, the presence of Chinese firms in Africa has been growing at a fast rate since the advent of the ‘Go Global’ policy in the year 2000. According to the Africa Investment Report (2017), published by the Financial Times, China surpassed the US as the leading investor in Africa (in greenfield investments) regarding capital expenditure in 2016. Bearing in mind the cost-economising view of the NIEs approach to IB, the increasing presence of Chinese firms in Africa goes against the expectation of NIEs tradition of IB. We argue that the limitation of the NIEs approach in explaining the growth in Chinese investments in Africa is mainly due to the lack of a PE dimension contributing to the growth of Chinese investments in Africa. The PE dimension is reflected in the political and financial support of Chinese SOMNEs by the Chinese government (Luo, Xue and Han 2010) and the strategic bundling of aid and FDI projects. We provide arguments on how both PE aspects of Chinese FDI in Africa help explain the investments of CMNEs in Africa and formulate hypotheses in section 4.4. Thus, to fully explain the
location decision of CMNEs in Africa, we advocate a novel conceptual framework that takes into account the aspects mentioned above of Chinese OFDI into Africa.

Overall, the PE of Chinese OFDI into Africa is an important dimension that is needed to explain the location decisions of CMNEs in Africa comprehensively. Thus, a novel conceptual model that accounts for the impact of this dimension is required to explain the limitations of the NIEs to IB. The literature on the PE of China’s engagement with Africa (Chapter 3, section 3.6) suggests two distinctive aspects of Chinese OFDI into Africa. These include the strategic integration of FDI and development aid with no conditions attached (Sautman & Hairong 2007; Mohan 2013) and the significant influence of the Chinese government in the location decisions of large Chinese SOMNEs in Africa (Alden and Davies 2006). The strategic bundling of aid and FDI projects with no conditions attached constitute a novel alternative development paradigm for Africa.

The novel alternative development paradigm has facilitated the entrance of mostly large Chinese SOMNEs into African countries by improving their competitiveness in the region compared to MNEs from countries that do not provide such conditions to host-country governments (Alden and Davies 2006). Thus, the involvement of the Chinese government in Chinese FDI in Africa through the provision of development aid and its role as the owner of large Chinese SOMNEs indicate a significant influence of the Chinese state that is nested within a PE dimension (Cuervo-Cazurra 2014; Luo, Xue and Han 2010). As such, we believe that the incorporation of this dimension is necessary to provide a comprehensive understanding of the investment patterns of CMNEs in Africa. We believe that the lack of this PE dimension in the NIEs explains the limitations of these approaches. Consequently, our approach to theory building is
interdisciplinary. This approach is reflected in our chosen concepts that make up our conceptual framework.

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is interdisciplinary. This approach is reflected in our chosen concepts that make up our conceptual framework.

**4.3. Concepts**

In this section, we present and explain the different concepts that make up our conceptual framework. We chose these concepts based on our review of extant literature from both IB and PE perspectives. The concepts include institutional quality, regulative quality, institutional distance, regulative distance, aid and state-owned multinational enterprises.

**4.3.1. Institutional Quality**

The concept of institutional quality is derived from the NIEs approach to IB that is concerned with the ‘rules of the game’ – the economic and political institutions of a country, and their impact on economic development (North 1990; Rutherford 2001). The concept of institutional quality relates to the degree of efficiency and effectiveness of the institutional frameworks of a country (Rutherford 2001). This view of institutions suggests that the nature of exchange processes is contingent upon the institutional context in which they occur (Williamson 2000) because the level of institutional quality of a country can have a positive or negative effect on the performance of domestic firms (North 1990; North 1994).

North argues that the effect of institutions on the activities of firms is due to the impact of institutions on transactions and production costs. Transaction costs arise when the behaviour of one party in an economic exchange is not complete thereby creating uncertainties in economic exchanges in the absence of strong and reliable institutions (Williamson 1981). Regarding production costs, inefficient institutions can increase the costs of production through excessive ‘red tape’ in acquiring various permits hence
reducing the competitiveness of operating in such conditions (North 1990). Thus, due to its impact on transactions and production costs for firms, the concept of institutional quality has been utilised in the IB literature to examine its effect on the location decision of MNEs (e.g. Pajunen 2008; Ali et al. 2010; Gastanaga et al. 1998; Meyer et al. 2009). In this study, we focus on a comprehensive measure of institutions as the decision to engage in FDI is based on a combination of institutional factors and not just a single one (Pajunen 2008).

However, it is not enough to focus on the overall institutional quality of the host country as the effect of the regulative institutions of the host country can have an effect on the internationalisation of firms (Eden and Miller 2004). Thus, we capture the regulative institutions of the host country by disaggregating the overall institutional quality into its regulative component. We split the overall institutional quality into its regulative (formal) aspects because among other things; development policy requires efficient and effective formal institutions with reliable enforcement mechanisms of existing rules and regulations governing property rights. Prior studies have focused solely on the impact of regulative (formal) institutions or regulative and normative institutions on FDI flows and suggest a significant relationship between strong regulative institutions and FDI flows (Bevan, Estrin and Meyer 2004; Seyoum 2009; Schwens, Eiche and Kabst 2011). Thus, in this study, we follow this approach by disaggregating the overall institutional quality into regulative institutions to ascertain the impact of regulative institutions on Chinese OFDI into Africa.

4.3.2. Regulative Quality

The overall institutional framework of a country comprises of what North (1990) coined formal and informal institutions. The formal institutions consist of formal rules and regulations and enforcement mechanisms that underpin the economic environment
under which firms operate such as the rule of law, rules, and regulations governing product markets, level of bureaucracy and the overall legal systems of the country (Scott 1995). In complex economic exchanges where the rewards on opportunism are high, a coercive mechanism – provided by a third party is required to enforce agreements and provide certainty. We conceptualise the degree of efficiency and effectiveness of formalised rules and regulations and their enforcement mechanisms governing the activities of firms as regulative quality (Grosse and Treviño 2005; Alan Bevan, Estrin and Meyer 2004). Regulative quality in this study reflects aspects of the economic, political and legal regimes of the country that regulate FDI activities (Kang & Jiang 2012).

4.3.3. Institutional Distance

The concept of institutional distance is based on Scott (1995)’s pillars of institutions, the concept of institutional distance is a measure of cross-country institutional differences. It is the extent of dissimilarity between the overall institutional quality of the home and host country of the MNE (Kostova 1997). A high institutional distance between the home and host country of the firm generates a high degree of liability of foreignness (Eden and Miller, 2004). Thus, we conceptualise the absolute difference in the quality of the institutions in the home and host country as the institutional distance (Cezar and Escobar 2015)

We decompose the concept of institutional distance into regulative (formal) distance . to investigate potential differential effects of the overall institutional distance and regulative distance on FDI location decision of CMNEs in Africa (Eden and Miller 2004; Aguilera-Caracuel et al. 2013).
4.3.4. Regulative Distance

Regarding regulative distance, the investment decision of MNEs is to determine conducive locations where the regulative institutions are favourable to FDI activity for easy conformity to the formalised rules and regulations of the host country. A higher level of difference in the regulative institutions between the home and host country of the MNE can make it difficult for the MNE to conform to the regulative institutional frameworks of the host economy (Xu & Shenkar 2002). Such a large difference between the regulative constituents of the home and host country can cause difficulties in achieving market legitimacy (Scott 2001). In this study, we conceptualise the absolute difference in the quality of the regulative institutions between the home country and host country of the firm as the regulative distance (Pogrebnyakov and Maitland 2011).

4.3.5. Development Aid

Chinese development aid represents one facet of the PE dimension that this thesis accounts for when examining the FDI location of CMNEs in Africa. It is a cornerstone of an alternative approach to development for Africa known as the ‘Beijing Consensus’ (Halper 2010). By Chinese development aid, we mean Chinese loans and monetary grants provided to African countries\(^6\) - and strategically integrated with FDI projects with no conditions on the improvement of domestic institutions. The non-conditionality approach to development assistance (Tan-Mullins 2010; Large 2008) is based on an over-arching foreign policy of non-interference in the internal affairs of African countries (Holslag 2011).

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\(^6\) Parks & Strange (2014) provides the major differences between the type of aid provided by Western donors and China to African countries.
The Chinese foreign policy of non-interference acts as a guiding framework to every aspect of China’s involvement in Africa and has been utilised to achieve both economic and political objectives of the Chinese government (Pehnelt 2007; Alden & Davies 2006). Thus, the close integration of Chinese development aid with FDI projects may mean CMNEs may not pay much attention to the institutional quality of host African countries due to the non-interference policy of the Chinese government – as the provider of development aid. Thus, the Chinese government through its provision of development aid and the related policy of non-interference can influence the location decision of CMNEs in Africa and therefore crucial for the comprehensive understanding of the investment motivations of CMNEs in Africa (Kolstad and Wiig 2011; Cheung et al. 2012). We conceptualise the provision of loans and grants – based on a policy of non-interference by the Chinese government to African countries as development aid (Strange et al. 2017; Muchapondwa et al. 2016).

4.3.6. State-Owned Multinational Enterprises

The concept of state-owned multinational enterprises highlights another aspect of Chinese FDI in general and in Africa in particular that captures the PE dimension of Chinese FDI alongside the above-discussed development aid. Since the initiation of the ‘Go Global’ policy, Chinese SOMNEs have been and continue to be at the forefront of the growth in Chinese outward FDI through support and encouragement by the Chinese government (Child and Rodrigues 2005; Liang, Ren and Sun 2014). The ownership and control of Chinese SOMNEs by the Chinese government may affect the investment motivation of FDI carried out by Chinese SOMNEs (Liang, Ren and Sun 2014; Ramasamy, Yeung and Laforet 2012a) and how Chinese SOMNEs build legitimacy in host countries (Meyer et al. 2014). Thus, the high degree of influence by the Chinese government in FDI by Chinese SOMNEs in particular, coupled with the
political connection of these firms signify a PE dimension of Chinese FDI (Luo, Xue and Han 2010) that we seek to capture in our conceptual framework.

4.4. Conceptual Framework and Hypotheses

An overview of the empirical models that are to be estimated in the theory testing parts of the thesis is provided in Table 4.1. Table 4.1 provides a comprehensive explanation of China’s OFDI and the relationships between our dependent variable (FDI inflows) and our institutional (institutional quality, regulative quality, institutional distance, regulative distance) and moderating variables (Aid) that this study seeks to examine.

From Table 4.1, this study examines the potential differences in the effect of our key institutional variables between Chinese OFDI carried out by Chinese SOMNEs and Chinese POMNEs as well the moderating effect of Chinese development aid on the relationship between the key institutional variables and Chinese OFDI. Both aspects are what this study refers to as the PE dimension of China’s OFDI into Africa.
Table 4.1. Overview of Empirical Models

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<tr>
<th>Dependent variable</th>
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<td><strong>Chinese OFDI (2003-2015)</strong></td>
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<td>FDI inflows</td>
<td>Institutional quality log GDP GDP per capita growth ores and metals exports Inflation Foreign direct investment Real effective exchange rate Trade balance Fixed telephone subscriptions</td>
<td>Regulative quality log GDP GDP per capita growth ores and metals exports Inflation Foreign direct investment Real effective exchange rate Trade balance Fixed telephone subscriptions</td>
<td>Institutional distance log GDP GDP per capita growth ores and metals exports Inflation Foreign direct investment Real effective exchange rate Trade balance Fixed telephone subscriptions</td>
<td>Regulative distance log GDP GDP per capita growth ores and metals exports Inflation Foreign direct investment Real effective exchange rate Trade balance Fixed telephone subscriptions</td>
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<tr>
<td><strong>Chinese SOMNEs in comparison with Chinese POMNEs (2003-)</strong></td>
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<td>FDI inflows (SOMNEs and POMNEs)</td>
<td>Institutional quality log GDP GDP per capita growth ores and metals exports Inflation Foreign direct investment Real effective exchange rate Trade balance Fixed telephone subscriptions</td>
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<td>Regulative distance log GDP GDP per capita growth ores and metals exports Inflation Foreign direct investment Real effective exchange rate Trade balance Fixed telephone subscriptions</td>
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<td><strong>Moderating Effect of Chinese Development Aid (2003-2014)</strong></td>
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In the following sections, we develop and explain our hypotheses.

### 4.4.1. Institutional Quality and Location Choice of CMNEs in Africa

Numerous studies (e.g., Pajunen 2008; Ali et al. 2010; Meyer & Peng 2005; Slagen & Beugelsdijk 2010) suggest that institutional quality of a country is positively related to the levels of FDI it attracts. For instance, firms planning on entering African countries face unclear regulatory frameworks, weak judicial systems, political instability and corruption that can negatively affect a firms’ transactions costs (Bartels, Napolitano and Tissi 2014; Asiedu 2006; Osabutey and Okoro 2015). These increased costs mean foreign firms are more likely to be cautious and less likely to enter foreign locations characterised by very low institutional quality (Dikova & Van Witteloostuijn 2007; Meyer et al. 2009; Meyer 2001; Rodriguez Uhlenbruck & Eden 2005). It has also been suggested that single institutional factors like political instability, democracy and corruption can be highly significant in determining the FDI inflows into a country (Asiedu & Lien 2011; Cuervo-Cazurra 2006; Habib & Zurawicki 2002).
For example, countries with strong democratic institutions (Guerin & Manzocchi 2009; Jakobsen & de Soysa 2006; Li & Resnick 2003), low political risk (Busse & Hefeker 2007) and the absence of corruption (Habib & Zurawicki 2002) attract FDI inflows. Based on such evidence on the positive relationship between institutional quality and FDI, it has been suggested that to attract higher levels of inward investment, African countries need to improve the quality of their domestic institutions (Asiedu 2006). This prescription is because ‘good’ institutions in African countries will reduce uncertainty, transactions and production costs for both foreign and local firms (Ngobo & Fouda 2012).

Despite the relatively low institutional quality of the majority of African countries, China’s FDI in Africa has grown significantly. According to the Africa Investment Report 2017, China is now the leading investor in greenfield investments regarding capital expenditure. We argue that contrary to the suggestions by numerous studies mentioned above of a positive relationship between institutional quality and FDI flows, host-country institutional quality will have a negative impact on China’s OFDI into Africa. Firstly, this effect is due to the existence of capital market distortions in China making CMNEs more competitive in countries with low institutional quality by helping to offset part of the costs of operating in conditions of low institutional quality (Buckley et al. 2007; Voss et al. 2010). Also, the inefficiency of the banking system in China means cheap loans are awarded to outward investing firms not necessarily through government policy but as a result of inefficiency (Child & Rodrigues 2005; Antkiewicz & Whalley 2006).

Secondly, CMNEs investing in African countries are faced with a relatively similar level of quality of institutions compared to DCMNEs. For instance, according to data from the ICRG (2016), the corruption levels in China is much higher than in developed
economies. Similarly, the levels of bureaucracy quality and democratic accountability in China are also much lower in China than in most developed economies. Therefore, such similarities in institutions (regarding quality) might prove attractive to CMNEs as it might prove advantageous over DCMNEs because Chinese firms already have the experience in operating in conditions of low institutional quality in their home country (Cuervo-Cazurra & Genc 2008; Costinot 2009).

Thirdly, over the past decade and a half, the Chinese government has played a key role in the increase in Chinese OFDI through its encouragement and support of domestic firms to engage in OFDI since the launch of its official ‘Go Global’ policy (Wang and Hong 2012). Indeed among EMs, China is the only country that has an official policy of promoting OFDI, and with clear directions on the type of OFDI, it would like to encourage (Deng 2004; Voss, Buckley and Cross 2008). Such degree of government involvement in the OFDI activities of domestic firms may make CMNEs less risk averse and also seek lower competition where weak institutions are present.

Although capital market distortions do exist in other developing economies as well as similarities in institutional quality between other developing economies and African countries (Cuervo-Cazurra and Genc 2008). However, the unique approach of encouraging OFDI by the Chinese government through its ‘Go Global’ policy is a distinctive aspect of China’s OFDI that generates government-created advantages for CMNEs making them different from that of other developing economies (Ramamurti and Hillemann 2018).

Based on the arguments above, we expect that the level of institutional quality in African countries will have a negative effect on FDI from China. Specifically, we
expect that a high level of overall institutional quality to negatively influence the amount of FDI from China. Thus, we formulate the following hypothesis:

**Hypothesis 1a: CMNEs are attracted to African countries with low institutional quality**

Although the involvement of the Chinese government in OFDI has a strong influence on the level of OFDI and its location, this influence is contingent upon the degree at which the firm is affiliated with the government and the firm’s ownership structure (that is, SOMNE or POMNE) (Wang and Hong 2012). In particular, Chinese SOMNEs are considered to be highly affiliated with the Chinese government compared to their private counterparts. For instance, in most cases, the state retains the controlling shares and appoints CEOs with strong political connections (Hung, Wong and Zhang 2012; Liang, Ren and Sun 2014). Such close connection with the Chinese government also means Chinese SOMNEs are more likely to receive and benefit more from the support and backing of the Chinese government when investing overseas than Chinese POMNEs that lack such high levels of affiliation with government agencies (Wang and Hong 2012).

It has been suggested that Chinese SOMNEs are more likely to have access to capital at below market rates than Chinese POMNEs due to their close connections to government agencies (Cull and Xu 2003; Song, Storesletten and Zilibotti 2011). Such soft budget constraints enjoyed by Chinese SOMNEs is the primary reason why inefficient Chinese SOMNEs can survive for longer than Chinese POMNEs (Sun, Tong and Tong 2002). The close connection of Chinese SOMNEs to the Chinese state also means Chinese SOMNEs are more likely to enjoy political backing from the Chinese government and protection from the risk of expropriation when investing in countries with high risk of expropriation (Duanmu 2014). Moreover, international
relations also play an important role in explaining the high propensity for Chinese SOMNEs to invest in risky countries because good political relations between China and the host government can reduce the risk of expropriation (Li and Liang 2012).

The close connections between Chinese SOMNEs and the Chinese government mean that these firms may be far less cautious and willing to invest in countries with low institutional quality than Chinese POMNEs (Ramasamy et al. 2012; Amighini et al. 2013). This willingness to commit more resources in countries with low institutional quality is due to easy access to cheap capital that is capable of offsetting the high transactions and production costs when operating in conditions of low institutional quality (Duanmu 2012). Also, the possible protection of Chinese SOMNEs from expropriation might make these firms less cautious when entering countries considered to be politically risky (Duanmu 2014).

The close connection between Chinese SOMNEs and the Chinese government suggests that the Chinese government may be highly influential in the location decision of Chinese SOMNEs than POMNEs (Guo and Clougherty 2015). Government influence might mean that overseas investments by SOMNEs are carried out based on political objectives rather than purely for economic reasons (Bass & Chakrabarty 2014; Amighini et al. 2013). On the other hand, Chinese POMNEs are more likely to invest abroad strictly for profit maximisation purposes. Thus they are more likely to be market seekers and averse to the risks of operating in conditions of low institutional quality (Lu et al. 2011; Ramasamy et al. 2012; Amighini et al. 2013). Their inability to access cheap capital compared to Chinese SOMNEs (Sutherland and Ning 2011) suggests Chinese POMNEs may invest abroad in accordance with the prescriptions of traditional IB theories, i.e., through the exploitation of their FSAs (Liang et al. 2012; Ramasamy et al. 2012).
Overall, the influence and role of the Chinese government in the OFDI activities of Chinese SOMNEs, in particular, constitute one facet of the PE dimension of Chinese OFDI into Africa that needs to be accounted for to fully understand the investment patterns of CMNEs (Luo, Xue and Han 2010; Cuervo-Cazurra 2014). Chinese SOMNEs are prepared to enter and more willing to invest more in African countries with low institutional quality than Chinese POMNEs due to their close affiliation with the Chinese government.

Based on the arguments above, we expect that the effect of the level of the host country’s institutional quality will be different between FDI into Africa by Chinese SOMNEs and POMNEs. Specifically, we expect that a low level of host-country overall institutional quality will attract inward FDI by Chinese SOMNEs but will attract less inward FDI by Chinese POMNEs. Thus we formulate the following hypothesis:

**Hypothesis 1b: Chinese SOMNEs tend to be more attracted to African countries with low institutional quality compared to Chinese POMNEs**

**4.4.2. Regulative Quality and Location Choice of CMNEs in Africa**

The regulative dimension of the institutional environment is particularly critical to the firm as it establishes the rules and regulations that govern the activities of both foreign and domestic firms (Williamson 2000). Indeed efficient rules and regulations in African countries can lead to a reduction in the variability of firm profitability resulting in high-return and low-risk investments (Ngobo & Fouda 2012). Thus, when deciding whether to invest in a particular foreign location, MNEs are mostly concerned about the quality of the regulative institutions in host countries such as the bureaucratic quality, stable economic policy and the enforcement of the rule of law (Grosse &
Trevino 2005; Kang & Jiang 2012; Bevan et al. 2004). The absence of reliable rules and regulations backed by robust enforcement mechanisms can create uncertainty in an economic exchange between two parties (Ali et al. 2010). All parties in an economic exchange have incomplete information about the real intentions of their counterparts in an agreement – and thus cannot be entirely sure of their ability to honour the agreement. Due to this uncertainty, the cost of transacting includes a risk premium. This risk premium is contingent on the extent to which the enforcement mechanisms of the rule and regulations governing contract enforceability and protection of property rights are stable and reliable, i.e., the quality of the regulatory (formal) institutions (North 1990). Thus, the risk premium is higher in countries with low regulative quality and lower in countries with high regulative quality (Williamson 2000). Regulative quality can also have an impact on firms’ production costs. For instance, inefficient rules and regulations that cause costly production delays and waiting times, bribes to obtain permits can all raise production costs for firms operating in such an environment (North 1990).

However, as earlier discussed, the influence of the Chinese government in China’s OFDI constitute a significant driving force behind the growth and investment pattern of CMNEs in Africa. The availability of cheap capital in China may mean that Chinese firms may be less cautious when investing in African countries with very low regulative quality. Furthermore, the quality of the regulative institutions in China can be considered as relatively low in comparison to that of developed economies. Such low levels of regulative quality may be advantageous to CMNEs when operating in African countries with almost similar levels of regulative quality as they already possess the experience of operating in conditions of low regulative quality in their home country. In other words, due to their experience in operating in conditions of low
regulative quality, CMNEs are more capable of dealing with burdensome regulations. Therefore we hypothesise:

**Hypothesis 2a: CMNEs are attracted to African countries with low regulative quality.**

Engaging in FDI is a risky activity, especially in countries characterised by low regulative quality. However, in the case of Chinese FDI, the ownership structure of the firms undertaking FDI matters for a few reasons. Firstly, from the onset, the government led ‘Go Global’ policy resulted in a high number of Chinese SOEs undertaking FDI with a high degree of encouragement and support from the Chinese government (Luo, Xue and Han 2010). These SOMNEs are still highly controlled by the Chinese government which suggests that the motivations for their FDI activities are broadly aligned with that of the national economic and political objectives of the Chinese government (Ramasamy et al. 2012). On the other hand, Chinese POEs have been at the periphery of this government-led agenda with limited government support and financial resources. Thus, investing in African countries with low regulative quality and potentially high transactions and production costs might yield different location decisions for Chinese SOMNEs and POMNEs.

The divergence above in the location decisions of Chinese SOMNEs and POMNEs is due to the risk tolerance of Chinese SOMNEs in particular. Chinese SOMNEs will be more capable of managing the high transactions and production costs in African countries due to their preferential access to bank loans and financial markets compared to POMNEs who face capital constraints (a product of government-induced long-lasting capital market distortions) (Morck, Yeung and Zhao 2008). Also, the likely appointment of party officials as CEOs of Chinese SOMNEs might mean that managers of Chinese SOMNEs may have little individual interest in the long-term
profitability of their firm and instead pursue the long-term strategic objectives of the Chinese government (Hung, Wong and Zhang 2012). Such an approach is also likely to be in the interest of the career advancement of a politically appointed CEO in government bureaucracies. Chinese SOMNEs might be able to cope with the low regulative quality in African countries due to their unique experience of operating in weak and inefficient regulations in China in the form of high levels of direct government intervention and cumbersome rules and regulations. Such an experience renders Chinese SOMNEs with a competitive advantage over their private counterparts who lack the experience in dealing with direct government intervention. Therefore we hypothesise:

Hypothesis 2b: Chinese SOMNEs tend to be more attracted to African countries with low regulative quality than Chinese POMNEs

4.4.3. Institutional Distance and Location Choice of CMNEs in Africa

In IB research, the associated notion of institutional distance has become central in explaining the location choices of MNEs (Cezar and Escobar 2015; Pogrebnyakov and Maitland 2011; Aleksynska and Havrylchyk 2013). It has been suggested that MNEs are not only deterred by the overall institutional quality of host countries but also by a large institutional distance between the home and host country (Bae and Salomon 2010). As a result, MNEs would prefer to carry out FDI in countries with similar institutional environment to their home country (Xu & Shenkar 2002; Habib & Zurawicki 2002; Bénassy-Quéré et al. 2007; Cezar & Escobar 2015).

Research suggests that MNEs would prefer to invest in locations with similar institutional quality to their home country because this minimises the additional costs of doing business abroad (CDBA) due to reduced LOF (Zaheer & Mosakowski 1997; Zaheer 1995). On the other hand, a high institutional distance will result in increased
LOF which increases the additional costs for foreign firms due to unfamiliarity, relational and discriminatory hazards (Eden and Miller 2004; Zhou and Guillen 2016). However, the suggestions above of a negative relationship between institutional distance and the FDI location choice of MNEs are based on samples of DCMNEs (North-South FDI). South-South FDI such as Chinese OFDI into Africa is different in that the institutional quality in China and the majority of African countries is broadly similar (i.e. low institutional distance) with potentially adverse consequences for the long-term institutional development for African countries (Demir 2016).

The low institutional quality in developing economies that deter MNEs from a high institutional quality environment might act as a comparative advantage for EMNEs when investing in other developing economies with low institutional quality (South-South FDI). Thus, EMNEs might be more eager to invest in other developing economies due to their previous experience in operating in conditions of low institutional quality back home (Darby, Desbordes and Wooton 2009; Cuervo-Cazurra and Genc 2008). In the context of China’s OFDI into Africa, this implies that CMNEs might, therefore, be more attracted to African countries with low institutional quality as they are more likely to face a limited LOF considering the relatively low institutional distance regarding institutional quality between China and most African countries.

As earlier mentioned, CMNEs might be better equipped in managing the additional costs of operating in countries with low institutional quality due to financial and political support from the state. Based on the arguments above, we argue that the low overall institutional distance between China and host countries in Africa will attract Chinese FDI inflows into Africa. Therefore we hypothesis:
Hypothesis 3a: Low home-host country distance in terms of institutional quality will attract Chinese FDI inflows into Africa.

We discuss the proposed heterogeneous effect of institutional distance on the location decision of Chinese SOMNEs and POMNEs. It has been suggested that Chinese SOMNEs have more experience in operating in conditions of low institutional quality in China such as dealing with direct government intervention and navigating opaque political/corporate governance constraints than Chinese POMNEs (Morck, Yeung and Zhao 2008). As a result of this experience, Chinese SOMNEs might face less LOF when investing in African countries with similar or lower levels of institutional quality than Chinese POMNEs. Thus, if Chinese SOMNEs had truly acquired such an experience, they would be more attracted to countries with the same low levels of institutional quality (low institutional distance) than Chinese POMNEs to exploit their capabilities gained from their experience.

There is indeed empirical evidence that shows that Chinese SOMNEs seem to be more attracted to countries considered to be risky (Ramasamy et al. 2012; Amighini et al. 2013). In the case of African countries, the main reason could be because as ‘latecomers’ these firms have little option but to invest in countries with the lowest levels of institutional quality and considered to be too risky by DCMNEs like in the Sudan and Angola (Patey 2007; Corkin 2011). However, their additional experience of operating in conditions of low institutional quality in China might also play a role in their decision to invest in these countries. On the other hand, it is suggested that Chinese POMNEs are pushed to invest abroad by the need to escape the low institutional quality in China (Luo and Tung 2007; Luo, Xue and Han 2010).

Empirical research has shown that Chinese SOMNEs are more attracted to countries with vast reserves of natural resources and weak institutions than Chinese POMNEs.
Such attractiveness to resource seeking FDI and weak institutions highlight a strategic intent on the part of Chinese SOMNEs that follows the strategic and political goals of the Chinese government (Amighini et al. 2013), that is, the acquisition of natural resources for long-term security and not for short-term gains (Bass and Chakrabarty 2014). Thus, based on their tendency to engage in resource seeking FDI for exploration purposes, a low overall institutional distance is more likely to encourage FDI by Chinese SOMNEs than by Chinese POMNEs. Overall, we formulate the following hypothesis:

**Hypothesis 3b: Low home-host country distance in terms of institutional quality will attract more FDI by Chinese SOMNEs than by Chinese POMNEs.**

The disaggregation of institutional distance into regulative institutional distance has been shown to have a differing effect on the location choice of MNEs (Pogrebnyakov and Maitland 2011). Thus, we decompose the overall institutional distance into the regulative distance and discuss the concept of regulative distance in relation to the location choice of CMNEs in Africa in the following section.

### 4.4.4. Regulative Distance and Location Choice of CMNEs in Africa

Regulative (formal) distance measures the dissimilarities between the home and host country of the MNE as regards the setting, monitoring of rules and regulations – and the enforceability of them (Xu & Shenkar 2002). The regulative quality in developed countries is considered to be relatively higher than in developing economies (Liou, Chao and Yang 2016). In developing economies, membership of international organisations such as the IMF and the World Bank has curtailed the ability of governments in these countries to impose unilateral policy changes on foreign firms through structural adjustment programs that seek to improve the quality of the
regulatory environment (UNCTAD 2001). However, developing economies are still characterised by ‘regulative voids’ that account for a high number of ‘escape’ investments from these economies into developed economies (considering the relatively high regulative distance) to take advantage of the relatively better regulatory environment in developed economies (Stoian & Mohr 2016).

Weak and inefficient government regulations can affect the location choice of MNEs (Bevan et al. 2004). For instance, where respect for the rule of law and reliable enforcement mechanisms is lacking, inter-relational and discriminatory hazards can increase, thus resulting in opportunistic behaviour by the host government and local partners (Eden and Miller 2004). However, the relatively low regulative quality in developing economies can also act as a source of comparative advantage for EMNEs as they can leverage their experience of operating in conditions of weak and inefficient government rules and regulations in their home country. For instance, it has been suggested that firms from developing countries with high levels of corruption tend to seek other developing countries where corruption is prevalent (Cuervo-Cazurra 2006) (considering the relatively low corruption distance).

CMNEs operate in an environment of high government intervention in business, cumbersome government rules and regulations and uncertainty regarding the enforcement mechanisms monitoring the rule of law (Morck, Yeung and Zhao 2008). Thus, we argue that when investing in African countries CMNEs might not be deterred by low regulative quality but instead be attracted to weak regulatory environments in African countries (low regulative distance). The relatively low regulative distance between China and the majority of African countries might mean CMNEs are likely to face lower LOF when investing in African countries due to lower unfamiliarity and inter-relational hazards. Therefore we hypothesise:
Hypothesis 4a: Low home-host country distance in terms of regulative quality will attract Chinese FDI inflows into Africa.

Although the experience of CMNEs in operating in conditions of weak regulatory environments back home can act as a source of comparative advantage to CMNEs, it can also be a source of difference in the location decisions between Chinese SOMNEs and POMNEs. Chinese SOMNEs might possess more experience in dealing with challenging regulatory environments in African countries as a result of the presence of state equity in these firms that can lead to excessive government intervention and imposition of rules and regulations. Thus, based on this additional experience in dealing with direct government intervention, Chinese SOMNEs might be more equipped in dealing with and perhaps more attracted to low regulative quality in African countries (Morck, Yeung and Zhao 2008) than Chinese POMNEs that lack this additional experience. Put simply, Chinese SOMNEs will face an even lower LOF as regards regulative quality when investing in African countries than Chinese POMNEs. Therefore, we hypothesise:

Hypothesis 4b: Low home-host country distance in terms of regulative quality will attract more FDI by Chinese SOMNEs than by Chinese POMNEs.

4.4.5. The Moderating Effect of Chinese Development Aid Inflows

Thus far, the focus of our discussion and hypothesis building has been on the direct effect of institutional quality and distance on China’s OFDI into Africa. However, although institutional quality and distance are important factors determining the FDI location decision of CMNEs in Africa, the close integration of aid with FDI projects with no conditions on the improvement of host country institutional quality is a distinctive aspect of Chinese FDI in Africa worth examining (Kolstad and Wiig 2011).
Other important factors have been found to significantly impact the relationship between host country institutional quality and FDI inflows. For instance, empirical research has shown that the impact of democracy on FDI inflows is contingent on the size of natural resources reserves in the host country (Asiedu & Lien 2011). Similarly, Africa-specific studies also show that the impact of host country institutional quality depends on the presence of natural resources (Asiedu 2006) and the interaction between natural resource abundance and low institutional quality attracts FDI inflows into Africa (Kolstad and Wiig 2011). In the case of Chinese OFDI into Africa, CMNEs focus on other factors that can impact the magnitude of the impact of host country institutional quality on Chinese FDI inflows.

We argue that the close integration of Chinese aid and FDI projects moderates the effect of host country institutional quality and institutional distance on China’s OFDI into Africa. The close integration of development aid and FDI projects has been identified as an important factor of China’s OFDI into Africa (Biggeri & Sanfilippo 2009; Sanfilippo 2010) that needs an examination to provide a comprehensive explanation of the FDI location decision of CMNEs in Africa (Kolstad and Wiig 2011).

The associated policy of non-interference in the domestic affairs of African countries when providing aid (Pehnelt 2007; McCormick 2008; Tan-Mullins 2010) has thus become central in providing a comprehensive explanation of the location decision of CMNEs in Africa (Cheung et al. 2012). The close integration of Chinese aid and FDI projects constitute a PE dimension of Chinese OFDI into Africa that we seek to account for in our conceptualisation of the phenomenon. This PE dimension captures the full influence of the Chinese government alongside its role as the owner of large Chinese SOMNEs investing in Africa when explaining the effect of host country institutional quality and home-host country distance in terms of institutional quality.
We argue that the close integration of aid with FDI with no preconditions on the improvement of domestic institutions such as the rule of law, and corruption levels (Tan-Mullins 2010) may suggest that Chinese investments that accompany Chinese aid into Africa may not be deterred by low institutional quality. This attraction is because the Chinese government as the provider of aid advocates a policy of non-interference in the improvement of the institutions of the host country as a precondition for the provision of aid. On the contrary, these investments might seek African countries with very low levels of institutional quality.

Although Chinese investments in Africa will be attracted to low host country institutional quality, the higher the amount of Chinese aid integrated with Chinese investments the less attention is paid to the institutional quality of the host country. An increased level of Chinese aid integrated with Chinese investments would potentially create even more intensified attraction to host countries with low institutional quality with the non-interference policy of the Chinese government acting as the mechanism through which Chinese firms become even less risk-averse. Therefore we hypothesise:

**Hypothesis 5a: Chinese aid negatively moderates the relationship between institutional quality and Chinese FDI such that the effect is stronger when aid is present in Chinese FDI.**

Similarly, we argue that CMNEs will be even less risk-averse as regards the quality of the regulative institutions in the host country. Regarding the relationship between host country regulative quality and Chinese FDI inflows, we argue that the presence of Chinese aid in investments will act as an enhancer for the negative relationship between host country regulative quality and Chinese FDI inflows. The majority of Chinese ‘aid’ to Africa is in the form of concessional loans with terms and purpose
that are wholly or partly of a commercial nature (Parks and Strange 2014). Thus, the
presence of a sound legal system with reliable enforcement mechanisms is even more
imperative for the monitoring of contractual obligations between the Chinese
government and the host country government. However, similar to the argumentation
of the previous hypothesis we believe that the approach of no demands on the
improvement of domestic institutions as a condition to the provision of aid means that
the presence of Chinese aid in Chinese FDI might make Chinese firms carrying out
such projects to be less risk-averse regarding the regulative quality of the host country.
Therefore we hypothesise:

**Hypothesis 5b: Chinese aid negatively moderates the relationship between regulative quality and Chinese FDI such that the effect is stronger when aid is present in Chinese FDI.**

We argue that the close integration of aid with Chinese FDI projects is also likely to
moderate the relationship between home-host country distance regarding institutional
quality (institutional distance) and Chinese FDI inflows. MNEs prefer to invest in host
countries with similar institutional environment to their home country (Xu & Shenkar
2002; Bénassy-Quéré et al. 2007) as this reduces the degree of LOF faced by the
foreign firm in the host country (Eden and Miller 2004). Thus, the relative similarity
in the quality of the institutions in China and African countries (low institutional
distance) will attract Chinese FDI inflows. However, we argue that in cases where aid
is closely integrated with FDI projects, the deterring effect of high institutional
distance between China and African countries will be stronger. This enhancing effect
of aid on the relationship between institutional distance and Chinese FDI is due to the
no conditions approach in the provision of aid by the Chinese government that makes
Chinese FDI more attracted to African countries with similar overall institutional quality to China. Thus, we hypothesise:

**Hypothesis 6a: Chinese aid negatively moderates the relationship between institutional distance and Chinese FDI such that the effect is stronger when aid is present in Chinese FDI.**

Applying the above logic to the effect of regulative distance and on Chinese FDI inflows, we argue that the presence of Chinese aid moderates the relationships mentioned above. Firstly, we argue that CMNEs would be more attracted to low regulative distance when investing in FDI projects that are closely integrated with Chinese aid due to the no conditions approach to the provision of development aid of the Chinese government. The relatively weak regulative frameworks (formal institutions) in China might act as an advantage to CMNEs when investing in African countries with similar or even worse levels of regulative institutions (considering the relatively low regulative distance) (Cuervo-Cazurra and Genc 2008). However, the non-conditionality approach to the provision of aid means CMNEs investing in FDI projects that are closely integrated with Chinese aid might even be more attracted to African countries with similar regulative quality (low regulative distance). Such an attraction is due to the absence of any conditions on the improvement of the quality of host country regulative institutions as a precondition to the provision of aid. Therefore we hypothesise:

**Hypothesis 6b: Chinese aid negatively moderates the relationship between regulative distance and Chinese FDI such that the effect is stronger when aid is present in Chinese FDI.**
4.5. Conclusion

In this chapter, we have put forward the conceptual framework and testable hypotheses relating to the investment behaviour of China’s OFDI into Africa. We adopt an interdisciplinary approach by integrating information and knowledge from both the IB and political economy approaches to this phenomenon. We deem such an approach to be necessary for fully explaining the location decisions of CMNEs in Africa. We believe that our combination of relevant theoretical concepts into a unifying theory building block can be deemed a valuable theoretical contribution. The hypotheses developed are to investigate the main influences and determinants of the FDI location decision of CMNEs in Africa. We test the validity of our hypotheses in Chapter 6 and 7. We now discuss the research methodology of this study in the following chapter.
Chapter 5: Methodology

5.1. Introduction

This chapter aims to discuss the research methodology utilised to empirically test our hypotheses, explain the research context of our study as well as provide an explanation of our data collection and data handling processes. This chapter is structured as follows: Section 5.2 discusses the research philosophy of this study. In this section, we provide detailed discussion and justification of the specific philosophical perspectives adopted in this study based on our research paradigm of Positivism. Section 5.3 discusses our research approach. This is followed by a justification of Africa and China as our research contexts in section 5.4. Section 5.5 describes our sample, followed by a discussion on all variables used in this study in section 5.6. Next, we present and discuss the regression models that we specify in this study with a justification of our chosen research method in section 5.7. This is followed by a discussion of the summary statistics and correlation analysis of the variables used in section 5.8. The research limitations of the study are provided in section 5.9, and section 5.10 concludes the chapter.

5.2. Research Philosophy

Every research is grounded in a specific set of philosophical beliefs that depicts a particular view of the world. These philosophical beliefs relate to the development of knowledge and the nature of that knowledge (Saunders et al. 2011) which contain important assumptions about the way the researcher views the world. These assumptions can be associated with the type of research paradigm (e.g. Positivism, Realism, Interpretivism) employed by the researcher when analysing the chosen phenomenon. Considering the multiplicity of meanings of the term in the Social
Sciences, and for clarity, we use Saunders et al.'s (2011, p.118) definition of a paradigm as “a way of examining social phenomena from which particular understandings of these phenomena can be gained, and explanations attempted”. The differences between the above research paradigms are due to different underlying philosophical assumptions, based on the ontological, epistemological and axiological perspectives of each research paradigm.

The philosophical perspective we adopt through our choice of research strategy holds important assumptions about our view of the world. Johnsons & Clark (2006) argue that the important issue is not whether every piece of research should be philosophically informed, important though that is, but is how well a researcher can explain and defend his/her philosophical choices. Thus, next, we present and discuss the philosophical stands of this study based on our epistemological, ontological, methodological and axiological perspectives.

5.2.1. Our Ontological Position

Ontology is concerned with a researcher’s view of the nature of reality, i.e. the reality of the phenomenon under investigation (Burrell & Morgan 1979). Blaikie (2000, p.8) provides a full definition proposing that ontological claims are ‘claims and assumptions that are made about the nature of social reality, claims about what exists, what it looks like, what units make it up and how these units interact with each other’. This definition inevitably raises questions about the assumptions researchers have about the way the world works. Such differences in assumptions about what constitutes social reality and how the world works are by no means absent among researchers in the Business and Management field.

Saunders et al. (2011) identify two aspects (Objectivism and Subjectivism) of ontology in Business and Management research that are likely to be accepted as producing
viable knowledge by many scholars. However, researchers in the Business and Management field do not agree about which view is best (Objectivism or Subjectivism) (Tsoukas & Knudsen 2003). Objectivism is an ontological position that assumes that social phenomena exist in reality independent of social actors, while Subjectivism is an ontological position that argues for the existence of social phenomena as a consequence of the actions of social actors (Grix 2002). One notable debate that epitomises this Objectivism-Subjectivism divide between researchers is that between two different research paradigms – Positivism, corresponding to Objectivism and Social Constructivism, corresponding to Subjectivism.

5.2.2. Positivism and Social Constructivism

Positivism is a widely adopted paradigm in Business and Management research. Its roots can be traced from the work of Comte (1853). Positivism advocates the philosophical position of the natural scientist (Trochim 2006). Thus, positivists in Business and Management research favour ‘working with observable social reality and argue that the end product of such research can be law-like generalisations similar to those produced by the physical and natural scientists’ (Remenyi & Williams 1998, p.32). Research adopting the Positivist Approach is predominantly carried out through the use of existing theory for the development of hypotheses that can be confirmed in full or part or outright disproved. Research results lead to further development of theory, which is then evaluated by further research (Saunders et al. 2011).

Ontologically, positivist researchers in Business and Management research advocate an objective ontology were the existence of the social phenomena are independent of social actors (Saunders et al. 2011, p.135). Epistemologically, what constitutes knowledge are only social phenomena that are observable and provide credible data (Johnson & Duberley 2000, p.11). The methodology of examining observable
phenomena is generally by hypothesis testing through quantitative methods (Creswell 2013, p.20). From an axiological standpoint, the positivist approach advocates a strong split between facts and values as the researcher is detached from the phenomenon being investigated (Saunders et al. 2011, p.136). In reaction to the application of the above approaches, Social Constructionism was developed.

Rooted in the Interpretivist philosophy, Social Constructivism proposes that social phenomena are created from the perceptions of social actors such that reality exists in the form of meanings and constructions that are socially and individually created (Easterby-Smith et al. 2008). Thus, Social Constructivism is underpinned by the ontology of Subjectivism that reality is constructed because the world we experience is already an interpreted one (Guba & Lincoln 1994, p.110). This leads to an epistemology that acceptable knowledge of social phenomena is that which is socially constructed through interpretations (Guba & Lincoln 1994, p.111). From an axiological standpoint, research is value bound and finally a methodology based on conversation, dialogue and interpretation (Miller & Brewer 2003).

The ontology that corresponds to this study is Objectivism. In this study, we see investments by Chinese firms as real in the same way as natural phenomena are considered real. Thus, considering the ontology of objectivism of this study, we ascertain that the research philosophy for this study is Positivism. Table 5.1 provides a summary of the comparison of the above beliefs of Positivism and Social Constructivism.
Table 5.1. Comparison of Two Major Research Philosophies in Business and Management Research

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<th>Ontology</th>
<th>Epistemology</th>
<th>Axiology</th>
<th>Methodology</th>
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<td>Researcher’s view of the nature of reality</td>
<td>Researcher’s view of what constitutes acceptable knowledge</td>
<td>The role of the researcher’s values in the research</td>
<td>Researcher’s view on how knowledge can be acquired</td>
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<td><strong>Positivism</strong></td>
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<td>Objectivism</td>
<td>Social phenomena that are observable</td>
<td>Research is free from researcher’s values</td>
<td>Quantitative research methods of data analysis</td>
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<td>(Organisations are seen as observable social entities)</td>
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5.2.3. Our Epistemological Position

Epistemology is concerned with the theory of knowledge, especially what constitutes acceptable knowledge and how it is validated (Grix 2002). The ways of discovering knowledge are not static but continuously changing, and as a result, there exist competing views on what constitutes acceptable knowledge (Knudsen & Tsoukas 2003). Positivists advocate an epistemological perspective that proposes the application of the methodological approaches of the natural scientist to the study of social phenomena (Remenyi & Williams 1998). On the other hand, Interpretivists advocate an epistemological perspective that requires the social scientist to grasp the subjective meaning of social phenomena through qualitative methods of interpretation of human action (Bryman 2001, p.13)

We consider the nature of the phenomenon investigated in this study China’s OFDI into Africa - to be of separate existence to the researcher. Investments carried out by Chinese firms are considered to the observable and measurable on which credible data can be collected. A theory is developed by a conceptual framework (comprising of testable hypotheses) that are rigorously tested against the collected data. The
epistemological position of a researcher influences the research methods employed by the researcher (Grix 2002). Thus, our epistemological position (the view that social phenomena that are observable constitute knowledge) has influenced our chosen methodological position. Next, we discuss our methodological position.

5.2.4. Our Methodological Position

The interrelationship between what we think can be researched (our ontological position) and what we can know about the phenomenon (our epistemological position) leads us to how we can go about acquiring knowledge about the phenomenon (our methodological position). Grix (2002, p.179) defines a researcher’s methodological approach as a ‘choice of approach and research methods adopted in a given study’. Also, the research methodology is concerned with the logic of scientific inquiry, particularly with investigating the capabilities and limitations of specific research techniques (Grix 2002). The research methodology is different from the research methods (Kothari 2004, p.7). The latter is inextricably linked to the research questions of our study and are considered to be the techniques used to collect and analyse data (Blaikie 2000). Considering our methodological approach is guided by our choices in relation to our ontological and epistemological positions (Burrell & Morgan 1979), the discussion on our ontological and epistemological positions suggests that our research reflects the philosophy of Positivism. As a result, a purely quantitative research method is the research method for our study. Furthermore, various aspects of the nature of the topic of this dissertation justify our choice of a quantitative approach.

Firstly, the research problem of this dissertation (Chapter 1, section 1.2), requires the employment of a quantitative research method. Overall, our research problem focuses on how institutional factors of the home and host institutional environments influence
the investment decisions of CMNEs in Africa. Thus, there is a need to investigate the impact of institutional quality and institutional distance home and host institutional environments on the outcome – investments of CMNEs in Africa which are usually tested through quantitative research methods (Creswell 2013). Furthermore, quantitative research methods have been advocated by scholars and employed in multiple studies (Biggeri & Sanfilippo 2009; Cheung et al. 2012; Drogendijk & Blomkvist 2013; Kolstad & Wiig 2011; Sanfilippo 2010) of China’s OFDI into Africa. China’s growing presence in Africa is a complex phenomenon.

This complexity arises from the different motivations of various actors in the political and economic domains in China such as the Chinese government itself alongside large CMNEs (SOMNEs and POMNEs) currently active in Africa (Alden & Hughes 2009; Jiang 2009). To this end, Kolstad & Wiig (2011) suggest that quantitative research methods are well suited in analysing which actors and motives are the most salient in shaping the investment decision of CMNEs in Africa while also enabling us to address the distinctiveness of Chinese OFDI in Africa. Secondly, the phenomenon consists of many observations of investments in many countries over many years that can appropriately be tested using quantitative approaches. Thirdly, several theories can be bridged resulting in the formulation of several hypotheses that can be tested through quantitative methods.

Overall, the above justifications – the research problem of this study, the use of quantitative data with many observations and the bridging of several theories through the formulation of hypotheses all account for the need for a quantitative study.
5.3. Research Approach

Research approach constitutes the ‘plans and the procedures for research that span the steps from broad assumptions to detailed methods of data collection, analysis and interpretation’ (Creswell 2013, p.3). The choice of which research approach to adopt is important as it enables the researcher to make a more informed decision about the overall research design of the study (Easterby-Smith et al. 2008). This dissertation seeks to contribute to existing research on the determinants of China’s OFDI into Africa from an institutional perspective by cross-fertilising insights from the IB and PE literature. The overall decision of which research approach should be used to study a phenomenon is informed by the philosophical assumptions of the researcher about the research design, and specific research methods of the collection, analysis and interpretation of data (Creswell 2013). In the previous section, the research philosophy of this study was discussed and justified. This section aims to explain the chosen research approach within the research philosophy of Positivism.

Firstly, certain social research problems require specific approaches (Creswell 2013). The nature of the research problem of this study requires a deductive approach. The research problem of the study requires not only the identification of the most influential factors that determine the complex phenomenon of China’s OFDI into Africa, but it also requires to comprehensively explain this phenomenon through the development and testing of theory. Theory testing is usually through the empirical testing of hypotheses that represents the research approach of deduction. Also, although China’s OFDI into Africa is a relatively novel phenomenon, several studies examine the determinants of China’s OFDI into Africa (e.g. Biggeri & Sanfilippo 2009; Cheung et al. 2012; Drogendijk & Blomkvist 2013; Kolstad & Wiig 2011). As a result of the presence of existing studies, the use of an inductive approach is not
required, as such an approach is best suited to the study of a topic with little existing literature whereby working inductively by generating and analysing data highlights novel concepts about a phenomenon (Saunders et al. 2011). Our research problem also requires the statistical generalisation of the results of our study to the totality of the population under study. Such a requirement can be best achieved by a deductive approach, were samples of sufficient numerical size (usually n>30) allows for statistical inference to the entire population.

Secondly, philosophical assumptions about what constitutes knowledge influence the research approach adopted in a study (Creswell 2013). Section 5.2 shows the research philosophy of this study is Positivism whereby theory is tested by formulating hypotheses that are then validated or refuted through the collection and analysis of data using statistical procedures. Thus, in line with our research philosophy, the research approach adopted for this study is a deductive approach. This approach involves the deducing of testable hypotheses about the nature of the relationship between two or more concepts that have been empirically operationalised to enable statistical measurement (Robson 2002).

This study seeks to investigate the institutional determinants of China’s OFDI into Africa by bridging both IB and PE literature. In our theory building chapter, (Chapter 4), a new theory of our phenomenon was constructed with the help of ‘old’ concepts from the IB and PE literature. From these concepts, we generate a series of hypotheses on how they help explain our phenomenon of interest. These hypotheses are then statistically tested for validation using data. Thus, from a research philosophy standpoint, the deductive approach is appropriate for this study. We now discuss the research contexts of this study in the following section.
5.4. Research Context

5.4.1. OFDI from China

Since the advent of the ‘Go Global’ policy in the year 2000, Chinese OFDI abroad has grown at a fast rate making China the second largest outward investor in 2016 (UNCTAD 2017). This high growth in Chinese capital abroad is due to particular characteristics of the institutional environment of China that makes Chinese OFDI an interesting phenomenon worth examining (Child and Rodriguez 2005; Morck et al. 2008). In this section, we explain why this study focuses on Chinese OFDI.

Firstly, the active involvement of the Chinese state in the encouragement of OFDI makes Chinese OFDI an interesting phenomenon notably from a theoretical perspective (Luo et al. 2010). Traditional IB theories highlight the importance and existence of specific OAs (Dunning 2001), usually in the form of superior technological know-how and managerial expertise for FDI to take place. However, the recent phenomenon of Chinese firms engaging in OFDI suggests that in the absence of ownership advantages derived from superior technology or managerial experience, CMNEs have developed political advantages a new type of OAs. These political advantages result from the active support given by the Chinese government to CMNEs engaging in OFDI (Luo, Xue and Han 2010; Buckley et al. 2007).

Secondly, from an institution-based view of IB, the NIEs theoretical approach to IB posit that MNEs are more likely to invest in countries with secure and stable institutions (Henisz 2000; Henisz & Williamson 1999). However, it has been suggested that Chinese firms invest in African countries with low institutional quality and high political risk (Haglund 2008; Patey 2007). Such investments pose a challenge to current predictions of the effects of institutions on FDI flows (Wang et al. 2012). This challenge arises from the political influence of Chinese OFDI which cannot be
neglected in circumstances where strong links exist between government and business as is the case in China.

The links between the government and business in China are reflected in the higher number of SOEs in China (Bruton, Peng and Ahlstrom 2015). The existence of such a high number of SOEs in itself makes Chinese OFDI an interesting research context. The investment motivation of Chinese SOMNEs can differ from that of Chinese POMNEs (Duanmu 2012). For instance, Chinese SOMNEs are more likely to have political objectives than Chinese POMNEs (Ramasamy et al. 2012) when engaging in OFDI and thus, might be less risk-averse than their private counterparts (Duanmu 2012). This difference in investment motivation is why we compare the drivers of Chinese SOMNEs and POMNEs.

Overall, the active involvement by the Chinese government in OFDI and the prevalence of SOEs in China makes Chinese OFDI an important research context due to challenges to the existing theoretical approaches to IB. For instance, the above characteristics will help us examine the extent to which host country institutional quality impacts the investment decisions of CMNEs originating from an institutionally supportive environment (RQ 1). Furthermore, the high number of SOMNEs engaging in OFDI will help us examine the extent to which the host country institutional quality impacts the investment decisions of Chinese SOMNEs compared to Chinese POMNEs differently (RQ 3)

5.4.2. Africa As a Research Context for China’s OFDI

The recent growth in China’s OFDI into Africa has ignited interest from IB and Political Economy scholars (Kolstad & Wigg 2012; Drogendijk & Blomkvist 2013; Mohan 2013; Konings 2007). This fast growth in Chinese FDI in Africa has increased...
research on the factors behind the growth in Chinese investments in Africa. Continental Africa has several distinctive features as a context for Chinese OFDI. Thus, the objective of this section is to justify the choice of continental Africa in this study as a research context of Chinese OFDI by highlighting some of these peculiarities that make Africa an important research ‘laboratory’ to test existing theory.

Firstly, since the year 2000, a growing number of CMNEs have been investing in Africa (UNCTAD 2017). This growth in Chinese firms is due to specific political factors both in China and Africa. In China, the launch of the ‘Go Global’ policy by the Chinese government encouraged CMNEs to seek new markets overseas (Voss, Buckley and Cross 2010). In Africa, there was a desire on the part of African governments to forge new strategic partnerships with countries not usually considered traditional partners such as European countries. This desire culminated in the establishment of FOCAC in the year 2000 (Taylor 2010). Both factors have contributed to Africa becoming an increasingly important destination for Chinese OFDI (Fernando 2007), paving the way for Chinese firms into Africa (Lide 2001).

Secondly, the institutional quality of African countries makes Africa unique as a research context for Chinese OFDI. The African continent has the largest number of countries with institutional voids of strong institutional frameworks where in some cases the so-called ‘rules of the game’ are almost non-existent (Asiedu 2006). For instance, according to the ICRG (2017) database and the World Bank’s World Governance Indicators (2017) database, the majority of African countries rank among the lowest in institutional quality. ICRG (2016) data shows the majority of African countries to be very high-risk scoring below 50 out of a possible 100 points on the political risk index (80 to 100 points is considered very low risk). According to the
same data reported by ICRG (2017), very few countries are relatively better from an institutional quality standpoint, examples of which are Botswana, South Africa, and Morocco, all scoring more than 60 points. Somalia, Sudan, and Eritrea are on the other end of the spectrum with the worst institutional quality scoring below 30 points.

On political rights and civil liberties, data from Freedom House (2017) shows the majority of African countries categorised as ‘not free’ with the majority of countries scoring between 5.5 and 7 (1.0 to 2.5 is categorised as free and 3.0 to 5.0 categorised as partly free). Such low levels of institutional quality in African countries have been highlighted as one of the most significant predictors for the lack of inward investment into the continent relative to other regions in the world (Asiedu, 2006). For instance, firms from developed economies firms may find it more challenging operating in African countries with poor institutional quality than their counterparts from developing economies such as China that operate in a similar institutional environment in their home country (Morck et al. 2008; Cuervo-Cazurra & Genc 2008).

Thirdly, the colonial history of Africa makes the continent a very interesting context for investigating the drivers of Chinese OFDI. Nearly all African countries today were under colonisation by Western European countries from the late 19th century until the 1960s—a period which began with the so-called ‘Scramble for Africa’ and ended with the ‘wind of change’ that swept across the continent, culminating in the decolonisation of the majority of African countries. Thus, between the early 1960’s and mid-1970’s, almost the entire African continent was free from European colonialism and comprised of a vast number of newly independent states (Birmingham 2008).

Due to almost a century of European colonialism, in nearly all African countries today, the official language in business interactions, government, the media and how judicial
matters are structured are a relic inherited from their European colonisers (Poku 1996). Indeed there exist several institutional similarities not in quality but in aspects like language, educational systems and business culture between, for example, France and its former African colonies, who now form the majority of the 80 member club known as La Francophonie (Holter & Skattum 2006). In contrast, China has never possessed any colonies in Africa but has played an active role in support of the fight for independence in most African countries (Konings 2007).

Regarding Chinese OFDI into Africa, China’s status as a respecter of sovereignty has indeed been helpful its renewed engagement with the continent. African countries were keen to forge new partnerships with China not only because of its economic rise but also because of China’s lack of a colonial past with the continent means it is viewed positively by African leaders. Thus, they view a partnership with China as a means to ‘distance’ themselves from the former colonial powers which in their view have not helped African development since independence. For instance, responding to President Xi’s announcement of $60 billion of financial assistance at the FOCAC conference in Johannesburg in 2015, President Robert Mugabe of Zimbabwe stated in his speech:

“Here is a man representing a country once called poor, a country which never was our coloniser...he is doing to us what we expected those who colonised us yesterday to do.”

Therefore, the lack of colonial links between China and Africa acted as a push factor with African countries attracted to forging a strategic relationship with China as an alternative to their traditional European partners. This led to the ‘no conditions’ approach to Chinese development assistance to Africa in a bid to bolster its status as a respecter of African sovereignty.
Fourthly, large Chinese OFDI projects into Africa are often integrated with aid, which, unlike aid from the West is not conditional (Haan 2011; Tan-Mullins 2010). According to regional official development assistance data (ODA) 2016 published by the OECD, every African country is a recipient of foreign aid from Developed Economies and multilateral organisations such as the IMF, World Bank, and the European Union institutions. The provision of this aid is based on conditional acceptance of issues like fiscal probity, respect for human rights, and transparency (Taylor 2007). Particularly, the issue of human rights has always been a major bone of contention for African regimes due to accusations of human rights abuse from western democracies (Taylor 2008). For instance, the Africa growth and opportunity act (AGOA) which allows free duty access to US markets for selected exports from Africa is conditional to African countries respecting human rights and the rule of law (Zafar 2007).

This approach is in contrast to the Chinese foreign policy of non-interference in the domestic affairs of other sovereign countries (Taylor 2002; Taylor 2007). Such differences in approach between the West and China on issues of human rights in Africa can be attributed to the difference in the definition of what constitute ‘human rights’ (Taylor 2008). Chinese discourse on human rights attaches more importance to collective human rights to economic development and social rights than the Western approach.

As Burstein & Keijzer (1998, p.136) noted, ‘To the Chinese, the human rights to food, clothing, shelter, economic development and security are paramount over traditional Western-style individual political liberties’. This notion is fully echoed in the Chinese

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7 See (Taylor, 2007) for discussion on a classic example of the negotiations between Angola and the IMF where perceived interference resulted in the halt of negotiations.
mainstream media. For instance in an article in Xinhua – a government news agency, titled ‘Human rights can be manifested differently’ it is argued that in the case of developing countries, human rights are based firstly on survival and development which in turn forms the basis of all other rights. It goes on to note that ‘For a starving man what should he choose bread or ballot if he is supposed to choose only one? The ballot is, of course, important. However, he must feed himself with bread before he can cast a ballot’ (Xinhua, Beijing, 12 December 2005, p.2).

Overall, the non-interference policy of the Chinese government makes Africa as a location of Chinese OFDI interesting from a researcher’s point of view due to the repeated accusations of African regimes of human rights abuse by the West (An-naim & Deng 2010). The alternative approach perpetuated by China might seem attractive to African governments who are growing impatient with the constant criticisms of their records on human rights (Tull 2006). This approach by the Chinese shows that the need for a PE approach at least in the context of China’s OFDI into Africa is crucial in fully explaining this phenomenon especially because African countries with weak human rights records have attracted a high level of Chinese OFDI. This approach is currently lacking in traditional IB theories.

Finally, studies on China’s OFDI into Africa examining the PE aspect such as the non-interference policy and its impact on Chinese investments into the continent are lacking. As Cheung et al. (2012, p.218) point out: ‘Future research is warranted to broaden understanding of nature and the implications of the China-Africa economic interactions’. Also, there is a need to show a link between Chinese developmental aid and outward FDI in Africa (Biggeri & Sanfilippo 2009). Previous research suggests that FDI is part of an overall strategy by the Chinese government that also comprises

However, this also highlights a gap in the literature on Chinese OFDI in Africa. Though the use of aid as a proxy for economic cooperation captures an important dimension of Chinese OFDI into Africa, aid can still be utilised to capture the effect of the political strategy of non-interference. This is because as already indicated before, Chinese developmental assistance is granted with no conditions attached (except for issues on the sovereignty of Taiwan), and this helps legitimise CMNEs in operating in African countries.

To sum up, this section explained our choice of Africa as a context for Chinese OFDI in our study. We have argued that the nature of the institutional environments of African countries, the colonial past of the African continent, Africa as one of the largest recipient region of aid and finally the lack of studies examining the impact of the PE dimension of Chinese OFDI into Africa, all make Africa a suitable context for examining Chinese OFDI. In the following section, we describe the characteristics of our research data.

5.5. Research Data

The paucity of quality and reliable data on Chinese OFDI on the one hand and the lack of data on macroeconomic indicators for all African countries on the other have been a major hurdle for formal empirical analyses of the determinants of Chinese OFDI into Africa (Cheung et al. 2012).
To counter the problem of lack of reliable data on Chinese OFDI we use firm-level greenfield investments in the period 2003 and 2015 to test our hypotheses formulated in Chapter 4. The data on greenfield investments was drawn from FDI Markets, a database operated by FDI Intelligence, a specialist branch of the Financial Times group. This database tracks and monitors global cross-border greenfield investments in all sectors in real time since 2003. This database is advantageous compared to the data published by the Chinese Ministry of Commerce in the Statistical Bulletin of China’s OFDI for a number of reasons.

Firstly, what we do know about the determinants of China’s OFDI into Africa is based on aggregate-level data (e.g. Drogendijk & Blomkvist 2013; Cheung et al. 2012; Kolstad & Wiig 2011). The FDI Markets database provides firm-level data enabling us to use the firm as our unit of analysis, thereby allowing us to complement our results with the above predominantly aggregate level studies. Secondly, the FDI Markets provides an industry-level classification of each project enabling the robustness checks of our results across different economic sectors. Thirdly, the database also provides the identity of each company carrying out the project. The identity of the firm is important for our study as this enables us to carry out further identification on their ownership type, i.e. if they are a SOMNE or a POMNE to investigate the differences in investment motivations between Chinese SOMNEs and POMNEs. Furthermore, company reports of each firm are also provided which in many cases provide information on the ownership structure of the company (such as company shareholders).

We sought data capturing the institutional quality of the investing and host countries from the ICRG database 2016. Data on macroeconomic indicators of African countries are sourced from the World Bank’s World Development Indicators database 2017.
Data on Chinese development assistance to African countries are sourced from the AidData database 2017.

5.5.1 Description of Data

To test our hypotheses, we compile a sample dataset that comprises of data from all the above-mentioned secondary sources. Sampling is typically carried out when it would be impracticable to collect data on the entire population (Saunders et al. 2011). Thus, it is important to collect a sample that is not only representative of the population but also from which our research findings can be generalised to the population of interest.

Our sample consists of a dataset of investments into Africa in general from both China and other source countries (both developed and other developing countries) enabling for a benchmarking of the determinants of OFDI from these investors with that of Chinese investors. Therefore, we collect a total of 5748 investments carried out in 37 African countries in the period between 2003 and 2015. The dataset records the amount of each investment with each investment categorised as a new project or an expansion of a previous project.

Of the 5748 investments in our sample, 241 investments are Chinese investments. We categorise these 241 investments in our sample into those carried out by Chinese SOMNEs and POMNEs. Identifying which company is a SOMNE or a POMNE in China is a complicated task. Firstly, from a general standpoint, the level of ownership and control of today’s SOEs varies a great deal, and thus it is more nuanced than was two decades ago (Bruton, Peng and Ahlstrom 2015). Secondly, the changes of ownership and reform of Chinese SOEs over the past two decades (Yiu 2011) makes the identification of Chinese SOMNEs and POMNEs complex. Thirdly, in China, it is
observed that who controls the firm is based on the type of shares held. For example, shares that vote on issues of control may be held by the government who has veto power (Xu & Wang 1999). For this study, the important aspect is whether a government body (directly or indirectly controlled by the government) has a controlling influence over the investing firm. Thus, we categorise a firm as a SOMNE if the single largest shareholder is a government entity or another SOE, and a POMNE if it is owned by an individual or a private company. This definition is in line with earlier studies (Meyer et al. 2014; Jones and Mygind 1999; Yuan, Hua and Junxi 2008).

Also, we generate a company report for each investing company or its parent company. The company reports contain information on the profile of the company, the names of company contacts and their positions within the firm, the profile of each project carried out by each company. We use the information on the ownership structure provided in the company profile to identify SOMNEs from POMNEs. Where such information is limited, we acquire information on ownership structure from information available on the profile of firms listed in either of the Hong Kong, Shanghai and Shenzhen stock exchanges or from the most recent annual reports information on shareholding. By our definition of SOMNEs and POMNEs, and as of the end of 2015 152 of the 241 projects were carried out by Chinese SOMNEs and 89 by Chinese POMNEs. After dropping all observations with missing data (listwise), the final sample of total Chinese investments is 197 and 120 for SOMNEs and 77 for POMNEs for the period 2003-2015.

Chapter 7 examines the moderating role of Chinese aid on the effects of our key independent variables on China’s OFDI into Africa. Thus, the variable Aid is included
in our overall sample. However, data on this variable is available up to 2014 resulting in a drop in observations for Chinese investments from 197 to 128 for the second part of our analysis for the period 2003-2014. Appendix A1 shows the countries included in our sample.

5.6. Variables and Measurement

Table 5.1 provides a summary of all variables. In the following subsections, we present and provide a detailed explanation of the dependent, independent, moderating and control variables used in this study.

5.6.1. Dependent Variable

In this study, we employ a single specification for the dependent variable. Following earlier studies (Buckley et al. 2007; Wang et al. 2012; Guerin & Manzocchi 2009). The interest of this study is to examine the location decision of CMNEs in Africa in monetary terms. Thus, we use the natural log of the capital invested as the dependent variable to capture the level of the FDI and not the number of jobs created. We use the natural log as this ensures a normal distribution of our dependent variable (Doane & Seward 2005). Data on the amount of the investments is sourced from the FDI Markets database 2016.

5.6.2. Independent Variables

We utilise broadly the same independent variables for the analysis conducted in Chapter 6 and 7. Based on our literature review (Chapter 3) we identify the following key independent variables - institutional quality, institutional distance, regulatory quality, and regulatory distance. Data on all these variables are sourced from the ICRG database 2016.
The variable institutional quality captures the overall quality of the institutional environment of the host countries. It is measured as a sum of twelve (these are: government stability, socio-economic conditions, investment profile internal conflict, external conflict, corruption, law and order, military in politics, religion in politics, ethnic tensions, democratic accountability and bureaucratic quality) political risk components provided by the PRS group published as the International Country Risk Guide (ICRG). We use the sum of the above twelve indicators to create a composite measure of institutional quality. The lower the institutional quality, the greater the risk to potential investors. The political risk components of the ICRG database have been used by previous studies to capture the level of institutional quality (Asiedu 2004; Ali, Fiess and MacDonald 2010a; Demir 2016; Knack and Keefer 1995), thus in this study we follow this approach in utilising these variables to capture the level of institutional quality in African countries. Furthermore, scholars (e.g. Acemoglu et al. 2001) have argued that there is an overlap between economic and political institutions in the measurement of institutional quality including the democracy, government bureaucracy, law and order, and level of corruption. Thus, to proxy all these different aspects of institutions, we use the ICRG variables as they are measured using a composite index of that includes political, economic, and legal institutions (Demir 2016).

We use a composite measure for this variable because measurement problems arise when a single index is used to capture a broad aspect of a country such as institutions (Ali et al. 2010; Pajunen 2008). The employment of single institutional indicators has shown to yield different results (Busse & Hefeker 2007). Furthermore, MNEs are more likely to consider the overall institutional quality when deciding to engage in FDI rather than a single institutional factor such as corruption (Pajunen 2008). For instance,
the negative impact of corruption on FDI is worsened by the presence of a weak rule of law (Méon & Sekkat 2005). The impact of this variable is linked to Hypothesis 1a suggesting a negative impact of higher host country institutional quality on China’s OFDI into Africa.

Another key independent variable of this study regards the regulative institutions of the host country. We call this variable regulative quality. The variable regulative quality captures the level of quality of the regulative institutions of the host country. By regulative institutions, we mean the effective and efficient rules and regulations governing a society such as constitutions, the guarantee of property and intellectual property rights otherwise known as formal institutions (North 1990, p.110). Regulative quality is measured by the sum of five indicators – government stability, corruption, law and order, democratic accountability and bureaucratic quality. Higher values represent higher regulative quality and vice versa.

It has been suggested that MNEs are more likely to invest in countries with high levels of regulative quality as this reduces uncertainty in the policy environment as well as the cost of doing business through lower transactions and production costs (Meyer 2001; Meyer et al. 2009; Henisz 2000). Instead of the above suggested positive impact of regulative quality on FDI, we hypothesise that higher regulative quality in African countries will have a negative effect on Chinese OFDI. Thus, the impact of regulative quality is linked to Hypothesis 2a of our study put forward in Chapter 4.

We now turn to our independent variables capturing the level of dissimilarity between the institutional quality of the home country and the host country of the MNE. We begin with the variable institutional distance. The variable institutional distance captures the dissimilarity in the quality of the institutional environment of the home
and host country of the firm. We measure this variable by taking the annual differences between aggregate institutional quality in the source and host countries (Aleksynska and Havrylchyk 2013). The index values of this variable indicate higher values represent high institutional distance between the home country of the firm and the host country and vice versa.

It has been suggested that MNEs are not only deterred by poor institutional quality in host countries but are also discouraged by a large institutional distance between the home country of the firm and its host country (Habib & Zurawicki 2002; Xu & Shenkar 2002; Aleksynska & Havrylchyk 2013). This deterring effect of institutional distance on FDI is mainly due to uncertainty and the difficulties faced by MNEs in building organisational legitimacy when the institutional distance between its home and host country is large (Kostova & Zaheer 1999) and increased LOF (Eden and Miller 2004). Thus, in this study, we investigate the impact of institutional distance on Chinese OFDI by hypothesising that a low institutional distance will have a positive impact on the FDI location decision of CMNEs in Africa (Hypothesis 3a) – developed in Chapter 4.

We also include the variable regulative distance as a key independent variable in this study. Firstly, the variable regulative distance captures the dissimilarity between the regulative quality of the home and host countries regarding the setting, monitoring and enforcement of rules and regulations. We measure this variable by constructing annual differences of the aggregate regulative quality of the source and host countries. Higher values of this variable indicate higher regulative distance between the home and host countries.
Regulative institutions provide needed legitimacy to organisations operating in compliance with the relevant regulations of the country (Scott 2001). Thus, from a regulative institutional perspective, MNEs are more likely to choose to locate in countries where the difference in the quality of the regulative regime between the home and host country is small (Xu & Shenkar 2002; Eden & Miller 2004). This decision is based on the notion that MNEs can readily conform to the regulative institutions of the host country (and consequently build legitimacy) and face lower LOF when the difference between the regulative regime of the home and host country is small (Chan & Makino 2007; Zaheer 1995). The inclusion of the regulative distance will provide an answer to Hypothesis 4a suggesting that the FDI location choice of CMNEs in Africa is positively associated with a low regulative distance between China and the host country.

5.6.3. Moderating Variable

To test the moderating effect of Chinese aid on our key independent variables we use the variable Aid as a moderating variable in Chapter 7 of this dissertation. This variable is measured as the annual flow of aid as a percentage of GDP. It is widely suggested that the provision of Chinese aid mostly in the form of concessional loans plays a significant role in promoting Chinese OFDI in Africa (Biggeri & Sanfilippo 2009; Sanfilippo 2010). To capture this potential moderating effect of Chinese development aid on the impact of key independent variables, we source data on Chinese aid from AidData 2016. AidData has been tracking Chinese development finance in Africa since the year 2000 and has data available from 2003-2014 for 38 African countries. Prior studies have utilised this data to better understand the scale and distribution of Chinese development aid funding in Africa (e.g. Strange et al. 2017; Dreher et al. 2015).
It is worth mentioning that China defines and measures aid in ways that are inconsistent with Western countries. According to (OECD 2017), aid is ‘official development assistance’ and is defined as the flows of finance with the intent of development with an element of grant of at least 25%. Aid that does not meet this criterion of ODA is categorised as other official flows (OOF) that typically comprise of loans that are mostly concessional and commercial. An empirical examination of China’s overseas development aid shows that the bulk of it is mostly loans that can be classified as OOF as their terms and aims are partly or even wholly commercial (Bradley et al. 2014). Also, this variable also serves as a proxy for the Chinese foreign policy of non-interference in the domestic affairs of African countries including on matters relating to the improvement of institutional quality. Thus, we argue that the above nature of Chinese Aid in Africa makes this variable a potential moderator of the impact of institutional quality and institutional distance on Chinese OFDI into Africa. The moderating impact of aid is captured in hypotheses H5a, H5b, H6a, and H6b.

5.6.4. Control Variables

Alongside the institutional environment of the African countries, other characteristics of the host country can play a role in determining the amount of FDI it receives. Thus, we explain and discuss below how we control for factors relating to the macroeconomic environment.

5.6.4.1. Traditional Macroeconomic Factors Affecting FDI

We first control for the size of the host country market. The size of the host country market is recognised as a significant determinant of market-seeking FDI. Dunning & Lundan (2008 p.70) suggest a number of reasons why MNEs carry out market-seeking investments. Firstly, it may be that their major suppliers have set up production
facilities overseas and thus to retain their business they are compelled to follow them overseas. Secondly, quite often products need to be adapted to local taste. Thus local production might be the only means of achieving this aim. Finally, MNEs may find it necessary to establish a presence in increasingly important markets already served by their competitors. For CMNEs, Africa represents one of the fastest growing regions in the world with a relatively high average GDP growth of between 6 and 7% (International Monetary Fund 2017). Fast-growing economies such as those in Africa present opportunities for MNEs to generate profit more than those countries that are growing slowly or not growing at all.

Research on the determinants of Chinese OFDI, in general, provides evidence of market-seeking FDI by CMNEs (Buckley et al. 2007; Deng 2004; Kolstad & Wiig 2012) and Chinese OFDI into Africa in particular (Cheung et al. 2012; Drogendijk & Blomkvist 2013; Kolstad & Wiig 2011). We, therefore, control for the host market characteristics of African countries by using the variables GDP and GDP per capita growth to capture the host market size (Buckley et al. 2007; Kolstad & Wiig 2011). The variable GDP captures the overall size of the economy and measured by the natural log of the annual GDP of host countries while the GDP per capita growth captures the annual growth in the purchasing power of the citizens of host countries. The variable GDP per capita growth is measured as an annual percentage growth in GDP per capita. Data on both variables are sourced from the World Bank’s World Development Indicators (WDI) 2016. We expect a positive relationship between GDP on the one hand and GDP per capita growth on the other hand and Chinese OFDI into Africa.

We then control for the natural resource-seeking motivation for Chinese OFDI into Africa. Natural resource-seeking motives have been suggested to also be a key
determinant of Chinese OFDI into Africa (Kolstad & Wiig 2011; Drogendijk & Blomkvist 2013). The high levels of economic growth in China within the past decade and a half necessitate a constant supply of raw materials and other commodities to sustain it (Ramasamy et al. 2012). As a result, of this economic necessity, the Chinese government has intentionally used OFDI mainly through its ‘Go Global’ policy to safeguard the supply of domestically scarce physical resources and commodities like oil and gas, minerals timber and agricultural products (Zafar 2007; Jiang 2009). Consistent with existing studies (Buckley et al. 2007; Drogendijk & Blomkvist 2013), we use the ratio of ore and metals exports to merchandise exports as a control for the presence of natural resource endowment in host countries. Data on this variable is derived from the WDI 2016 database. We expect a positive relationship between this variable and Chinese OFDI into Africa.

Thirdly, we control for the impact of high and unpredictable inflation rates on Chinese OFDI. Empirical evidence suggests host country inflation rates have a significant negative impact on Chinese OFDI (Zhang & Daly 2011; Ramasamy et al. 2012). High and unpredictable inflation rates in African countries create uncertainty through their domestic currency devaluation which reduces the real value of revenue in domestic currency. It is also likely to increase the prices of locally sourced factor inputs thereby having an adverse effect on profit margins (Busse & Hefeker 2007). We control for the impact of host country inflation rates by using the variable inflation measured by the annual percentage growth in consumer prices. Data on this variable is derived from the WDI 2016 database. Overall high rates of host country inflation rate discourage inward FDI. Thus, we expect a negative relationship between Chinese OFDI into Africa and host country inflation rate.
Fourthly, we control for the impact of the quality of the physical infrastructure of host countries. As a continent, the majority of African countries lag behind their counterparts in the developing world on just about every measure of the quality of physical infrastructure (Foster & Briceno-Garmendia 2009). Such a low quality in physical infrastructure can have a significant impact on the FDI location decisions of MNEs due to its impact on a firm’s competitive advantage (Wheeler & Mody 1992). Thus, we control for the impact of host country infrastructure quality, by using the variable fixed telephone subscriptions. This variable is measured by the number of fixed telephone line subscribers per 100 people (Stoian & Mohr 2016). Data on this variable is sourced from the WDI 2016 database. We expect a positive relationship between this variable and Chinese OFDI into Africa.

We also control for a group of other macroeconomic factors likely to influence FDI inflows – net foreign direct investment flows, the real effective exchange rate and trade balance. The variable foreign direct investment captures any potential agglomeration effects of FDI. This variable is measured as the net foreign direct investment flows to GDP. Data for this variable is sourced from the WDI 2016 database. It has been suggested that firms seek to invest in countries where a high number of firms from their home country are already in operation (Disdier & Mayer 2004). Thus, we expect a positive relationship between this variable and Chinese OFDI into Africa.

We control for the effect of exchange rate volatility on Chinese OFDI into Africa by using the variable real effective exchange rate capturing the degree of volatility in the exchange rate between the home and host currency. This variable is measured by the weighted average of the currency of host countries relative to the index of a basket of major currencies (Dunning 2006). We derive data on this variable from the WDI 2016. Higher volatility in exchange rates can signify instability in the economic environment.
of the host country and result in high levels of unpredictability, thereby acting as a
deterrent to foreign investment (Duanmu 2012; Gastanaga et al. 1998; Globerman &
Shapiro 2002). Thus, we expect a negative relationship between this variable and
Chinese OFDI into Africa.

We also include the variable trade balance as a control variable that captures the degree
of openness of the economy of host countries to international trade. This variable is
measured by the ratio of imports and exports as a percentage of GDP (Dunning 2006;
Kolstad & Wiig 2011). Data for this variable is sourced from the WDI 2016. The
impact of a country’s openness to international trade depends on the type of FDI, i.e.
horizontal or vertical FDI. For instance, horizontal FDI might be attracted to countries
that are more restrictive to trade because it protects the goods of the foreign firm in the
domestic market against imports from foreign competitors. On the other hand, MNEs
engaged in export-oriented investments might seek to avoid high transactions cost due
to high trade barriers by investing in countries that are relatively open to international
trade. Thus, a country’s openness to trade might be positively or negatively related to
inward FDI. However, empirical evidence suggests there is a positive relationship
between trade and FDI (Busse & Hefeker 2007; Adam & Filippaios 2007; Dunning
2006). We expect a positive relationship between the variable trade balance and
Chinese OFDI into Africa.

5.6.4.2. Colonial Ties

We control for the effects of colonial ties. This variable is measured by a dummy
variable indicating the presence of colonial ties between the home country and the host
country. Where colonial ties exist between the home and host country is coded as 1,
and where no such ties exist this is coded as 0. Information on the colonial power is
derived from the CIA World Fact Book 2016. In Africa, one of the relics of
colonisation has been a cultural similarity between the colonised country and the colonising country. For instance, France as one of the major colonial powers in Africa adopted a policy of assimilation in its colonies in Africa in the throughout the 19th and 20th century (Diouf 1998). The assimilation policy was based on the notion of spreading the French culture to their colonies, and by adopting the French culture, local Africans were considered French citizens (Betts 1960).

A typical illustration of the assimilation policy was demonstrated in the four communes of Senegal – Saint Louis, Dakar, Goree, and Rufisque where rights of full French citizenship were extended to the inhabitants of these towns (Johnson 1971). Firms from countries that possessed colonies in Africa might still benefit from such colonial ties mainly through the transfer of culture that occurred during the colonial era (Rangan & Drummond 2004). This was the case with MNEs from Western Europe that historically engaged in FDI in African countries because of post-colonial links (UNCTAD 2001). Empirical evidence suggests MNEs are attracted to countries with colonial ties to their home country as cultural similarities will make their operations easier (Cuervo-Cazurra & Genc 2008). We expect a positive relationship for OFDI from countries with colonial ties with African countries. Table 5.6 describes all the variables used in this study.
Table 5.2. List of Variables and Measurement

<table>
<thead>
<tr>
<th>Variables</th>
<th>Measure</th>
<th>Hypothesis</th>
<th>Expected sign</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent variable</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Log FDI</td>
<td>The natural log of the amount of capital investment (million $USD)</td>
<td>n/a</td>
<td></td>
<td>FDI Markets</td>
</tr>
<tr>
<td><strong>Independent variables</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Institutional quality</td>
<td>A simple sum of 12 components of political risk</td>
<td>H1a</td>
<td>-</td>
<td>Calculated from ICRG data, PRS Group.</td>
</tr>
<tr>
<td>Institutional distance</td>
<td>The difference between the score of home and host country overall institutional quality</td>
<td>H3a</td>
<td>+</td>
<td>This study</td>
</tr>
<tr>
<td>Regulative quality</td>
<td>A simple sum of 5 components of political risk</td>
<td>H2a</td>
<td>-</td>
<td>This study</td>
</tr>
<tr>
<td>Regulative distance</td>
<td>Difference between the score of home and host country regulative quality</td>
<td>H4a</td>
<td>+</td>
<td>This study</td>
</tr>
<tr>
<td><strong>Moderating variable</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aid flows</td>
<td>Aid (% GDP)</td>
<td>H5a H5b H6a</td>
<td></td>
<td>Aid Data 2016</td>
</tr>
<tr>
<td><strong>Control variables</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Log GDP</td>
<td>The natural log of the GDP (in 2010 $USD)</td>
<td>n/a</td>
<td>+</td>
<td>WDI 2016</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>GDP per capita growth (annual %)</td>
<td>n/a</td>
<td>+</td>
<td>WDI 2016</td>
</tr>
<tr>
<td>Ores and metals exports</td>
<td>% of ores and metals in the country’s total exports</td>
<td>n/a</td>
<td>+</td>
<td>WDI 2016</td>
</tr>
<tr>
<td>Inflation</td>
<td>Annual % change in consumer prices</td>
<td>n/a</td>
<td>-</td>
<td>WDI 2016</td>
</tr>
<tr>
<td>Fixed telephone subscriptions</td>
<td>Number of telephone lines per 100 people</td>
<td>n/a</td>
<td>-</td>
<td>WDI 2016</td>
</tr>
<tr>
<td>Foreign direct investment</td>
<td>Annual net inflows of FDI as a % of GDP</td>
<td>n/a</td>
<td>+</td>
<td>WDI 2016</td>
</tr>
<tr>
<td>Real effective exchange rate</td>
<td>Country’s currency against an index of a trade-weighted basket of major currencies</td>
<td>n/a</td>
<td>-</td>
<td>WDI 2016</td>
</tr>
<tr>
<td>Trade balance</td>
<td>Merchandise trade as a % of GDP</td>
<td>n/a</td>
<td>+</td>
<td>WDI 2016</td>
</tr>
<tr>
<td>Colonial links</td>
<td>Dummy of 1 for a colonial link and 0 otherwise</td>
<td>n/a</td>
<td>+</td>
<td>CIA World Fact Book 2016</td>
</tr>
</tbody>
</table>
5.7. Regression Model

We formulate the following regression model:

\[
\text{LFDI}_{ikt} = \alpha_{kt} + \beta_1\text{Institutionalqual}_{kt} + \beta_2\text{Institutionaldist} + \beta_3\text{Regulativequal}_{kt} + \beta_4\text{Regulativedist} + \beta_7\log\text{GDP}_{kt} + \beta_8\text{GDPpcgrowth}_{kt} + \beta_9\text{Oresandmetals}_{kt} + \beta_{10}\text{Inflation}_{kt} + \beta_{11}\text{Foreigndirectinv}_{kt} + \beta_{12}\text{Realeffectiveexch} + \beta_{13}\text{Fixedtele}_{kt} + \beta_{14}\text{Trade}_{kt} + \beta_{15}\text{Coloniallinks} + \epsilon_{kt}
\]

The above equation models the scale of OFDI into Africa from developed, developing economies and China by firm i in the host country k. We have 37 host countries in total. The t represents the year. We have 12 years in total. This regression model is adopted for empirical estimation for the determinants of OFDI from China in comparison to the determinants of OFDI from developed and developing economies into Africa. The right-hand side of the equation includes the key variables of interest in this study namely – institutional quality, institutional distance, regulative quality, regulative distance, as well as control variables.

Our data is cross-sectional where each investment enters the data only once. Thus, we adopt the ordinary least squares (OLS) estimation method with pooled cross-sectional data of 37 African countries over the period 2003-2015 by accounting for the industry, year and source country effects. The use of a panel model is not preferred as each observation corresponds to an individual investment making every each observation unique. We use the same regression model for empirical estimation of the determinants of OFDI by Chinese SOMNEs in comparison to Chinese POMNEs from our subsamples of Chinese OFDI into Africa.

In chapter 7, we estimate the moderating effect of Chinese development aid on our key institutional variables of interest. To do this, we interact our key institutional variables
with the variable aid. We use multiple regression analysis by estimating a series of linear interaction models (OLS). This method allows for the inclusion of a moderating variable in the proposed cause-and-effect relationship between our primary independent variables and dependent variables (Cameron and Trivedi 2009). The moderating variable in this analysis shapes the strength of the relationship between the independent and dependent variables in our analysis. It is thus an interaction whereby the effect of a change in our primary independent variables on the dependent variable, is contingent on the level of the moderating variable. Hence we estimate the following regression model:

$$LFDI_{ikt} = \alpha_{kt} + \beta_1 \text{Institutionalqual}_{kt} + \beta_2 \text{Aid} \times \text{Institutionalqual}_{kt} + \beta_3 \text{Institutionaldist} + \beta_4 \text{Aid} \times \text{Institutionaldist} + \beta_5 \text{Regulativequal}_{kt} + \beta_6 \text{Aid} \times \text{Regulative}_{kt} + \beta_7 \text{Regulative} \times \text{Regulative}_{kt} + \beta_8 \text{Controls} + \epsilon_{kt}$$

### 5.7.1. The Assumptions of the OLS Model

Our dependent variable has an error component that is unobservable. However, clues to this error are in the residuals. According to Cameron & Trivedi (2009, p.83), the OLS estimation method makes three important assumptions about the error term.

**Assumption 1:** The residuals are approximately normally distributed. This assumption is used to construct the confidence intervals for the regression parameters. Thus, when the residuals are non-normal, the confidence intervals for the regression parameters may be unreliable. However, the confidence intervals are ok with large sample size, e.g. $n > 30$ (Doane & Seward 2005). In this study, the sample size is greater than 30 (see section 5.5.1)
To ensure the above assumption is met for our study, we first carry out an initial kernel density plot of our dependent variable (capital investment).

Figure 5.1. Kernel Density Plot of the Dependent Variable (FDI inflows)
The kernel density plot displays an approximate of the probability density of the variable. We chose it over a histogram because they are smooth and independent of the choice of origin. Figure 5.1(A) shows the initial kernel density plot of the dependent variable to be highly skewed to the right, hence a non-normal distribution. To ensure a normal distribution, we perform a log transformation of this variable. We then perform a second kernel density plot of the variable after taking its natural log. Figure 5.1(B) shows the distribution of this variable takes a somewhat normal distribution.

**Assumption 2:** The second assumption of the OLS estimation method is that the residuals have a constant variance (homoscedastic). If the variance of the residuals is non-constant, the residuals are considered heteroscedastic. In circumstances of heteroscedasticity even though the OLS regression parameter estimates are still consistent and unbiased, their estimated variances are likely to be understated making the t statistic to be inflated artificially narrowing the confidence intervals (Cameron & Trivedi 2009). To ensure that the variance of the errors in our regression models is constant, we use white corrected errors. We do this by including the ‘robust’ command when carrying out each regression model in STATA 15.

**Assumption 3:** The independent variables included in the model, should not correlate too highly with each other. This condition is known as multicollinearity. Multicollinearity does not result in bias in the predictions for our dependent variable. However, it does result in the inflation of the variances of the estimated regression coefficients of the independent variables thereby widening the confidence intervals (Montgomery, Peck and Vining 2012). Due to the entanglement of the roles of the independent variables, multicollinearity makes it difficult to separate the individual
contribution of each independent variable in explaining the dependent variable (Montgomery, Peck and Vining 2012).

We ensure that there are no multicollinearity problems by carrying out a test for tolerance by generating the variance inflation factor (VIF) for all regression models which we report. The VIF test is a widely used measure of the degree of multicollinearity of each independent variable with other variables in a regression model. For this study, we use the acceptable threshold of an average VIF value of less than 10 and a value of less than 5 for each independent variable in our models as a guide (Wang & Hong 2012; Wu & Chen 2014; Doane & Seward 2005). Furthermore, to avoid the problem of multicollinearity between our key independent variables, we include each of our six key independent variables in separate regression models.

5.7.2. The Assumptions of Moderation Analysis

This section presents and discusses the assumptions that have to be fulfilled by researchers before carrying out a moderation analysis. Also, we explain how each assumption is fulfilled in our analysis. It is worth noting that the moderating variable included in our analysis is a continuous moderating variable. Thus the assumptions presented below relate to moderation analysis with a continuous moderating variable.

The first assumption regards the coding of the interaction term. The coding of the interaction term is contingent on the nature and measurement of the independent and moderating variables (that is, if measured as continuous or categorical) (Aiken, West and Reno 1991). For this analysis, all our primary independent variables and moderator variables are measured as continuous. Under such circumstances, where the independent and moderating variables are continuous, scholars typically create an interaction term by multiplying the primary independent variable by the moderating
variable (Kingsley, Noordewier and Bergh 2017). To mitigate any risk of wrongful coding, we follow the appropriate and widely utilised method of coding interaction terms by creating a series of multiplicative interaction terms of each of our primary independent variables and our moderating variable.

The second assumption is that there are no issues of collinearity between the independent and moderating variable of interest. The third assumption is that there is no multicollinearity between both variables and the interaction term. In moderation analysis there is likely to be a high degree of multicollinearity considering the independent variable and its interaction term is included in the same regression model.

To ensure there are no issues of collinearity between our primary independent variables and the moderating variable we perform a pairwise correlation of all variables. The results show a high correlation between our primary independent variables and our interaction variable as expected.

To solve this problem, we follow previous studies (Wu & Chen 2014; Asiedu & Lien 2011; Jandhyala 2015; Min & Smyth 2014) by generating the standardised values of the independent and moderating variables with their product terms (Aiken, West and Reno 1991) in our models examining the moderating effect of Chinese aid in Chapter 7.

5.8. Summary Statistics and Correlations

In this section, we describe our variables numerically and perform correlation analysis showing the degree of correlation between our variables.

5.8.1. Summary Statistics

For variables of numerical nature, we examine the measures of location and measures of dispersion. The measures of location help us understand the central tendency of our
variables, while the measure of dispersion shows how the values of our variables vary around their means (Saunders et al. 2011).

In management research, the three ways of measuring the central tendency are the mean (known as the average), the mode (most frequent value) and the median (middle value). The most standard of statistical measures of central tendency is the mean. For measures of dispersion, the most frequently used measure is the standard deviation (the extent to which values are spread around their mean). Our variables are numerical. Thus we deem the mean and standard deviation as suitable measures of central tendency and dispersion respectively (Doane & Seward, 2005).

Table 5.2 provides the overall summary statistics for all variables. We adopt a comparative approach to describing our sample data by firstly describing the sample of investments from other investors into Africa except for China, followed by investments from China in particular. This comparative approach aims to show how the profile of the host countries differ between all other investors on the one hand and China on the other hand.

The descriptive statistics show that the average value of the institutional quality variable is 60.81 out of a possible 100 points with 100 points indicating better quality for the period 2003-2015. This value indicates that the institutional quality of most African countries can be regarded as poor. Another interesting finding of this variable relates to its maximum and minimum value. The minimum value is 23.6 while the maximum value is 79. This statistic indicates that although Africa, in general, can be regarded as a continent with a high number of countries with relatively poor institutional quality, some countries score far higher than others in this domain. For instance, countries like Namibia (79), Morocco (73) and Botswana (74) have made
great strides towards the improvement in the quality of their institutional frameworks.

On the other hand, countries like the Democratic Republic of Congo (35), Nigeria (45) and Ivory Coast (46) score among the lowest in respect to institutional quality.

Table 5.3. Summary Statistics

<table>
<thead>
<tr>
<th>Variables</th>
<th>Observations</th>
<th>All Other Investors</th>
<th>Chinese Investors Only</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
<td>Standard Deviation</td>
<td>Minimum</td>
</tr>
<tr>
<td>Log FDI</td>
<td>2.98</td>
<td>1.66</td>
<td>-4.3</td>
</tr>
<tr>
<td>Institutional Quality</td>
<td>60.81</td>
<td>8.88</td>
<td>23.6</td>
</tr>
<tr>
<td>Regulative Quality</td>
<td>18.88</td>
<td>2.89</td>
<td>7.8</td>
</tr>
<tr>
<td>Institutional Distance</td>
<td>16.90</td>
<td>10.88</td>
<td>-18.4</td>
</tr>
<tr>
<td>Regulative Distance</td>
<td>6.80</td>
<td>3.72</td>
<td>-7.2</td>
</tr>
<tr>
<td>Log GDP</td>
<td>25.27</td>
<td>1.22</td>
<td>20.3</td>
</tr>
<tr>
<td>GDP per capita growth</td>
<td>6.22</td>
<td>4.82</td>
<td>0.0</td>
</tr>
<tr>
<td>Ores and metals exports</td>
<td>13.76</td>
<td>15.04</td>
<td>0.0</td>
</tr>
<tr>
<td>Inflation</td>
<td>9.73</td>
<td>29.06</td>
<td>-35.8</td>
</tr>
<tr>
<td>Foreign direct investment</td>
<td>3.47</td>
<td>5.54</td>
<td>-6.0</td>
</tr>
<tr>
<td>Real effective exchange</td>
<td>93.87</td>
<td>38.82</td>
<td>0.0</td>
</tr>
<tr>
<td>Fixed telephone subscriptions</td>
<td>6.22</td>
<td>4.82</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Source: Author’s calculations

For the sample of Chinese investors only, the average institutional quality of host countries is 57.36. This statistic shows that regarding institutional quality, there is no much difference between the institutional quality of the host countries of all other investments in Africa and the institutional quality of host countries of Chinese investors. Similar to the institutional quality variable, the descriptive statistics also
show almost no difference in the regulative quality (average of 18.8 for all other investors and 17.72 for Chinese investors only) of host countries of all other investors and the host countries of Chinese investors only.

Regarding institutional distance, the descriptive statistics also shows a relatively high distance between the institutional quality of African countries and that of the investing countries in our sample as the average value is 16.90 out of a possible 100 points. Higher values equate to higher overall institutional distance. However, the negative sign of the minimum value for this variable indicates that although most African countries have poor institutional quality, some countries have a higher institutional quality than some developing countries investing in Africa. For instance, Turkey has an institutional quality score of 52.2 while the score for Botswana is 74.

For Chinese investors, in particular, the average overall institutional distance is 5.47, far lower than 16.90 for the sample of all other investors in our sample. This result indicates a much lower overall institutional distance between China as the home country of Chinese investors and the host African countries in which they are investing. The minimum value of this variable -14.4 suggest that some African countries have a higher overall institutional quality than China. The above difference of 5.47 also exists between the regulative distance variable. The descriptive statistics also show a relatively lower regulative distance between the host African countries of Chinese investors and China compared to the host African countries for all other investors in our sample.

For our macroeconomic variables, the average annual GDP per capita growth is 2.62%. This result indicates a relatively high growth in GDP per capita. However, the standard deviation for this variable is also higher than the mean at 3.80. This large standard
deviation is not surprising as the range for this variable is also large with a minimum value of -62.2 and a maximum value of 30. Such a wide range of values illustrates the diversity of our sample. The average GDP per capita growth of host countries of Chinese investors only is slightly higher at 4.09% thus suggesting a potential market seeking motivation for CMNEs in Africa.

The average exports of ores and metals as a percentage of total merchandise exports in all host countries for all other investors are sample stands at 13.76%. This represents a relatively high percentage of overall exports of raw materials. According to the minimum (0) and maximum (86) value for this variable, it is also worth noting that the exports percentage of raw materials is far higher in some countries than others. In other words, some countries rely far more on exports of raw materials for their economic growth than others. For instance, exports of ores and metals as a percentage of total merchandise exports for Zambia is up to above 83% and 64% in Mozambique. Egypt and Kenya are at the end of the spectrum with 3% of exports of ores and metals. We agree that ores and metals are one type of natural resource in a continent characterised by a variety of raw materials. However, it shows the degree of divergence in natural resource endowments across the continent. The average ores and metals exports are even higher in the host countries of the Chinese investors only standing at 18.66%. This difference might suggest an attraction to African countries with high natural resource endowment by Chinese firms.

As a proxy for the quality of physical infrastructure in the African countries in our sample, the average number of subscribers of fixed telephones per 100 people in host countries for all other investors is 6.22. This variable shows that the majority of the African countries in our sample are lacking in high-quality infrastructure. This is not at all surprising as the lack of high-quality physical infrastructure in the continent as a
whole has been cited as a major drawback to economic development in Africa (Foster & Briceno-Garmendia, 2009). In the host countries with Chinese investors only, this proxy for infrastructure quality is lower at 4.56. This attraction to host countries with even lower quality in physical infrastructure by Chinese investors can be explained by the growing role the Chinese government in general and Chinese firms in particular in the development of Africa’s infrastructure (Foster, 2009; Corkin et al. 2008).

5.8.2. Correlations

To investigate the pairwise correlation between our dependent variable and our independent variables, we perform a correlation analysis by using the statistical technique of correlation (Pearson correlation) denoted $r$. We deem the method of correlation appropriate because the sample data we are using is numerical (Saunders et al. 2011). The correlation quantifies the strength of the association between our dependent variable and our key independent variables. When using the statistical technique of correlation, we assume that if there is any relationship between our variables, this relationship is a linear one. Thus as one variable increases the other increases or decreases in the same regular way.

Thus in this study, the sample correlation coefficient measures the degree of linearity between inward FDI flows into Africa and our key independent variables. This coefficient has values that range between -1 and +1, where $r = 1$ equates to a perfect positive correlation between the two variables under observation. By contrast, $r = -1$ indicates a perfectly negative correlation and where $r = 0$ means the two variables are entirely independent of one another (Doane and Seward 2005). In our correlation analysis, we assume the above range of -1 and +1 whereby the closer $r$ is to either -1 or +1 the stronger association between the two variables under observation. In cases
where \( r \) is somewhere between -1 and +1, we assume linear independence between each variable under observation.

Table 5.4 provides the correlation between our variables. Using the values of the correlation coefficient ranging from -1 and 1, the correlation matrix shows that the majority of our variables show weak or negative correlation. However, some of our key variables show a high correlation with each other. Firstly, the variable regulative quality shows a strong correlation with the variable overall institutional quality with \( r = 0.7 \). We expect this result as the variable regulative quality is a subcategory of the variable overall institutional quality. Secondly, we find the same result for the variable regulative distance showing high correlation with the variable overall institutional distance. Again, this high correlation is to be expected as the regulative distance (\( r=0.75 \)), is a subcategory of the overall institutional distance variable. The above high correlation between the above key variables can create multicollinearity problems and lead to spurious regressions (Montgomery, Peck and Vining 2012). To counter this potential multicollinearity problem, we perform our regression models by using each of our key independent variables in separate models. We seek further confirmation of multicollinearity problems by performing a variance inflation factor (VIF) test of all regression models. These tests show no multicollinearity problems (i.e. mean VIF <10) and the VIF value of each key independent variable less than 5.
Table 5.4. Pairwise Correlations

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<tr>
<td>2</td>
<td>Institutional quality</td>
<td>-0.239</td>
<td>1</td>
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<tr>
<td>3</td>
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<tr>
<td>4</td>
<td>Regulative quality</td>
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<td>0.872</td>
<td>-0.775</td>
<td>1</td>
<td></td>
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<tr>
<td>6</td>
<td>Regulative distance</td>
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<td>0.881</td>
<td>-0.836</td>
<td>-0.745</td>
<td>1</td>
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<tr>
<td>8</td>
<td>Aid (% GDP)</td>
<td>-0.156</td>
<td>0.440</td>
<td>-0.484</td>
<td>0.342</td>
<td>0.448</td>
<td>-0.415</td>
<td>-0.481</td>
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<tr>
<td>9</td>
<td>Log GDP</td>
<td>-0.214</td>
<td>0.0174</td>
<td>-0.0697</td>
<td>-0.138</td>
<td>0.067</td>
<td>0.041</td>
<td>-0.104</td>
<td>0.255</td>
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<tr>
<td>10</td>
<td>GDP per capita growth</td>
<td>0.0703</td>
<td>-0.188</td>
<td>0.235</td>
<td>-0.0349</td>
<td>-0.227</td>
<td>0.104</td>
<td>0.267</td>
<td>-0.0476</td>
<td>-0.250</td>
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<tr>
<td>11</td>
<td>Ores and metals exports</td>
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<td>0.526</td>
<td>-0.544</td>
<td>0.309</td>
<td>0.568</td>
<td>-0.337</td>
<td>-0.585</td>
<td>0.460</td>
<td>-0.0268</td>
<td>-0.0362</td>
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<td>12</td>
<td>Inflation</td>
<td>-0.0748</td>
<td>-0.186</td>
<td>0.231</td>
<td>-0.0608</td>
<td>-0.217</td>
<td>0.148</td>
<td>0.247</td>
<td>-0.318</td>
<td>-0.0979</td>
<td>0.184</td>
<td>-0.333</td>
<td>1</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>13</td>
<td>Real Effective Exchange rate</td>
<td>-0.0399</td>
<td>0.108</td>
<td>-0.0943</td>
<td>0.0158</td>
<td>0.133</td>
<td>0.035</td>
<td>-0.133</td>
<td>-0.104</td>
<td>-0.365</td>
<td>-0.196</td>
<td>0.107</td>
<td>0.159</td>
<td>1</td>
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</tr>
<tr>
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<td>Foreign Direct Investment Inflows</td>
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<td>0.203</td>
<td>-0.195</td>
<td>0.329</td>
<td>0.151</td>
<td>-0.307</td>
<td>-0.146</td>
<td>0.0601</td>
<td>-0.404</td>
<td>0.248</td>
<td>0.176</td>
<td>0.137</td>
<td>-0.0706</td>
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</tr>
<tr>
<td>15</td>
<td>Fixed telephone subscriptions</td>
<td>-0.247</td>
<td>0.385</td>
<td>-0.364</td>
<td>0.198</td>
<td>0.425</td>
<td>-0.176</td>
<td>-0.408</td>
<td>0.165</td>
<td>0.526</td>
<td>-0.262</td>
<td>0.171</td>
<td>-0.138</td>
<td>0.0185</td>
<td>-0.199</td>
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<td></td>
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<tr>
<td>17</td>
<td>Trade balance</td>
<td>0.17</td>
<td>-0.219</td>
<td>0.235</td>
<td>-0.178</td>
<td>-0.221</td>
<td>0.189</td>
<td>0.239</td>
<td>0.105</td>
<td>0.459</td>
<td>-0.0688</td>
<td>-0.135</td>
<td>-0.293</td>
<td>-0.397</td>
<td>-0.14</td>
<td>-0.137</td>
<td>1</td>
</tr>
</tbody>
</table>
5.9. Research Limitations

Every research design whether quantitative or qualitative or a mixture of both is not without its limitations (Saunders et al. 2011). Thus, it is important that researchers acknowledge these limitations and view them as an opportunity to make suggestions for future research (Easterby-Smith, Thorpe and Lowe 2008). We discuss our methodological limitations regarding sample size and data limitation.

Firstly, our firm-level data is limited to greenfield investments into Africa. According to the Africa Investment Report 2015 (Africa Investment Report 2015), greenfield investments account for the bulk of investments in Africa. It is possible that the factors driving alternative modes of investment will be different. Thus, future research should explore the roles of institutional and regulative quality and institutional, and regulative distance in influencing Chinese OFDI in different modes of entry. Secondly, due to lack of data for Chinese aid for the years 2015, our analysis on the moderating role of Chinese aid (Chapter 7) is limited to 2003-2014.

Thirdly, as earlier mentioned, the separation of investments by Chinese SOMNEs and Chinese POMNEs was a nuanced process. This is due to the complex patterns of government ownership and control not only specific to Chinese SOEs but also to modern SOEs at large (Bruton, Peng and Ahlstrom 2015). Although investments by Chinese POMNEs in Africa are growing, Chinese SOMNEs are still dominant in Africa (Jiang 2009). Unsurprisingly, the separation of investments into Chinese SOMNEs and POMNEs resulted in an unbalanced sample with relatively smaller sample size for investments by Chinese POMNEs. Finally, our choice of variables was limited by data availability which continues to be a problem for researchers studying Africa. For instance, we would have liked to include information on the cognitive
institutions of the institutional environment of African countries. The most commonly used measure of this dimension is provided by Dow & Karunaratna (2006). However, the data used to measure this dimension is not available for the majority of African countries in our sample. On the other hand, information on normative institutions of the institutional environment of African countries is also limited. The most commonly used data sources to measure this dimension is that provided by Hofstede (1983) and the World Values Survey. However, data from both sources are only available for only a few African countries, thus in this study, we are unable to use data from these sources.

5.10. Conclusion

The aim of this chapter was to present the chosen research design and methodology of this dissertation. Firstly, we sought to explain how our philosophical research positions, i.e. ontological epistemological and methodological stands. After a discussing our philosophical research positions we explained our research approach. We discuss China as a research context and then Africa as a research context for Chinese OFDI. We then described the characteristics of our samples, followed by the presentation of our variables. Next, we described our research data collection processes and our analytical techniques. Finally, we discussed the limitations of this study.

In the next two chapters, we report and discuss the results of this study beginning with the determinants of Chinese OFDI into Africa by benchmarking China’s OFDI into Africa against OFDI from developed and developing economies in Chapter 6. This is followed by an examination of the moderating role of Chinese development aid on the impact of our key institutional variables in Chapter 7.
Chapter 6: Benchmarking the Determinants of China’s OFDI against OFDI from Developed and Developing Economies

6.1. Introduction

This chapter aims to test the impact of the institutional environment of the host countries on FDI inflows into Africa – comparing OFDI from developed and developing economies\(^8\) on the one hand and China on the other. Although the source country of focus of this study is China, we use the examination of the effects of our key variables on FDI from other developing economies and developed economies as benchmarks for China’s OFDI into Africa. The FDI location decision of MNEs investing in Africa can differ between DCMNEs compared to EMNEs. This difference is due to potential differences in how the relatively low institutional quality in African countries (Bartels, Napolitano and Tissi 2014) can be viewed differently by DCMNEs and EMNEs.

On the one hand, DCMNEs operate in an environment characterised by high institutional quality in their home countries (Cuervo-Cazurra & Genc 2008). As a result, these firms might find it relatively more challenging operating in countries with low institutional quality as well as high risk of expropriation. This view of institutions is in line with the predictions of extant theoretical perspectives on FDI flows built mainly for DCMNEs (Child & Rodrigues 2005). On the other hand, although EMNEs are also exposed to the same risks when investing in African countries, these firms already operate in conditions of relatively weak institutional frameworks in their home countries (Meyer et al. 2009). As a result, EMNEs already possess the experience of

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operating in conditions of weak institutional frameworks and thus might be less
cautious investing and operating in developing economies characterised by low
institutional quality (Cuervo-Cazurra & Genc 2008; Morck et al. 2008).

Within the group of developing economies, we then focus on the determinants of FDI
from China, which we believe represents a particular case of the group of developing
economies. Firstly, the Chinese government has been actively involved in its support
and encouragement of CMNEs (predominantly SOMNEs) through its ‘Go Global’
strategy (Voss, Buckley and Cross 2008). In Africa in particular, CMNEs enjoy clear
political support, mainly under an overarching government foreign policy of non-
interference (Alden & Davies 2006). Focusing on China as a special case allows us to
benchmark the effects of our independent variables on the FDI location decisions of
CMNEs with that of DCMNEs and other EMNEs, thereby showing China’s OFDI into
Africa as a special phenomenon. From a theoretical perspective, the benchmarking
process enables us to show the inadequacies of traditional IB theories in explaining the
phenomenon of the growing levels of Chinese OFDI into Africa.

For Chinese OFDI in particular, there is evidence (Duanmu 2012) suggesting that there
is a difference in the FDI location decision of CMNEs based on firm ownership. For
instance, Chinese SOMNEs often follow the strategic needs of their home government,
thus making them less risks averse when engaging in FDI (Ramasamy et al. 2012). On
the other hand, Chinese POMNEs are averse to the risks posed by weak institutional
frameworks when choosing investment locations (Amighini et al. 2013). Based on the
above potential differences in motivations between Chinese SOMNEs and POMNEs,
we distinguish between investments carried out by Chinese SOMNEs and POMNEs
to examine any potential differences in their investments patterns in Africa.
We organise the remainder of the chapter as follows: Section 6.2 reports and discusses the results of the effect of overall institutional quality, regulative quality on OFDI into Africa from developed and developing economies in comparison with FDI from China. In section 6.3, we report and discuss the results of the effect of home-host country overall institutional distance, and regulative distance on OFDI into Africa from developed and developing economies in comparison with OFDI from China. Next, we report and discuss the results of our control variables in section 6.4. In section 6.5, we report and discuss our results on the effect of overall institutional quality, and regulative quality on FDI by Chinese SOMNEs and POMNEs. Section 6.6 reports and discuss the effect of the home-host country overall institutional distance, and regulative distance on FDI by Chinese SOMNEs and POMNEs. Section 6.7 concludes the chapter.

6.2. The Effect of Host country Institutional Quality on China’s OFDI into Africa Compared to OFDI from Developed and Developing Economies

In this section, we report and discuss the effect of our key variables related to institutional quality on China’s OFDI into Africa using the results on FDI from developed and developing economies as benchmarks. We begin with a report and discussion of the results of institutional quality in section 6.2.1, and regulative quality in section 6.2.2. Table 6.1 provides the results of the effect of overall institutional quality, and regulative on FDI from developed, developing and Chinese economies.

6.2.1. The Effect of Host Country Institutional Quality

Models 1 and 3 examine the effect of institutional quality on FDI from developed and developing economies respectively. In both models, we include time and industry effects while model 1 includes source country effects. The results show the coefficient for institutional quality is negative and statistically significant for FDI from developed
(β = - 0.02201, p < 0.01 in Model 1) and developing economies (β = - 0.02995, p < 0.01 in Model 3). For FDI inflows from developed economies, we find that a one percent increase in host-country institutional quality decreases FDI inflows by 0.02 percent and 0.03 percent for developing economies. These results suggest that both DCMNEs and EMNEs are attracted to low institutional quality in African countries.

Model 5 examines the effect of institutional quality on FDI inflows from China. In this model, we control for industry effects. The results show that the coefficient for institutional quality is a negative and statistically significant (β = -0.07467, p < 0.01) for FDI from China. Specifically, we find that a one percent increase in institutional quality decreases FDI from China by 0.07 percent. This result suggests that CMNEs are attracted to African countries with low levels of institutional quality, thus supporting **Hypothesis 1a** – predicting that CMNEs tend to be attracted to African countries with low institutional quality.

Our results also show that host-country institutional quality matters to CMNEs but not in the manner suggested in several existing studies on the relationship between institutional quality and FDI. Several empirical studies (e.g. Globerman & Shapiro 2002; Busse & Hefeker 2007; Pajunen 2008; Delios & Henisz 2003; Meyer et al. 2009) suggest a positive influence of institutional quality on FDI flows, showing MNEs are more likely to invest in locations with higher levels of institutional quality. This positive influence between host country institutional quality and FDI inflows is because operating in conditions of low institutional quality can increase the transactions cost for firms (Meyer 2001).

The discrepancy between our results showing a negative link between China’s OFDI into Africa and host-country institutional quality and existing empirical evidence
showing a positive relationship between host-country institutional quality and FDI might be due to a few reasons. Firstly, the unique institutional environment in China might explain the negative influence of host-country institutional quality and China’s OFDI into Africa. China has a legacy of a high degree of government involvement and encouragement of OFDI activities by Chinese domestic firms (Voss et al. 2010; Child & Rodrigues 2005). Buckley et al. (2007) and Morck et al. (2008) suggests that the encouragement of Chinese firms to engage in OFDI is usually through privileged access to capital on favourable terms due to local capital market distortions. Favourable treatment and access to cheap capital can encourage Chinese firms to invest abroad as cheap capital, and government support can reduce the financial risk associated with OFDI activities in countries with low institutional quality in the form of high transactions costs (Voss et al. 2010).

Also, Chinese firms carrying out natural resource seeking investments in African countries might be doing so for the long-term interest of the Chinese economy with the support of the Chinese government. Investments under such circumstances are carried out with political and long-term strategic objectives rather than solely on economic ones. Thus, investments carried out with political and strategic motives in mind are more likely to be less risk averse to low institutional quality than investments carried out for purely economic motives (Ramasamy et al. 2012).

We now use the results for FDI inflows from developed (Table 6.1, Model 1) and developing economies (Table 6.1, Model 3) as benchmarks for FDI from China. We find that the coefficient of institutional quality is negative and statistically significant for FDI from China ($\beta = -0.07467$, $p < 0.01$ in Model 5), developed economies ($\beta = -0.02201$, $p < 0.01$ in Model 1) and developing economies ($\beta = -0.02995$, $p < 0.01$ in Model 3). Thus, regarding the impact of host-country institutional quality, we do not
find any difference (regarding the sign of the estimated coefficients) between FDI inflows from China and developed and developing economies.

Although our results show a similarity regarding the sign of the coefficient between FDI from the developed and developing economies on the one hand and from China on the other, the magnitude of the negative influence of institutional quality is greater for FDI from China $\beta = -0.07467$ (Model 5, in Table 6.1). The size of the coefficients suggests the magnitude of the effect of host country institutional quality is greater for investments by CMNEs, thereby suggesting that CMNEs invest more in African countries with low overall institutional quality than DCMNEs and other EMNEs. Although CMNEs have the same experience as other EMNEs in operating in conditions of low institutional quality compared to DCMNEs, specific factors can account for the higher magnitude of the effect of institutional quality on FDI from China. For instance, the institutional environment in China has been highly supportive of and promoted OFDI (Wang et al. 2012).

The Chinese government, in particular, has played a significant role in encouraging OFDI such as through its financial assistance of large CMNEs and political backing in host countries with high risk of expropriation (Luo et al. 2010; Duanmu 2014). Furthermore, large FDI projects carried out by CMNEs in Africa have been carried out not solely for economic reasons but also with political and strategic objectives (Jiang 2009; Haan 2011). Thus, such firms are likely to be less risk-averse than firms that invest strictly for profit.

A few reasons might account for the similarity in investment motivation as regards host country institutional quality between CMNEs, DCMNEs and EMNEs. The presence and need for the exploitation of natural resources by DCMNEs can explain
the negative influence of host country institutional quality. For instance, previous empirical research suggests that both DCMNEs and EMNEs are even more attracted to host African countries with abundant reserves of natural resources, the lower the institutional quality of the host-country (Kolstad and Wiig 2011; Asiedu 2006). This finding suggests the need for the exploitation of resources and weak institutional frameworks, whereby institutional voids in African countries are viewed as ‘spaces of opportunity’ for exploitation (Mair, Martí and Ganly 2007). In the case of FDI inflows from developing economies, the negative influence of institutional quality can be explained by the experience of EMNEs in operating in conditions of low institutional quality, thereby making these firms undeterred by the low institutional quality in African countries (Cuervo-Cazurra & Genc 2008).

Considering the above difference in the magnitude of the negative effect of institutional quality on FDI by CMNEs, DCMNEs and EMNEs we employ a multiple paired independent sample t-test to determine if the mean of our dependent variable – FDI inflows is the same between all three groups. Specifically, we want to determine if the mean difference between each pair of investors is statistically significantly different from zero.

From Table 6.2, DCMNEs (N = 4365) is associated with FDI inflows M = 2.92 (SD = 1.64). By comparison, EMNEs (N = 1142) have higher FDI inflows M = 3.21 (SD = 1.69). We test the hypothesis that the mean FDI inflow is significantly different between DCMNEs and EMNEs. The assumption of homogeneity of variance is satisfied through Levene’s test for the equality of variance. The assumption of homogeneity of variance is necessary to justify using the pooled variance in the calculation of the t statistic when the sample size of both groups differ (Brown and Forsythe 1974). The independent samples t-test show a statistically significant effect,
t(5505) = -5.39, p = .000. Thus, EMNEs have a higher mean FDI inflows than DCMNEs. Next, we report the independent samples t-test between other DCMNEs and CMNEs.

Table 6.3 shows DCMNEs (N = 4365) is associated with FDI inflows M = 2.92 (SD = 1.64). By comparison, the CMNEs (N = 241) is associated with a numerically higher FDI inflows M = 3.36 (SD = 1.89). We test the hypothesis that the mean FDI inflow by DCMNEs and MNEs from China is significantly different. The assumption of homogeneity of variance is not satisfied through Levene’s test. When the homogeneity of variance assumption is violated, and the sample sizes for both groups differ, the Welch test has been suggested as an alternative that does not assume equal population variances (Welch 1947). Thus, we employ a Welch approximation assuming unequal variance between the two groups. The independent samples t-test shows a statistically significant effect t(260.69) = -3.57, p = .000. This result suggests that CMNEs have a significantly higher mean FDI inflows than DCMNEs.

We employ similar independent samples t-test in Table 6.4 between other EMNEs and CMNEs. EMNEs (N = 1142) is associated with FDI inflows M = 3.22 (SD = 1.69). We employ a Welch approximation due to unequal variance between the two groups. Although the CMNEs have a numerically higher FDI inflows, M = 3.36 (SD = 1.89), we do not find support for the hypothesis that EMNEs and CMNEs have a significantly different mean FDI inflows. The independent samples t-test does not show a statistically significant effect t(326.90) = -1.12, p = 0.2621
Table 6.1. OLS Models with Robust Standard Errors: Institutional, and Regulative Quality as Determinants of FDI from Developed, Developing and Chinese Economies

<table>
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<td>Log FDI</td>
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<tr>
<td>Developed</td>
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<td>Economies</td>
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<tr>
<td>Institutional</td>
<td>-0.02201***</td>
<td>-0.02995***</td>
<td>-0.07467***</td>
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<tr>
<td>quality</td>
<td>(0.00438)</td>
<td>(0.00765)</td>
<td>(0.01955)</td>
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</tr>
<tr>
<td>Regulative</td>
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<td>-0.06230***</td>
<td>-0.15660**</td>
<td></td>
<td></td>
<td>-0.15660**</td>
</tr>
<tr>
<td>quality</td>
<td>(0.01168)</td>
<td>(0.02194)</td>
<td>(0.07018)</td>
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<tr>
<td>Log GDP</td>
<td>-0.10665***</td>
<td>-0.09224***</td>
<td>-0.10626*</td>
<td>-0.08514*</td>
<td>-0.02702</td>
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<td>(0.02962)</td>
<td>(0.02929)</td>
<td>(0.06007)</td>
<td>(0.15026)</td>
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<td>0.00530</td>
<td>0.00743</td>
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<td>0.01683</td>
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<td>(0.00931)</td>
<td>(0.02364)</td>
<td>(0.02432)</td>
<td>(0.05244)</td>
<td>(0.05327)</td>
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<tr>
<td>Ores and metals</td>
<td>0.00509***</td>
<td>0.00208*</td>
<td>0.00631*</td>
<td>0.00367*</td>
<td>0.01043*</td>
<td>0.00293***</td>
</tr>
<tr>
<td>exports</td>
<td>(0.00206)</td>
<td>(0.00187)</td>
<td>(0.00356)</td>
<td>(0.00328)</td>
<td>(0.00665)</td>
<td>(0.00652)</td>
</tr>
<tr>
<td>Inflation</td>
<td>-0.00055</td>
<td>-0.00025</td>
<td>-0.00202***</td>
<td>-0.00176***</td>
<td>-0.02352</td>
<td>-0.01293</td>
</tr>
<tr>
<td></td>
<td>(0.00076)</td>
<td>(0.00066)</td>
<td>(0.00046)</td>
<td>(0.00047)</td>
<td>(0.01951)</td>
<td>(0.02018)</td>
</tr>
<tr>
<td>Foreign direct</td>
<td>0.00370</td>
<td>0.00246</td>
<td>0.00504</td>
<td>0.00689</td>
<td>0.06198**</td>
<td>0.05162**</td>
</tr>
<tr>
<td>investment</td>
<td>(0.00519)</td>
<td>(0.00517)</td>
<td>(0.01345)</td>
<td>(0.01321)</td>
<td>(0.02722)</td>
<td>(0.02547)</td>
</tr>
<tr>
<td>Real effective</td>
<td>-0.00151*</td>
<td>-0.00172*</td>
<td>0.00049</td>
<td>0.00030</td>
<td>0.00277</td>
<td>0.00170</td>
</tr>
<tr>
<td>exchange rate</td>
<td>(0.00091)</td>
<td>(0.00091)</td>
<td>(0.00168)</td>
<td>(0.00170)</td>
<td>(0.00458)</td>
<td>(0.00462)</td>
</tr>
<tr>
<td>Trade balance</td>
<td>0.00193*</td>
<td>0.00084*</td>
<td>-0.00461</td>
<td>-0.00447</td>
<td>0.00698</td>
<td>0.00652</td>
</tr>
<tr>
<td></td>
<td>(0.00190)</td>
<td>(0.00202)</td>
<td>(0.00414)</td>
<td>(0.00423)</td>
<td>(0.00985)</td>
<td>(0.01003)</td>
</tr>
<tr>
<td>Fixed telephone</td>
<td>0.01498*</td>
<td>0.00038*</td>
<td>0.05586***</td>
<td>0.03317**</td>
<td>-0.00026</td>
<td>-0.03281</td>
</tr>
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<td>subscriptions</td>
<td>(0.00783)</td>
<td>(0.00709)</td>
<td>(0.01343)</td>
<td>(0.01333)</td>
<td>(0.03337)</td>
<td>(0.03426)</td>
</tr>
<tr>
<td>Colonial links</td>
<td>-0.27067***</td>
<td>-0.27693***</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.07795)</td>
<td>(0.07788)</td>
<td></td>
<td></td>
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<td>7.83086***</td>
<td>8.84069***</td>
<td>7.52120***</td>
<td>8.09545*</td>
<td>7.73421*</td>
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<tr>
<td></td>
<td>(0.85408)</td>
<td>(0.82162)</td>
<td>(1.60952)</td>
<td>(1.71600)</td>
<td>(4.16521)</td>
<td>(4.42735)</td>
</tr>
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<td>Time effects</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Industry effects</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Source country effects</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Mean VIF</td>
<td>2.86</td>
<td>2.85</td>
<td>2.23</td>
<td>2.23</td>
<td>1.81</td>
<td>1.75</td>
</tr>
<tr>
<td>Observations</td>
<td>3,869</td>
<td>3,869</td>
<td>984</td>
<td>984</td>
<td>197</td>
<td>197</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.28387</td>
<td>0.28116</td>
<td>0.33930</td>
<td>0.34329</td>
<td>0.41751</td>
<td>0.39465</td>
</tr>
</tbody>
</table>

Robust standard errors are in parentheses, ***p<0.01, **p<0.05, *p<0.1 indicate significance at the 1%, 5%, and 10% levels respecti

189
### Table 6.2. Results of T-Test for FDI by DCMNEs and EMNEs

<table>
<thead>
<tr>
<th>Investor group</th>
<th>95% CI for Mean Difference</th>
<th>t</th>
<th>df</th>
</tr>
</thead>
<tbody>
<tr>
<td>DCMNEs M SD n</td>
<td>2.92 1.64 436</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EMNEs M SD n</td>
<td>3.21 1.69 1142</td>
<td>-0.44, -0.16</td>
<td>-5.39***</td>
</tr>
</tbody>
</table>

*** p<0.01.

### Table 6.3. Results of T-Test for FDI by DCMNEs and CMNEs

<table>
<thead>
<tr>
<th>Investor group</th>
<th>95% CI for Mean Difference</th>
<th>t</th>
<th>df</th>
</tr>
</thead>
<tbody>
<tr>
<td>DCMNEs M SD n</td>
<td>2.92 1.64 436</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CMNEs M SD n</td>
<td>3.36 1.89 241</td>
<td>-0.69, -0.20</td>
<td>-3.57***</td>
</tr>
</tbody>
</table>

*** p<0.01. Note: Welch approximation employed due to unequal group variances.

### Table 6.4. Results of T-Test for FDI by EMNEs and CMNEs

<table>
<thead>
<tr>
<th>Investor group</th>
<th>95% CI for Mean Difference</th>
<th>t</th>
<th>df</th>
</tr>
</thead>
<tbody>
<tr>
<td>EMNEs M SD n</td>
<td>3.22 1.69 1142</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CMNEs M SD n</td>
<td>3.36 1.89 241</td>
<td>-0.41, 0.12</td>
<td>-1.12</td>
</tr>
</tbody>
</table>

*** p<0.01. Note: Welch approximation employed due to unequal group variances.

### 6.2.2. The Effect of Host Country Regulative Quality

Models 2 and 4 in Table 6.1, examine the effect of regulative quality on FDI from developed and developing economies respectively. Model 2 includes time, industry and source-country effects while model 4 includes time and industry effects. In model 2, the coefficient for regulative quality is negative and statistically significant ($\beta = -0.04180, p < 0.01$) for FDI from developed economies. We find that a one percent rise in host country regulative quality is associated with a decrease in FDI from developed economies by 0.04 percent, thus suggesting that DCMNEs are attracted to low host-country regulative quality. In model 4, the coefficient for regulative quality is negative and statistically significant ($\beta = -0.06230, p < 0.01$) for FDI inflows from developing economies. We find that a one percent increase in regulative quality decreases FDI from developing economies by 0.06 percent. This result suggests that EMNEs are attracted to African countries with lower levels of regulative quality.

In the case of FDI from China, model 8 shows regulative quality to be a negative and statistically significant estimator ($\beta = -0.15660, p < 0.05$). After controlling for
industry effects, we find that a one percent increase in regulative quality decreases FDI from China by 0.16 percent, thus suggesting that CMNEs are attracted to African countries with low levels of regulative quality. This result means we find support for Hypothesis 2a – predicting that CMNEs tend to be attracted to African countries with low regulative quality.

Comparatively, we find that the negative influence of host country regulative quality on FDI from China is similar to the effect on FDI from developed and developing economies as the coefficients for regulative quality are also negative. However, the results show the magnitude of the negative effect of regulative quality on FDI by CMNEs is greater $\beta = -0.15660$ (Model 6, in Table 6.1) compared to DCMNEs $\beta = -0.04180$ (Model 2, in Table 6.1) and EMNEs $\beta = 0.06230$ (Model 4, in Table 6.1). Specifically, while a rise in host-country regulative quality decreases FDI from developed and developing economies by 0.04 and 0.06 percent respectively, FDI from China decreases by up to 0.16 percent.

The greater size of the coefficient for FDI from China suggests that CMNEs are more inclined to invest in African countries with lower levels of regulative quality than DCMNEs and other EMNEs. Thus, with regard to the effect of host country regulative quality, we find the investment pattern of CMNEs as a particular case (regarding the magnitude of the effect) as they seem to be more willing to invest in conditions of lower levels of host-country regulative quality.

Prior empirical studies have shown that the quality of the regulative institutions, i.e., stable macroeconomic policy, property rights guarantee, and less bureaucracy are attractive to MNEs (Pajunen 2008; Bevan & Estrin 2004; Meyer et al. 2009; Meyer 2001). Our results suggest CMNEs are more attracted to lower levels of host-country
regulative quality. The soft budget constraints of CMNEs (Cull & Xu 2003) might explain the above result. Access to cheap capital means CMNEs investing in African countries can manage the risk of higher transactions costs associated with operating in host countries with inefficient and burdensome regulations. Also, CMNEs might be attracted to African countries with lower levels of quality in regulative institutions due to their experience in operating under a similar regulatory environment back home (Morck, Yeung and Zhao 2008). Therefore, rather than the case of engaging in FDI to escape the ‘regulative voids’ back in their home-country (Stoian & Mohr 2016), CMNEs might be engaging in FDI in African countries with low regulative institutional quality to leverage their experience in operating in the same regulative conditions back home.

6.3. The Effect of Institutional Distance on China’s OFDI into Africa Compared to OFDI from Developed and Developing Economies

In this section, we report and discuss the effect of our distance variables regarding institutional quality. The section begins with a report and discussion of the institutional distance variable in section 6.3.1 and regulative distance in section 6.3.2. The results of the effect of these variables on FDI from developed, developing and Chinese economies are provided in Table 6.5.

6.3.1. The Effect of Home-Host Country Institutional Distance

Models 1 and 3 examine the effect of institutional distance on FDI from developed and developing economies respectively. Model 1 includes time, industry and source country effects while model 3 includes time and industry effects. Our results show that the coefficient for institutional distance is positive and statistically significant ($\beta = 0.02064$, $p < 0.01$ in Model 1) for FDI from developed and developing economies ($\beta = 0.01609$, $p < 0.01$ in Model 4). In model 1, we find that a one percent increase in
institutional distance increases FDI from developed economies by 0.02 percent. Model 3 shows the same increase of 0.02 percent for FDI from developing economies when the institutional distance increases by one percent.

For easy interpretation of results, it is worth reiterating that we measure the institutional distance as the absolute distance between the institutional quality in the home and host-countries (Aleksynska and Havrylchyk 2013; Cezar and Escobar 2015). By and large, the institutional quality of the majority of the developed economies included in our study is higher than that of the majority of host countries. On the other hand, a greater number of host countries have a higher institutional quality than some of the developing countries included in our dataset. Thus in such cases, the institutional distance will have a negative value (positive institutional distance) meaning the institutional quality in the host country is better than in the home country of the investing firm. The positive and statistically significant coefficients in Model 1 and 3 suggest that institutional distance does not deter FDI inflows from developed and developing economies but even has a positive effect. These results suggest that DCMNEs and EMNEs alike invest in African countries with either better or worse institutional quality than at home.

For FDI inflows from China, model 5 shows the coefficient for institutional distance is positive and statistically significant ($\beta = 0.05661, p < 0.01$) after controlling for industry effects. This result indicates that a one percent rise in the institutional distance increases FDI inflows from China by 0.06 percent. The positive and statistically significant coefficient suggest that high institutional distance does not deter CMNEs as they invest in African countries with better or worse institutional quality than in China. This result means we do not find support for **Hypothesis 3a** – predicting that
low home-host country distance in terms of institutional quality will attract Chinese FDI.

Comparing the above result to FDI from developed and developing economies, we find that the sign for the coefficient of the institutional distance variable is positive for FDI from developed (Model 1 in Table 6.5) developing (Model 3 in Table 6.5) and China (Model 5 in Table 6.5). However, the magnitude of the coefficients for institutional distance is higher for FDI from China $\beta = 0.05661$. We interpret that compared to DCMNEs and other EMNEs, CMNEs invest more in African countries with either much higher or much lower institutional quality than at home. This result might be because as latecomers to the African continent, CMNEs seek to invest wherever the investment opportunities arise – investing in African countries with better or worse overall institutional quality than in China. The investments by CMNEs in African countries with worse overall institutional quality than in China suggest the exploitation of weak institutions in African countries by CMNEs. On the other hand, CMNEs may invest in African countries with better overall institutional quality than in China to take advantage of the stable and efficient ‘rules of the game’ that these countries provide.

**6.3.1.1. The Impact of Positive and Negative Institutional Distance**

Overall, our results show that DCMNEs, EMNEs and CMNEs invest in African countries with either higher or lower institutional quality than at home. Thus, in the current setting, the use of the absolute value of the distance makes it impossible to examine whether it is better or worse institutional quality that encourages FDI inflows into Africa from China, developed and developing economies. To solve this issue, we disaggregate our institutional distance variable into the positive institutional distance and negative institutional distance. Positive institutional distance represents cases
when institutional quality in the host country is better than in the home country, that is, MNEs prefer better institutional quality. On the other hand, negative institutional distance represents cases where institutional quality in the host country is worse than in the home country, that is, MNEs prefer worse institutional quality (Aleksynska and Havrylchyk 2013).

We adopt this approach of disaggregation of our absolute institutional distance variable because the effect of positive and negative institutional distance is not symmetric (Aleksynska and Havrylchyk 2013). Foreign firms might find investing in countries with much better institutional quality attractive. Although a larger institutional distance creates unfamiliarity due to high dissimilarities in the institutions in the home and host country, it could be attractive to investors when the institutional quality in the host country is better than in the home country (Aleksynska and Havrylchyk 2013; Cezar and Escobar 2015).

Table 6.6 presents the results of the effect of the disaggregated variables (positive and negative institutional distance) for FDI inflows from developed, developing and Chinese economies. Firstly, in cases of positive institutional distance, model 1 in Table 6.6 shows that the coefficient for positive institutional distance is positive and statistically significant coefficient ($\beta = 0.67467$, $p < 0.1$) suggesting that DCMNEs seem to be attracted by better institutional quality in the host country. In contrast, superior institutional quality in African countries deters FDI by both EMNEs and CMNEs as suggested by the negative and statistically significant coefficients for positive institutional distance (see the coefficient on positive institutional distance in Model 2 and 3 in Table 6.6).
Secondly, in cases where the institutional quality in the host country is worse than in the home country of the firm (negative institutional distance), we find that DCMNEs appear to be discouraged by it ($\beta = -0.67467$, $p < 0.1$ in Model 4). For EMNEs we find that when the institutional quality in the host country is worse than in the home country, they are attracted by it ($\beta = 0.26042$, $p < 0.1$ in Model 5). The results show this is also the case for CMNEs ($\beta = 1.20977$, $p < 0.01$ in Model 6). However, as earlier mentioned, the magnitude of FDI flows from China into African countries with worse institutional quality than at home is very important for FDI from China. Overall, our regression results suggest that CMNEs tend to invest more in African countries with worse institutional quality than in China (larger negative institutional distance) than other EMNEs while DCMNEs prefer a much lower negative institutional distance.

Studies of the role of institutional distance and FDI flows suggest a large institutional distance between the home and host country institutional environment discourages FDI inflows (Xu & Shenkar 2002; Ghemawat 2001; Pogrebnyakov & Maitland 2011). This relationship is based on the notion that a large institutional distance between the home and host country increases the costs of doing business abroad through a heightened LOF (Zaheer and Mosakowski 1997; Eden and Miller 2004). This increased LOF makes it difficult for foreign firms to achieve external legitimacy (Kostova & Zaheer 1999).

Contrary to the above view of the role of institutional distance, our results show CMNEs are even more attracted to a larger negative institutional distance between China and host African countries. This result might be explained by the fact that the average dissimilarity between the overall institutional quality of China and the African countries in our study is relatively small (see section 5.2, for summary statistics). Therefore, CMNEs might be attracted to African countries with even worse
institutional quality than back home in China as they are more likely to encounter less LOF (when operating in countries with low institutional quality). Also, CMNEs may be more attracted to African countries with weaker institutional quality than in China because it might be easier to exploit the weakness or absence of strong institutions in such countries (Kolstad and Wiig 2011).

Meyer et al. (2014) suggest SOMNEs are more likely to adjust their entry strategy in host countries with high institutional quality than those with low institutional quality as institutional pressures are much higher in the former countries than in the latter. The low institutional quality in African countries means there is less pressure to conform to the institutional environment in African countries than they might be in host countries in Western Europe or North America with high institutional quality. The lack of high institutional pressures for conformity in African countries means institutional distance as a determinant of organisational legitimacy (Xu & Shenkar 2002) might not matter in a conventional way to CMNEs when investing in Africa.
<table>
<thead>
<tr>
<th>Log FDI</th>
<th>Developed Economies</th>
<th>Developed Economies</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
</tr>
<tr>
<td>Institutional Distance</td>
<td>0.02064***</td>
<td>0.01609***</td>
<td>0.05661***</td>
</tr>
<tr>
<td></td>
<td>(0.00412)</td>
<td>(0.00475)</td>
<td>(0.01636)</td>
</tr>
<tr>
<td>Regulative Distance</td>
<td>0.03196***</td>
<td>0.01609***</td>
<td>0.3990**</td>
</tr>
<tr>
<td></td>
<td>(0.01052)</td>
<td>(0.01721)</td>
<td>(0.05917)</td>
</tr>
<tr>
<td>Log GDP</td>
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<td>-0.08881***</td>
<td>-0.08076</td>
</tr>
<tr>
<td></td>
<td>(0.02964)</td>
<td>(0.05827)</td>
<td>(0.05921)</td>
</tr>
<tr>
<td>GDP per capita growth</td>
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<td>0.00572</td>
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<tr>
<td></td>
<td>(0.00930)</td>
<td>(0.02365)</td>
<td>(0.02381)</td>
</tr>
<tr>
<td>Ores and metals exports</td>
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<td>0.00176**</td>
<td>0.00455</td>
</tr>
<tr>
<td></td>
<td>(0.00204)</td>
<td>(0.00336)</td>
<td>(0.00307)</td>
</tr>
<tr>
<td>Inflation</td>
<td>-0.00052</td>
<td>-0.00014</td>
<td>-0.00170***</td>
</tr>
<tr>
<td></td>
<td>(0.00075)</td>
<td>(0.00064)</td>
<td>(0.00045)</td>
</tr>
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<td>Foreign direct investment</td>
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<td>0.00286</td>
<td>0.00488</td>
</tr>
<tr>
<td></td>
<td>(0.00521)</td>
<td>(0.00518)</td>
<td>(0.01379)</td>
</tr>
<tr>
<td>Real effective exchange rate</td>
<td>-0.00153*</td>
<td>-0.00171*</td>
<td>0.00069</td>
</tr>
<tr>
<td></td>
<td>(0.00091)</td>
<td>(0.00091)</td>
<td>(0.01167)</td>
</tr>
<tr>
<td>Trade balance</td>
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<td>0.00138**</td>
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</tr>
<tr>
<td></td>
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<td>(0.00404)</td>
</tr>
<tr>
<td>Fixed telephone subscriptions</td>
<td>0.01354*</td>
<td>0.00159*</td>
<td>0.04126***</td>
</tr>
<tr>
<td></td>
<td>(0.00774)</td>
<td>(0.00708)</td>
<td>(0.01199)</td>
</tr>
<tr>
<td>Colonial links</td>
<td>-0.27197***</td>
<td>-0.27926***</td>
<td>-0.27197***</td>
</tr>
<tr>
<td></td>
<td>(0.07791)</td>
<td>(0.07788)</td>
<td>(0.07791)</td>
</tr>
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<td>6.61009***</td>
<td>6.35711***</td>
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<td>(0.77187)</td>
<td>(1.51327)</td>
</tr>
<tr>
<td>Time effects</td>
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<td>Yes</td>
<td>Yes</td>
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<tr>
<td>Industry effects</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Source country effects</td>
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<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Mean VIF</td>
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<td>2.87</td>
<td>2.20</td>
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<tr>
<td>Observations</td>
<td>3,869</td>
<td>3,869</td>
<td>984</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.25832</td>
<td>0.28050</td>
<td>0.33744</td>
</tr>
</tbody>
</table>

Robust standard errors are in parentheses, ***p<0.01, **p<0.05, *p<0.1 indicate significance at the 1%, 5%, and 10% levels respectively.
Table 6.6. OLS Models with Robust Standard Errors: The Effect of Positive and Negative Institutional Distance on FDI from Developed, Developing Economies and China

<table>
<thead>
<tr>
<th>Log FDI</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Positive Institutional Distance</td>
<td>Negative Institutional Distance</td>
<td>Positive institutional distance</td>
<td>-0.67467*</td>
<td>0.26042*</td>
<td>1.20977***</td>
</tr>
<tr>
<td></td>
<td>(0.40027)</td>
<td>(0.30661)</td>
<td>(0.40027)</td>
<td>(0.15679)</td>
<td>(0.30661)</td>
<td></td>
</tr>
<tr>
<td>Log GDP</td>
<td>-0.10714***</td>
<td>-0.05736</td>
<td>0.23555</td>
<td>-0.10714***</td>
<td>-0.04257</td>
<td>0.23555</td>
</tr>
<tr>
<td></td>
<td>(0.02818)</td>
<td>(0.05915)</td>
<td>(0.15332)</td>
<td>(0.02818)</td>
<td>(0.05764)</td>
<td>(0.15332)</td>
</tr>
<tr>
<td>GDP per capita growth</td>
<td>0.01924**</td>
<td>0.00844</td>
<td>0.02089</td>
<td>0.01924**</td>
<td>0.00299</td>
<td>0.02089</td>
</tr>
<tr>
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<td>(0.00858)</td>
<td>(0.02358)</td>
<td>(0.05223)</td>
<td>(0.00858)</td>
<td>(0.02134)</td>
<td>(0.05223)</td>
</tr>
<tr>
<td>Ores and metals exports</td>
<td>0.00031</td>
<td>0.00383</td>
<td>0.01006</td>
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</table>

Robust standard errors are in parentheses, ***p<0.01, **p<0.05, *p<0.1 indicate significance at the 1%, 5%, and 10% levels respectively.
The disaggregation of the overall institutional distance into regulative (formal) institutional distance can have a differing effect on the internationalisation of MNEs. Regulative institutional distance can have a different effect on the degree of LOF that a foreign firm faces when it invests in a foreign country. This is because the effectiveness and efficiency of formalised rules and regulations can differ between countries (Eden and Miller 2004). Thus, we disaggregate our overall institutional distance variable into a subcategory of regulative distance. We report and discuss our results in the section below.

6.3.2. The Effect of Home-Host Country Regulative Distance

Models 2 and 4 in Table 6.5 examine the effect of regulative distance on FDI from developed and developing economies respectively. In model 2, we control for time, industry and source country effects, and the results show that the coefficient for regulative distance is a positive and statistically significant ($\beta = -0.03196, p < 0.01$ in Model 2) for FDI from developed economies. A one percent rise in the regulative distance increases FDI from developed economies by 0.03 percent. Model 4 shows that the coefficient for regulative distance is positive and statistically significant ($\beta = -0.03990, p < 0.05$) for FDI from developing economies after controlling for time and industry effects. This result means a one percent rise in regulative distance increases FDI from developing economies by 0.04 percent. These results suggest that high home-host country regulative distance attracts FDI from both developed and developing economies.

In the case of CMNEs, model 8 shows that the coefficient of regulative distance is positive and statistically significant ($\beta = -0.17834, p < 0.01$). Controlling for industry fixed effects, we find that a one percent rise in the regulative institutional distance increases FDI from China by 0.18 percent. This result suggests that regulative distance
matters to FDI from China but rather than deterring CMNEs from investing in African countries, it seems to encourage them to invest. This result means we do not find support for Hypothesis 4a – predicting that low home-host country distance in terms of regulative quality will attract Chinese FDI inflows into Africa.

Compared to investors from developed and developing economies, we find that the coefficient for regulative distance is positive for all investors but much larger for FDI from China ($\beta = 0.17834$ in Model 6). This result is in comparison to the coefficients for FDI from developed ($\beta = 0.03196$ in Model 2) and developing economies ($\beta = 0.03990$ in Model 4). We interpret as high regulative distance attracts higher FDI inflows from China than from developed and developing economies. To examine whether it is, in fact, better or worse regulative quality that is stimulating Chinese FDI, we disaggregate the absolute regulative distance into positive regulative distance and negative regulative distance. Positive regulative distance indicates when the regulative quality in the host country is better than in the home country while negative regulative distance indicates when the regulative quality in the host country is worse than in the home country.

6.3.2.1. The Effect of Positive and Negative Regulative Distance

Table 6.7 presents the results for the effects of positive and negative regulative distance for FDI inflows from developed, developing and Chinese economies. Firstly, the coefficient for positive regulative distance is negative but not statistically significant for FDI inflows from developed (model 1) and developing economies (model 2). However, as regards FDI inflows from China, the results show that the coefficient for positive regulative distance is negative and statistically significant ($\beta = -0.70613$, $p < 0.05$ in Model 3) FDI inflows from China.
Secondly, we find that the coefficient of the variable negative regulative distance is positive but not statistically significant for FDI inflows from developed (model 4) and developing economies (model 5). However, the coefficient for this variable is positive and statistically significant ($\beta = 0.70613$, $p < 0.05$ in Model 6) for FDI inflows from China. Thus, we find evidence that, for CMNEs, when the regulative quality in the host country is worse than in China, they are attracted by it.

Overall, our regression results suggest that compared to DCMNEs and EMNEs, CMNEs are deterred by better regulative quality in the host country than in China. They also seem to have a preference of investing in African countries with worse regulative quality than in China (larger negative regulative distance).
### Table 6.7. OLS Models with Robust Standard Errors: The Effect of Positive and Negative Regulative Distance on FDI from Developed, Developing Economies and China

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<td>3,869</td>
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<td>0.39715</td>
<td>0.27863</td>
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Robust standard errors are in parentheses, ***p<0.01, **p<0.05, *p<0.1 indicate significance at the 1%, 5%, and 10% levels respectively.
Scholars have suggested that a large difference between the regulative constituents of the home and host country have a strong influence on the location decision of MNEs (Xu & Shenkar 2002; Eden & Miller 2004; Ghemawat 2001). This influence is because MNEs prefer to invest in countries with similar regulative environment to their home country as this ensures conformity to the host regulative environment making the achievement of market legitimacy easier (Kostova & Zaheer 1999). Furthermore, it also avoids discriminatory hazards on the part of local partners and the host country government (Zaheer 2002).

Our results deviate from the above suggestion showing a positive link between regulative distance and Chinese OFDI, i.e. CMNEs invest in African countries with either better regulative quality or worse regulative quality than at home. After disaggregating the absolute regulative distance into positive and negative regulative distance, our results show that CMNEs are attracted to African countries with worse regulative quality than in China (negative regulative distance), i.e. low regulative distance. Strong and reliable enforcement mechanisms are necessary to provide market legitimacy to MNEs whereby conformity to the rules of the game is mostly through the coercive mechanism (Scott 2001; DiMaggio & Powell 1983).

The fact that CMNEs possess the experience of operating in conditions of low regulative quality in their home country might explain their attraction to African countries with worse regulative quality than in China (Morck, Yeung and Zhao 2008). Thus, due to the low regulative distance between China and African countries with worse regulative quality than in China, CMNEs may face a lower LOF when investing in African countries with worse regulative quality due to lower unfamiliarity and inter-relational hazards (Eden and Miller 2004). This result is similar to the findings of Kang & Jiang (2012) that showed that CMNEs tend to be attracted to countries characterised
by high volatility and bureaucratic intervention mainly because the weak regulative institutions in China could be utilised as firm-specific advantages that provide them with the expertise in adapting to a similar regulative environment in African countries (Kang & Jiang 2012).

Also, the lack of strong and reliable enforcement mechanisms in African countries as a result of low regulative quality might mean the institutional pressures faced by CMNEs in African countries might be considerably lower than they would experience in countries with high regulative quality (Meyer et al. 2014). For instance, due to the high regulative quality and consequently higher institutional pressures in the USA, Chinese SOMNEs, in particular, have faced strong resistance from policymakers in their bid to acquire US companies (Deng 2007). Therefore, the relatively lower institutional pressure in African countries might mean that CMNEs might not pay much attention to the regulative distance as a means of achieving market legitimacy (Meyer et al. 2014). On the other hand, the attraction to African countries with worse regulative quality than China could be explained by the fact that by investing in African countries with worse regulative quality than China, CMNEs may find that they can more readily achieve legitimacy in comparison to DCMNEs.

6.4. Control Variables

In this section, we present and discuss the results of our control variables based on the results in Tables 6.1 and 6.5. We report and discuss the effect of our control variables on FDI from developed, developing and Chinese economies. We present the results of the control variables as follows: We begin with the results of our market-seeking variables, followed by the results of the resource-seeking variables and finally, we present the results of the traditional macroeconomic factors included in all our models.
For our market seeking variables, we find that the variable Log GDP is consistently negative and significant for FDI from developed and developing economies and insignificant for FDI from China. GDP per capita growth is not statistically significant for FDI by any of the investors under investigation. These results suggest that DCMNEs and EMNEs are attracted to smaller economies measured by the GDP of the host economy while it does not seem to matter for FDI by CMNEs. These results are in contrast with the findings of numerous studies on the determinants of FDI flows showing a positive relationship between Log GDP and GDP per capita growth and FDI flows (Chakrabarti 2001).

In the case of Chinese FDI in particular, research has shown that CMNEs carry out FDI for market-seeking purposes (Buckley et al. 2007; Kolstad & Wiig 2012). Our findings of a negative relationship between GDP and FDI from developed and developing economies might be due to the high number of relatively small economies (smaller markets) in the African continent both regarding GDP and GDP per capita growth. In the case of Chinese FDI, the statistical insignificance of our market seeking variables might be because the majority of Chinese investments in Africa are still in the highly capital-intensive extractive and construction carried out by large Chinese SOMNEs (Besada, Wang and Whalley 2008; Kaplinsky and Morris 2009).

The coefficient for the resource-seeking variable (Ores and metals exports) is positive and statistically significant for FDI from developed, developing and Chinese economies. These results suggest that DCMNEs, EMNEs and CMNEs are all attracted to the presence of natural resource endowments in African countries during the period under investigation. This result is in line with previous studies that find a positive relationship between the presence of natural resources and FDI in Africa (Asiedu 2002; Asiedu 2006; Bartels et al. 2014) and Chinese OFDI into Africa in particular (Mario
Biggeri and Sanfilippo 2009; Drogendijk and Blomkvist 2013). Thus, we find that natural resource-seeking in Africa is not specific to CMNEs in Africa but also a significant determinant for all other MNEs from both developed and developing economies.

The results of our traditional macroeconomic variables show that the variable Inflation is negative and statistically significant for FDI from developing economies and China and statistically insignificant for FDI from developed economies. The results indicate that instability in the macroeconomic environment in African countries deters FDI by EMNEs and CMNEs while it does not seem to matter for DCMNEs. Unpredictable inflation rates deter mainly market seeking (manufacturing FDI) mainly due to difficulties in setting prices and uncertainty in profit expectations (Buckley et al. 2007). Thus, the statistical insignificance of inflation on FDI from developed economies might be explained by the negative and statistical significance of the market seeking variable GDP.

The variable fixed telephone subscription is consistently positive and statistically significant for FDI from developed and developing economies and negative and statistically significant for FDI from China. These results suggest that DCMNEs and EMNEs are attracted to the presence of high-quality physical infrastructure while CMNEs, on the other hand, are attracted to the presence of low quality physical infrastructure. The presence of high-quality physical infrastructure increases efficiency for firms and thus attracts FDI – particularly efficiency-seeking FDI (Ali et al. 2010; Asiedu & Lien 2011; Du et al. 2008). Thus, the negative and statistically significant coefficient of the variable fixed telephone subscriptions for FDI from China is contrary to the expected positive relationship between the presence of physical infrastructure and FDI flows. Such a finding might be explained by the increasingly
high number of investments in the construction sector carried out by large Chinese SOMNEs. The construction sector constitutes an important sector for Chinese investments in Africa as CMNEs have engaged in market-seeking FDI and won contracts in the construction of roads, railways and bridges across Africa (Zafar 2007; Corkin, Burke and Davies 2008; Foster 2009). These projects are carried out in a region that is highly in need of high-quality physical infrastructure (Foster and Briceno-Garmendia 2009). Thus, it is somewhat unsurprising that Chinese FDI seems to be attracted to low quality physical infrastructure in Africa.

The variable foreign direct investment is positive and statistically significant for FDI from China and statistically insignificant for FDI from developed and developing economies. This result indicates an agglomeration effect for Chinese FDI in Africa whereby African countries that already attract a significant amount of FDI from China tend to attract more FDI from China. MNEs tend to agglomerate their foreign investments in particular regions or countries to benefit from network externalities and by co-locating with firms of the same nationality (Chang & Park 2005; Disdier & Mayer 2004). Such country-of-origin agglomeration can provide an effective channel for the sharing of important and tacit knowledge about the business environment of the host-country (Tan and Meyer 2011).

CMNEs in particular exhibit such agglomeration tendencies notably because of their desire to rely on the existing Chinese firms in the host country to help them understand the local business environment. Also, data on the top destination countries in Africa for Chinese greenfield FDI (Section 2.2.1) shows that a small number of African countries attract the bulk of Chinese FDI indicating that the significant presence of CMNEs in these economies might act as a ‘pull factor’ for further Chinese FDI.
The variable real effective exchange rate is negative and statistically significant for FDI from developed economies but positive and not statistically significant for FDI from China and developing economies. These results suggest that DCMNEs are attracted to a depreciation of the host country’s currency while the exchange rate does not seem to matter for MNEs from developed economies and China. The results for FDI from developed economies is in line with previous studies on the impact on FDI flows (Dunning 2006; Busse and Hefeker 2007). An undervalued host country currency makes exports cheaper and thus more likely to be attractive to market seeking and efficiency seeking type investments (Stevens 1998).

The variable trade balance capturing the degree of openness of the host economy to international trade is positive and statistically significant for FDI from developed economies and negative and not statistically significant for FDI from developing economies and China. Thus, DCMNEs are attracted to host countries that are relatively open to trade while this does not seem to matter for EMNEs and CMNEs. The relationship between FDI and openness to trade is complex. For instance, if a country’s openness to trade signifies its commitment to the free movement of capital goods and services it can be expected to impact FDI (Chakrabarti 2001) positively. On the other hand, restrictions on trade can attract FDI if it protects foreign investors from imports from international competitors, especially in the case of horizontal FDI (tariff jumping hypothesis) (Dunning 2006). Thus, the impact of trade openness might be positive or negative depending on the country sample (Busse and Hefeker 2007). The insignificance of this variable for FDI from China may be because the majority of CMNEs in Africa are SOMNEs that enjoy a high degree of protection and support from the Chinese government. Due to this protection and support, Chinese SOMNEs
might be less concerned than firms from developed economies about the increase in transactions costs associated with high levels of trade restrictions.

The variable colonial link is consistently negative and statistically significant. This result indicates that the existence of colonial links between the home country of the investing firm and the potential host location of the firm deters FDI. Cultural similarities between countries can be traced as far back as during the period of colonisation whereby the language and religion of the colonial power are transferred to its colonies (Ghemawat 2001). After the achievement of independence, colonies often adopt the judicial system and constitutional frameworks of their former colonial power (Diouf 1998). The negative and statistically significant coefficient for the variable Colonial links indicates that although Western European MNEs carried out FDI in African countries due to post-colonial ties, other factors may be more important to these firms than just a colonial relationship with the host country. Considering the period of investigation in this study is from 2003 to 2015, it is perhaps possible for colonial links to have played a significant role immediately after the aftermath of independence of African countries in the 1970’s and 80’s.

Thus far, the focus of our study has been on the direct effects of our institutional variables on all Chinese OFDI into Africa in comparison with OFDI from developed and other developing economies.

In the following section, we turn our attention to comparing the effect of our institutional variables on FDI inflows into Africa between Chinese SOMNEs and POMNEs by splitting the Chinese investments in our dataset into investments carried out by Chinese SOMNEs and POMNEs.
6.5. The Effect of Institutional Quality on FDI by Chinese SOMNEs and POMNEs

Previous empirical evidence on the investment motivations of Chinese SOMNEs and POMNEs suggests differences between the two groups as Chinese SOMNEs tend to invest in countries with risky institutional environments while Chinese POMNEs are more risk-averse (Ramasamy et al. 2012; Amighini et al. 2013). In this section, we perform a comparison of the determinants of FDI by Chinese SOMNEs and POMNEs by investigating whether the effect of our independent variables differs between FDI carried out by Chinese SOMNEs and POMNEs. In this section, we begin with a report and discussion of the results of our variables related to institutional quality, i.e., institutional quality, and regulative quality. Table 6.9 provides the results of the effect of these variables on FDI by Chinese SOMNEs and POMNEs.

6.5.1. The Effect of Host Country Institutional Quality on FDI by Chinese SOMNEs and POMNEs

Models 1 and 3 examine the impact of institutional quality on FDI by Chinese SOMNEs and POMNEs respectively. In both models, we control for time and industry effects. The results show that the coefficient for institutional quality is negative and statistically significant ($\beta = -0.09148$, $p < 0.01$) for FDI by Chinese SOMNEs. In model 3 the coefficient for institutional quality is negative and statistically significant for FDI by Chinese POMNEs ($\beta = -0.0720023$, $p < 0.05$). These results suggest that institutional quality has a negative influence on FDI by both Chinese SOMNEs and POMNEs. We interpret these findings as Chinese SOMNEs and POMNEs are attracted to low levels of institutional quality in African countries. However, Chinese SOMNEs seem to be more attracted to African countries with low institutional quality than Chinese POMNEs as suggested by the larger coefficient (see the coefficients on institutional quality in Table 6.9). This result means we find support for Hypothesis.
1b – predicting that Chinese SOMNEs tend to be more attracted to African countries with low institutional quality than Chinese POMNEs.

Prior empirical studies (e.g., Amighini et al. 2013; Ramasamy et al. 2012) on the determinants of Chinese FDI suggest that Chinese SOMNEs are indifferent to the institutional risk in the host countries while Chinese POMNEs are averse to institutional risk when choosing investment locations abroad. Our results show that when choosing investment locations in Africa, OFDI by Chinese SOMNEs, in particular, is more attracted to lower overall institutional quality in host countries. This result might be because Chinese SOMNEs benefit more than Chinese POMNEs from state financial and political support (Luo, Xue and Han 2010; Duanmu 2014).

Capital market distortions in China can also benefit Chinese SOMNEs by providing favourable funding that can reduce the commercial and financial risk associated with operating in host countries with low institutional quality (Cull and Xu 2000; Cull and Xu 2003). Such benefits from the capital market distortions in China constitutes an ownership advantage which might enable Chinese SOMNEs to gain a comparative advantage over their counterparts in the private sector that lack such preferential access to cheap capital (Buckley et al. 2007; Dunning & Lundan 2008). Also, as a result of their close connection to the Chinese government, Duanmu (2014) find that Chinese SOMNEs are more likely to benefit from protection and political support from the Chinese government in the event of host country expropriation.

6.5.2. The Effect of Host Country Regulative Quality on FDI by Chinese SOMNEs and POMNEs

Models 2 and 4 examine the effect of regulative quality on FDI by Chinese SOMNEs and POMNEs respectively. We control for time and industry effects in both models. Model 2 shows the coefficient for regulative quality is negative and statistically
significant ($\beta = -0.229106, p < 0.05$) for FDI by Chinese SOMNEs and negative but not statistically significant for FDI by Chinese POMNEs in model 5. These findings indicate that compared to their private counterparts, Chinese SOEs are attracted to low regulative quality in African countries. Thus we find support for Hypothesis 2b – predicting that Chinese SOMNEs tend to be more attracted to African countries with low regulative quality than Chinese POMNEs.

The above results might be explained by the soft budget constraints enjoyed by predominantly Chinese SOMNEs (Cull and Xu 2003; Cull and Xu 2000; Sun, Vinig and Hosman 2017) that helps these large SOMNEs to manage the risk of higher transactions costs associated with operating in host countries with low regulative quality. Also, Chinese SOMNEs might be more attracted to African countries with similar level of regulative quality based on their experience in operating in a similar regulative quality back home (Morck, Yeung and Zhao 2008).
Table 6.9. OLS Models with Robust Standard Errors: The Effect of Institutional and Regulative on FDI by Chinese SOMNEs and POMNEs

<table>
<thead>
<tr>
<th></th>
<th>Log FDI</th>
<th>Chinese SOMNEs</th>
<th>(1)</th>
<th>Chinese POMNEs</th>
<th>(2)</th>
<th>Chinese SOMNEs</th>
<th>(3)</th>
<th>Chinese POMNEs</th>
<th>(4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional quality</td>
<td>-0.09148*** (0.32710)</td>
<td>-0.0720023** (0.37844)</td>
<td>-0.229106** (0.48268)</td>
<td>-0.1559001 (0.54391)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulative quality</td>
<td>-0.229106** (0.48268)</td>
<td>-0.1559001 (0.54391)</td>
<td>0.01630** (0.00722)</td>
<td>-0.03930** (0.01803)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Log GDP</td>
<td>0.03690 (0.24668)</td>
<td>-0.02431 (0.25603)</td>
<td>-0.27724 (0.30476)</td>
<td>-0.24971 (0.30819)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP per capita growth</td>
<td>0.07008 (0.07925)</td>
<td>0.11415 (0.07869)</td>
<td>-0.05052 (0.11547)</td>
<td>-0.02158 (0.11780)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP per capita growth</td>
<td>0.07008 (0.07925)</td>
<td>0.11415 (0.07869)</td>
<td>-0.05052 (0.11547)</td>
<td>-0.02158 (0.11780)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ores and metals exports</td>
<td>0.01630** (0.00722)</td>
<td>0.00980 (0.00725)</td>
<td>-0.02278 (0.01865)</td>
<td>-0.03930** (0.01803)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inflation</td>
<td>-0.04459 (0.02971)</td>
<td>-0.02605 (0.03019)</td>
<td>-0.01231 (0.04139)</td>
<td>-0.01661 (0.04361)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign direct investment</td>
<td>0.04753 (0.07809)</td>
<td>0.03509 (0.08075)</td>
<td>0.01806 (0.02847)</td>
<td>0.01478 (0.02744)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed telephone subscriptions</td>
<td>0.07893 (0.05846)</td>
<td>0.04794 (0.05751)</td>
<td>0.04508 (0.10494)</td>
<td>0.00193 (0.10044)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade balance</td>
<td>0.01431 (0.01631)</td>
<td>0.01369 (0.01666)</td>
<td>-0.01669 (0.02927)</td>
<td>-0.02586 (0.02949)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real effective exchange rate</td>
<td>0.00408 (0.00706)</td>
<td>0.00239 (0.00717)</td>
<td>-0.02095 (0.01318)</td>
<td>-0.02246 (0.01400)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Time effects</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry effects</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean VIF</td>
<td>2.95</td>
<td>2.91</td>
<td>4.16</td>
<td>4.06</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Observations</td>
<td>120</td>
<td>120</td>
<td>77</td>
<td>77</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R-squared</td>
<td>0.60208</td>
<td>0.58408</td>
<td>0.64738</td>
<td>0.63379</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Robust standard errors are in parentheses, ***p<0.01, **p<0.05, *p<0.1 indicate significance at the 1%, 5%, and 10% levels respectively.
Considering the difference in the magnitude of the effects of institutional quality, and regulative quality, for Chinese SOMNEs and POMNEs we employ an independent sample t-test to determine if the mean of our dependent variable – FDI inflows is the same between the two groups of firms. Specifically, we want to determine if the mean difference in FDI inflows between Chinese SOMNEs and POMNEs is statistically significant.

From Table 6.10, Chinese SOMNEs (N = 152) is associated with FDI inflows M = 3.65 (SD = 1.76) while POMNEs (N = 89) is associated with FDI inflows M = 2.88 (SD = 2.01). By comparison, Chinese SOMNEs (N = 152) is associated with a numerically higher FDI inflows M = 3.65 (SD = 1.76). We test the hypothesis that the mean FDI inflows for Chinese SOMNEs and POMNEs are significantly different. The assumption of homogeneity of variance is satisfied through Levene’s test for the equality of variance. The independent samples t-test is associated with a statistically significant effect, t(239) = -3.08, p = .000. Thus, we find that Chinese SOMNEs have a statistically significantly higher mean FDI inflows than Chinese POMNEs.

Table 6.10. Results of T-Test and for FDI Inflows from Chinese SOMNEs and POMNEs

<table>
<thead>
<tr>
<th>Investor group</th>
<th>95% CI for Mean Difference</th>
<th>t</th>
<th>df</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chinese SOMNEs</td>
<td>M 3.65 (SD 1.76) n 152</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chinese POMNEs</td>
<td>M 2.88 (SD 2.01) n 89</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FDI inflows</td>
<td>-1.25, -0.27</td>
<td>-3.08***</td>
<td>239</td>
</tr>
</tbody>
</table>

*** p<0.01.

6.6. The Effect of Institutional Distance on FDI by Chinese SOMNEs and POMNEs

In this section, we report and discuss the effect of our key variables related to institutional distance on FDI by Chinese SOMNEs and POMNEs. We begin with a report and discussion of the results on the effect of institutional distance in section 6.6.1, followed by the report and discussion of the results on the impact of regulative
distance in section 6.6.2. Table 6.11 provides the results of the effect of the institutional distance and the regulative distance on FDI by Chinese SOMNEs and POMNEs.

6.6.1. The Effect of Home-Host Country Institutional Distance on FDI by Chinese SOMNEs and POMNEs

Models 1 and 3 in Table 6.11 examine the effect of institutional distance on FDI by Chinese SOMNEs and POMNEs respectively. Model 1 includes time and industry effects. The results show that the coefficient of institutional distance is positive and statistically significant ($\beta = 0.0909564, p < 0.01$) for FDI by Chinese SOMNEs. This result suggests that institutional distance has a positive influence on FDI by Chinese SOMNEs. Controlling for time and industry fixed effects, Model 3 shows that the coefficient for institutional distance is positive and statistically significant ($\beta = 0.07200, p < 0.05$) for FDI by Chinese POMNEs. We observe that overall institutional distance does not deter FDI by Chinese SOMNEs and POMNEs, and even has a positive effect. We interpret these findings as Chinese SOMNEs invest more than POMNEs in African countries with either much better or much worse institutions than at home. This finding means we do not find support for Hypothesis 3b - predicting that low home-host country distance in terms of institutional quality will attract more FDI by Chinese SOMNEs than by Chinese POMNEs.

The above results suggest that Chinese SOMNEs invest more than Chinese POMNEs in African countries with better or worse institutional quality than in China. This result may be explained by the notion that Chinese SOMNEs, in particular, have a first-hand experience of direct government intervention and navigating political constraints (Morck, Yeung and Zhao 2008). Such an experience might explain their willingness to invest more in African countries as it provides them with an advantage over their private counterparts (considering the relatively low institutional distance) and a
relatively lower degree of LOF. Ramasamy et al. (2012) show that Chinese SOMNEs are more attracted to countries with low institutional quality than Chinese POMNEs. In the context of Chinese OFDI into Africa, their first-hand experience of navigating opaque political constraints might explain their attractiveness to African countries with very low institutional distance to China. Also, their attractiveness to countries with large reserves of natural resources might suggest a strategic intent on the part of Chinese SOMNEs (Amighini et al. 2013) such that institutional distance becomes less important in their locations decision but rather the presence of natural resources in the potential African country. Aleksynska & Havrylchyk (2013) find evidence of a moderating effect of the presence of natural resources in the host country on the effect of institutional distance on OFDI from developing economies.

Chinese SOMNEs might also be less concerned about the legitimacy requirements in African countries as they are more likely to enjoy political backing by the home government than Chinese POMNEs (Duanmu 2014). Furthermore, although Chinese SOMNEs are subject to more complex institutional pressures than POMNEs, this is mainly in countries with high institutional quality due to their links to the Chinese government (Meyer et al. 2014). However, due to the relatively weak institutions in the majority of African countries, Chinese SOMNEs might face lower institutional pressures to conform to the external institutional environment of the host country to be granted organisational legitimacy.

In conditions of weak institutional environments such as those in African countries, the main and the most powerful legitimating actor is the host government. Thus, a close bilateral relationship or political interaction between the host government and the Chinese government (as owners of Chinese SOMNEs) might mean Chinese SOMNEs benefiting from such a relationship by being granted legitimacy by the host
government. Kostova et al. (2008) suggest that in some cases the MNE can gain organisational legitimacy by engaging in direct negotiation with powerful legitimating actors in the host country. Chinese SOMNEs might benefit from or rely on other means of achieving organisational legitimacy in Africa such as through the political interaction between its home government and the government of the host country. For instance, during an opening event of a Chinese built railway in the central Ethiopian city of Adama in 2015, the Ethiopian Prime Minister Hailemariam Desalegn said the following about Chinese companies:

“I am so much happy and glad that this project is completed on time. It was the fastest even by Chinese standards, so I am so much appreciative of the companies involved who have shown that the Chinese companies are capable of discharging their responsibilities especially in developing countries. This has remarkably brought about an image of Chinese companies working abroad, in that they work in a quality, timely and cost-effective manner.”
Table 6.11. OLS Models with Robust Standard Errors: The Impact of Institutional, and Regulative Distance on FDI by Chinese SOMNEs and POMNEs

<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Log FDI</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Institutional distance</td>
<td>0.09096***</td>
<td>0.07200**</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.02726)</td>
<td>(0.03154)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulative distance</td>
<td></td>
<td>0.229106**</td>
<td></td>
<td>0.15590</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.09654)</td>
<td></td>
<td>(0.10878)</td>
</tr>
<tr>
<td>Log GDP</td>
<td>0.03690</td>
<td>-0.02431</td>
<td>-0.27724</td>
<td>-0.24971</td>
</tr>
<tr>
<td></td>
<td>(0.24668)</td>
<td>(0.25603)</td>
<td>(0.30476)</td>
<td>(0.30819)</td>
</tr>
<tr>
<td>GDP per capita growth</td>
<td>0.07008</td>
<td>0.11415</td>
<td>-0.05052</td>
<td>-0.02158</td>
</tr>
<tr>
<td></td>
<td>(0.07925)</td>
<td>(0.07869)</td>
<td>(0.11547)</td>
<td>(0.11780)</td>
</tr>
<tr>
<td>Ores and metals exports</td>
<td>0.01630**</td>
<td>0.00980</td>
<td>-0.02278</td>
<td>-0.03930**</td>
</tr>
<tr>
<td></td>
<td>(0.00722)</td>
<td>(0.00725)</td>
<td>(0.01865)</td>
<td>(0.01803)</td>
</tr>
<tr>
<td>Inflation</td>
<td>-0.04459</td>
<td>-0.02605</td>
<td>-0.01231</td>
<td>-0.01661</td>
</tr>
<tr>
<td></td>
<td>(0.02971)</td>
<td>(0.03019)</td>
<td>(0.04139)</td>
<td>(0.04361)</td>
</tr>
<tr>
<td>Foreign direct investment</td>
<td>0.04753</td>
<td>0.03509</td>
<td>0.01806</td>
<td>0.01478</td>
</tr>
<tr>
<td></td>
<td>(0.07809)</td>
<td>(0.08075)</td>
<td>(0.02847)</td>
<td>(0.02744)</td>
</tr>
<tr>
<td>Fixed telephone subscriptions</td>
<td>0.07893</td>
<td>0.04794</td>
<td>0.04508</td>
<td>-0.00193</td>
</tr>
<tr>
<td></td>
<td>(0.05846)</td>
<td>(0.05751)</td>
<td>(0.10494)</td>
<td>(0.10044)</td>
</tr>
<tr>
<td>Trade balance</td>
<td>0.01431</td>
<td>0.01369</td>
<td>-0.01669</td>
<td>-0.02586</td>
</tr>
<tr>
<td></td>
<td>(0.01631)</td>
<td>(0.01666)</td>
<td>(0.02927)</td>
<td>(0.02949)</td>
</tr>
<tr>
<td>Real effective exchange rate</td>
<td>0.00408</td>
<td>0.00239</td>
<td>-0.02095</td>
<td>-0.02246</td>
</tr>
<tr>
<td></td>
<td>(0.00706)</td>
<td>(0.00717)</td>
<td>(0.01318)</td>
<td>(0.01400)</td>
</tr>
<tr>
<td>Constant</td>
<td>-0.13256</td>
<td>2.20190</td>
<td>9.55259</td>
<td>9.76815</td>
</tr>
<tr>
<td></td>
<td>(6.35724)</td>
<td>(6.54970)</td>
<td>(7.34623)</td>
<td>(7.58981)</td>
</tr>
<tr>
<td>Time effects</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Industry effects</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Mean VIF</td>
<td>1.20</td>
<td>1.29</td>
<td>2.31</td>
<td>2.43</td>
</tr>
<tr>
<td>Observations</td>
<td>120</td>
<td>120</td>
<td>77</td>
<td>77</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.60208</td>
<td>0.58408</td>
<td>0.64738</td>
<td>0.63379</td>
</tr>
</tbody>
</table>

Robust standard errors are in parentheses, ***p<0.01, **p<0.05, *p<0.1 indicate significance at the 1%, 5%, and 10% levels respectively.
6.6.2. The Effect of Regulative Distance on FDI by Chinese SOMNEs and POMNEs

In models 2 and 4 (Table 6.11), we examine the effect of home-host country regulative distance on FDI by Chinese SOMNEs and POMNEs respectively. We control for time and industry effects in both models. The result shows that the coefficient for regulative distance is positive and statistically significant ($\beta = 0.229106$, $p < 0.05$ in Model 2) for FDI by Chinese SOMNEs but positive but not statistically significant for FDI Chinese POMNEs. Thus, we observe that high regulative distance does not deter FDI by Chinese SOMNEs and even has a positive effect while it does not matter for Chinese POMNEs. We interpret the above findings as Chinese SOMNEs invest in African countries with either much better or much worse regulative quality than at home while it does not seem to matter for Chinese POMNEs. This result means we find no support for Hypothesis 4b – predicting that low home-host country distance in terms of regulative quality will attract more FDI by Chinese SOMNEs than by Chinese POMNEs.

The investments in African countries with worse institutional quality than in China might be explained by the fact that Chinese SOMNEs originate from a relatively similar regulative environment to the majority of African countries. Chinese SOMNEs, in particular, might possess more experience than Chinese POMNEs in dealing with the challenging regulative environment in African countries due to the presence of state equity which can lead to excessive government regulations. Such an experience might mean they might face an even lower LOF and thus more equipped in dealing with the regulative environment in African countries than their private counterparts. Also, Chinese SOMNEs, in particular, might be more equipped in operating in conditions of low regulative quality primarily due to their preferential
access to loans compared to Chinese POMNEs. As a result, the soft soft-budget constraints of Chinese SOMNEs might be capable of offsetting the high transactions costs in operating in host countries with low distance in terms of regulative quality (Bai and Wang 1998; Cull and Xu 2003; Liu and Sun 2005). On the other hand, the suggestions that Chinese SOMNEs may invest in African countries with much better regulative quality than China (high regulative distance) might be explained by the desire to seek a stable regulative environment and low transactions costs. Furthermore, the results also suggest that Chinese SOMNEs invest in any African country irrespective of regulative distance, i.e. Chinese SOMNEs invest where the investment opportunity exists considering their latecomer status as investors in African countries compared to DCMNEs in particular.

6.7. Conclusion

The aim of this was to present and discuss the results of the direct effect of both institutional quality (i.e. institutional quality, and regulative quality) and institutional distance (i.e. institutional distance, and regulative distance) on China’s OFDI into Africa. Firstly, we compared the effect of our key variables on FDI inflows into Africa from developed and other developing economies with FDI inflows from China. Our results show that the sign of the coefficients of our key institutional variables of interest is broadly the same for all investors (developed, developing and Chinese investors). However, in the case of CMNEs, our results consistently show that the magnitude of the effect of our key variables is larger compared to investments by DCMNEs and EMNEs.

We separate the Chinese investments in our dataset into investments carried out by Chinese SOMNEs and POMNEs to investigate any potential differences in the
locations decision between the two groups. Overall, we find that the effect of institutional quality have a negative effect on investments by Chinese SOMNEs and POMNEs while regulative quality has a negative and statistically significant effect on Chinese SOMNEs only. However, our results also show that although the effect of the above variables is similar for both Chinese SOMNEs and POMNEs, they appear to have a higher effect on Chinese SOMNEs than Chinese POMNEs.

As regards the effect of institutional distance, we find that institutional distance is a positive and significant estimator for FDI by Chinese SOMNEs and POMNEs while regulative distance has a positive and significant influence on FDI by Chinese SOMNEs only and not for Chinese POMNEs. Similar to our results on institutional quality, we find the effect of our institutional distance variables is often higher for FDI by Chinese SOMNEs than POMNEs. We summarise the findings in Tables 6.12 and 6.13 below.

In the following chapter, we report and discuss the results on the role of Chinese development aid as a moderator of the effect of our key institutional variables on China’s OFDI into Africa. The use of aid in Chinese FDI projects captures another aspect of the PE dimension of China’s OFDI into Africa where the role of the Chinese government as the provider of development aid (mainly in the form of loans and grants) is captured.
Table 6.12. Summary of Results and Hypotheses on FDI from Developed, Developing and Chinese Economies

<table>
<thead>
<tr>
<th>Variables</th>
<th>Developed Economies</th>
<th>Developing Economies</th>
<th>China</th>
<th>Hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional quality (H1a)</td>
<td>Negative and significant</td>
<td>Negative and significant</td>
<td>Negative and significant</td>
<td>Supported</td>
</tr>
<tr>
<td>Regulative quality (H2a)</td>
<td>Negative and significant</td>
<td>Negative and significant</td>
<td>Negative and significant</td>
<td>Supported</td>
</tr>
<tr>
<td>Institutional distance (H3a)</td>
<td>Positive and significant</td>
<td>Positive and significant</td>
<td>Positive and significant</td>
<td>Not Supported</td>
</tr>
<tr>
<td>Regulative distance (H4a)</td>
<td>Positive and significant</td>
<td>Positive and significant</td>
<td>Positive and significant</td>
<td>Not Supported</td>
</tr>
</tbody>
</table>

Table 6.13. Summary of Results and Hypotheses on FDI by Chinese SOMNEs and POMNEs

<table>
<thead>
<tr>
<th>Variables</th>
<th>Chinese SOMNEs</th>
<th>Chinese POMNEs</th>
<th>Hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional quality (H1b)</td>
<td>Negative and significant</td>
<td>Negative and significant</td>
<td>Supported</td>
</tr>
<tr>
<td>Regulative quality (H2b)</td>
<td>Negative and significant</td>
<td>Negative and significant</td>
<td>Supported</td>
</tr>
<tr>
<td>Institutional distance (H4b)</td>
<td>Positive and significant</td>
<td>Positive and significant</td>
<td>Not Supported</td>
</tr>
<tr>
<td>Regulative distance (H4b)</td>
<td>Positive and significant</td>
<td>Positive and not significant</td>
<td>Not Supported</td>
</tr>
</tbody>
</table>
Chapter 7. The Moderating Effect of Chinese Development Aid Inflows on Institutional Quality and Institutional Distance

7.1. Introduction

This chapter aims to empirically investigate the moderating effect of Chinese development aid on the relationship between our key institutional variables and China’s OFDI into Africa. China’s development aid to African countries is an integral part of its investments in Africa as Chinese aid tends to accompany large-scale FDI projects in the continent, making it a rather distinctive feature of its investments in Africa (Mario Biggeri and Sanfilippo 2009; Tan-Mullins 2010). This close integration of aid with FDI projects is because the majority of Chinese aid to African countries is mostly in the form of concessional loans (Parks and Strange 2014) geared towards the economic development of African countries rather than simply as an issue of morality (Alden and Hughes 2009). Furthermore, whereas aid from the West is granted with conditions on the improvement of the domestic institutions, Chinese aid to African countries is granted with no conditions on the improvement of domestic institutional capacity (Pehnelt 2007; Holslag 2011).

We organise the chapter as follows: in section 7.2, we report and discuss the results of the moderating effect of Chinese development aid inflows on the impact of host country institutional and regulative quality on China’s OFDI into Africa. Section 7.3 reports and discusses the results of the moderating effect of Chinese aid inflows on the impact of home-host country institutional, and regulative distance on China’s OFDI into Africa. Section 7.4 provides a conclusion of the chapter.

7.2. The Effects of Institutional Quality and Aid on China’s OFDI into Africa

The main results of the analysis of the moderating effect of Chinese aid on the relationship between institutional quality and Chinese FDI in Africa are presented in
Table 7.1. Models 1 and 2 contain the main effects of our main independent and moderating variables – institutional quality, regulative quality, and aid alongside our control variables. Models 3 and 4 are complete models including all our control variables and the interaction effects of each of our independent variables with aid.

The inclusion of interaction terms in regression models can cause problems of multicollinearity that can lead to spurious regressions. To reduce the risk of multicollinearity, we create the standardised values of institutional quality, regulative quality, and aid before creating their interaction terms. Standardised variables are rescaled variables that have a mean of 0, and a standard deviation of 1 and their use is recommended for the analysis of interaction variables mainly to address the likely problems of multicollinearity (Aiken et al. 1991; Min & Smyth 2014). The lack of multicollinearity in our models is confirmed by the average variance inflation factor (VIF) which we report. The mean VIF values range from 1.94 to 2.14 which is well below the cut off threshold of 10, (Cameron and Trivedi 2009; Doane and Seward 2005) indicating no serious problems of multicollinearity in all our models. We include industry effects in all models. We report and discuss the results in the following way: firstly, we report and discuss the results of institutional quality followed by the results of regulative quality.

Model 1 tests the main effects of institutional quality and aid on China’s OFDI into Africa. The coefficient for institutional quality is negative and statistically significant ($\beta = -0.81074$, $p < 0.01$). This result suggests that Chinese OFDI into Africa is attracted to low levels of host country institutional quality. The coefficient for aid is negative but not statistically significant in model 1. We test the moderating effect of Chinese aid on the relationship between host country institutional quality and Chinese OFDI into Africa by including the interaction term Institutional quality*Aid in model
3. The interaction effect Institutional quality*Aid is negative but not statistically significant. The coefficient for institutional quality remains negative and statistically significant while the coefficient for aid remains negative and not statistically significant. A negative coefficient of the interaction term would imply that the higher the levels of Chinese aid inflows, the stronger the effect (more negative) the effect of institutional quality on Chinese FDI (Jaccard, Wan and Turrisi 1990).

Although there appears to be no overall moderating effect of aid on the effect of institutional quality on Chinese OFDI into Africa, scholars (e.g. Brambor et al. 2005; Brambor et al. 2007) believe that we need to perform a conditional test that examines the marginal effects (MEs) of the independent variable across the entire range of the moderating variable. Such an approach ensures that the researcher eliminates the potential of ‘overstating’ the moderating effect in the condition of statistical significance of the interaction term and ‘understating’ in the condition of statistical insignificance (Kingsley, Noordewier and Bergh 2017).

We follow the above approach by performing a conditional test that examines the standard errors of the MEs of institutional quality across the entire range of our moderating variable – Aid. In other words, the effect of institutional quality on Chinese OFDI is contingent on the value of Aid. Figure 7.1 presents a plot of the average marginal effects (AMEs) of institutional quality on Chinese OFDI over the entire range of the standardised values of aid. The upper and lower exterior lines are 95% confidence intervals, and the horizontal bars show the observation frequency of the number of observations included in our analysis. The red horizontal line shows the values of Aid at which the MEs of institutional quality is significantly different from zero.
While the coefficient for the interaction term Institutional quality*Aid is not statistically significant (Model 3), figure 7.1 shows that there is nevertheless a range of values for the standardised values of aid (-0.6 to 1.9) over which we find evidence of a moderating effect. Table 7.2 shows the MEs of institutional quality at increasing levels of Aid. We observe that increasing the levels of Chinese Aid increases the negative effect of institutional quality on China’s OFDI into Africa. Thus, Chinese Aid appears to have an enhancing effect on the relationship between institutional quality and Chinese OFDI into Africa, suggesting that CMNEs are more attracted to low institutional quality when Chinese investments are closely integrated with Chinese Aid.

**Figure 7.1. Marginal Effect of Institutional Quality with 95% CIs**

*Frequency Distribution of Aid – left-hand scale*

Approximately 95% of the observations in our sample have values of Aid less than or equal to 1.9 standard deviations (see a histogram of aid in figure 7.1). Each bar of the histogram represents the number of observations in percentages of Aid in that range of values. The concentration of the values of Aid at lower levels explains why there is a rapid increase in the errors represented by the widening of the lower and upper 95%
confidence bands. This finding means we find support (at least partial) for Hypothesis 5a – predicting that Chinese aid negatively moderates the relationship between institutional quality and Chinese FDI such that the effect is stronger when aid is present in Chinese FDI. The close integration of aid with Chinese FDI projects with no conditions on the improvement of domestic institutions in host countries (Sanfilippo 2010) might explain why we find evidence of an interaction effect between institutional quality and aid.

The no conditionality approach by the Chinese government to the provision of loans suggests that CMNEs that accompany Chinese aid might not be deterred by low institutional quality but instead be more attracted to African countries with low institutional quality. This attractiveness to African countries with low institutional quality is due to the long-standing policy of non-interference of their home government (Holslag 2011). Furthermore, the investments in projects that include Chinese loans might also be more attractive to Chinese firms as they will have the full political and economic backing of the Chinese government as the provider of loans to the host countries.

In the following sections, we report and discuss the results of the moderating effect of Chinese aid on the effects of regulative quality on Chinese OFDI into Africa.
Table 7.1. OLS Models with Robust Standard Errors: The Effects of Institutional Quality and Aid on Chinese OFDI into Africa

<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Log FDI</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Institutional quality</td>
<td>-0.81074***</td>
<td></td>
<td>-0.85105***</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.22580)</td>
<td></td>
<td>(0.22642)</td>
<td></td>
</tr>
<tr>
<td>Regulative quality</td>
<td></td>
<td>-0.62832</td>
<td></td>
<td>-0.56326</td>
</tr>
<tr>
<td></td>
<td>(0.40367)</td>
<td></td>
<td>(0.41413)</td>
<td></td>
</tr>
<tr>
<td>Institutional quality*Aid</td>
<td>-0.13188</td>
<td></td>
<td></td>
<td>0.25394</td>
</tr>
<tr>
<td></td>
<td>(0.19303)</td>
<td></td>
<td></td>
<td>(0.27504)</td>
</tr>
<tr>
<td>Regulative quality*Aid</td>
<td>0.25394</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.27504)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aid</td>
<td>-0.93007</td>
<td>-0.12421</td>
<td>-1.63750</td>
<td>-1.53122</td>
</tr>
<tr>
<td></td>
<td>(0.24533)</td>
<td>(0.34191)</td>
<td>(0.65147)</td>
<td>(0.55074)</td>
</tr>
<tr>
<td>Log GDP</td>
<td>0.09370</td>
<td>0.06538</td>
<td>0.10395</td>
<td>0.00040</td>
</tr>
<tr>
<td></td>
<td>(0.18630)</td>
<td>(0.18668)</td>
<td>(0.18453)</td>
<td>(0.20048)</td>
</tr>
<tr>
<td>GDP per capita growth</td>
<td>0.04142</td>
<td>0.07224</td>
<td>0.04165</td>
<td>0.08593</td>
</tr>
<tr>
<td></td>
<td>(0.06163)</td>
<td>(0.06433)</td>
<td>(0.06209)</td>
<td>(0.06832)</td>
</tr>
<tr>
<td>Inflation</td>
<td>-0.03174</td>
<td>-0.02398</td>
<td>-0.03241</td>
<td>-0.02976</td>
</tr>
<tr>
<td></td>
<td>(0.02053)</td>
<td>(0.02202)</td>
<td>(0.02053)</td>
<td>(0.02455)</td>
</tr>
<tr>
<td>Ores and metals exports</td>
<td>0.00744</td>
<td>0.00003</td>
<td>0.00807</td>
<td>-0.00001</td>
</tr>
<tr>
<td></td>
<td>(0.00638)</td>
<td>(0.00629)</td>
<td>(0.00660)</td>
<td>(0.00627)</td>
</tr>
<tr>
<td>Foreign direct investment</td>
<td>0.04865*</td>
<td>0.03377</td>
<td>0.05599*</td>
<td>0.02754</td>
</tr>
<tr>
<td></td>
<td>(0.02837)</td>
<td>(0.02782)</td>
<td>(0.02831)</td>
<td>(0.03014)</td>
</tr>
<tr>
<td>Real effective exchange rate</td>
<td>0.00487</td>
<td>0.00366</td>
<td>0.00486</td>
<td>0.00360</td>
</tr>
<tr>
<td></td>
<td>(0.00526)</td>
<td>(0.00535)</td>
<td>(0.00528)</td>
<td>(0.00534)</td>
</tr>
<tr>
<td>Fixed telephone subscriptions</td>
<td>0.00478</td>
<td>-0.02162</td>
<td>-0.00084</td>
<td>-0.00831</td>
</tr>
<tr>
<td></td>
<td>(0.03786)</td>
<td>(0.04034)</td>
<td>(0.03835)</td>
<td>(0.04143)</td>
</tr>
<tr>
<td>Trade balance</td>
<td>-0.00633</td>
<td>-0.00542</td>
<td>-0.00608</td>
<td>-0.00242</td>
</tr>
<tr>
<td></td>
<td>(0.01231)</td>
<td>(0.01233)</td>
<td>(0.01249)</td>
<td>(0.01197)</td>
</tr>
<tr>
<td>Constant</td>
<td>4.62151</td>
<td>3.96729</td>
<td>4.62111</td>
<td>5.31811</td>
</tr>
<tr>
<td></td>
<td>(5.09111)</td>
<td>(5.36208)</td>
<td>(5.06672)</td>
<td>(5.51732)</td>
</tr>
<tr>
<td>Time effects</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Industry effects</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Mean VIF</td>
<td>1.97</td>
<td>1.94</td>
<td>2.08</td>
<td>1.99</td>
</tr>
<tr>
<td>Observations</td>
<td>128</td>
<td>128</td>
<td>128</td>
<td>128</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.52047</td>
<td>0.48631</td>
<td>0.52172</td>
<td>0.49205</td>
</tr>
</tbody>
</table>

Robust standard errors are in parentheses, ***p<0.01, **p<0.05, *p<0.1 indicate significance at the 1%, 5%, and 10% levels respectively
Table 7.2. Marginal Effects of Institutional, and Regulative Quality on Chinese OFDI

<table>
<thead>
<tr>
<th>Moderating Variable</th>
<th>Institutional Quality</th>
<th>Regulative Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standardised values of Aid</td>
<td>(1)</td>
<td>(2)</td>
</tr>
<tr>
<td>1. at -0.6</td>
<td>-0.544***</td>
<td>-0.415**</td>
</tr>
<tr>
<td>(0.196)</td>
<td>(0.211)</td>
<td></td>
</tr>
<tr>
<td>2. at 0.4</td>
<td>-0.676***</td>
<td>-0.161</td>
</tr>
<tr>
<td>(0.188)</td>
<td>(0.251)</td>
<td></td>
</tr>
<tr>
<td>3. at 1.4</td>
<td>-0.808**</td>
<td>0.0930</td>
</tr>
<tr>
<td>(0.327)</td>
<td>(0.482)</td>
<td></td>
</tr>
<tr>
<td>4. at 2.4</td>
<td>-0.940*</td>
<td>0.347</td>
</tr>
<tr>
<td>(0.503)</td>
<td>(0.744)</td>
<td></td>
</tr>
<tr>
<td>5. at 3.4</td>
<td>-1.072</td>
<td>0.601</td>
</tr>
<tr>
<td>(0.688)</td>
<td>(1.013)</td>
<td></td>
</tr>
<tr>
<td>6. at 4.4</td>
<td>-1.204</td>
<td>0.855</td>
</tr>
<tr>
<td>(0.877)</td>
<td>(1.284)</td>
<td></td>
</tr>
<tr>
<td>7. at 5.4</td>
<td>-1.335</td>
<td>1.109</td>
</tr>
<tr>
<td>(1.067)</td>
<td>(1.557)</td>
<td></td>
</tr>
<tr>
<td>Observations</td>
<td>128</td>
<td>128</td>
</tr>
</tbody>
</table>

Standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1

7.2.1. The Effects of Regulative Quality and the Moderating Effect of Aid on Chinese OFDI into Africa

Models 2 and 4 in Table 7.1 present the results of the main and interaction effects of regulative quality and aid on China’s OFDI into Africa. In model 2, we examine the main effects of regulative quality and aid on China’s OFDI into Africa. The coefficient of regulative quality and aid are both negative and not statistically significant.

We then test the moderating effect of aid on the relationship between host country regulative quality and Chinese OFDI into Africa by including the interaction term regulative quality*Aid in model 4. The coefficient of the interaction effect regulative quality*Aid is positive and not statistically significant. The coefficient of regulative quality and aid remain negative and not statistically significant. To avoid understating this effect, we calculate the AMEs of regulative quality across the range of the standardised values of aid. We find evidence of moderation at very low levels of aid, i.e. when the value of aid is -0.6 (Figure 7.2).
Model 2 in Table 7.2 shows the AMEs of regulative quality at increasing levels of standardised values of aid. Although we find no evidence of moderation at higher amounts of aid due to lack of statistical significance, we observe an antagonistic interaction effect of aid on the effect of regulative quality on Chinese OFDI into Africa. From model 2 in Table 7.2, we can observe that at higher amounts of aid, the coefficients of the AMEs of regulative quality changes from negative to positive. This result means we find no support for Hypothesis 5b - predicting that Chinese aid negatively moderates the relationship between regulative quality and Chinese FDI such that the effect is stronger when aid is present in Chinese FDI.

The positive coefficient for the interaction term Regulative quality*Aid might be explained by the fact that Chinese development aid is in the form of concessional loans with terms that are wholly or part commercial in nature (Parks and Strange 2014). In this regard, the existence of strong and reliable regulative institutions is very important for the enforcement of contractual loans signed between the Chinese government and
the governments of the recipient country (Palthe 2014). The provision of loans to
countries with weak regulative institutions such as an effective legal system might be
risky in circumstances of default, or the recipient country fails to honour the agreement
at a later period (Parks and Strange 2014). However, our results show no statistical
significance of the above positive interaction effect with greater amounts of aid
inflows.

The lack of statistical significance may be because in a circumstance whereby the
government of the host country fails to honour its contractual obligations, the Chinese
government will bear the risk (as provider of the loans) of any future failure on the part
of the government of the host country to honour the terms of the loans. Moreover,
Chinese SOMNEs are more likely than their private counterparts to invest in projects
in African countries that have been financed by loans from the Chinese government.
(Foster 2009; Corkin and Burke 2006). Thus, the close links between Chinese
SOMNEs and the Chinese government as the provider of loans might mean this firms
might not pay much attention to the regulative quality of the host countries that receive
Chinese loans.

7.3. The Effects of Institutional Distance and the Moderating Effect of Aid on
China’s OFDI into Africa

Table 7.3 provide the main results assessing whether aid moderates the relationship
between institutional distance and China’s OFDI into Africa. In both models, we
control for industry effects. We create all interaction terms using standardised values
of our independent and moderating variables to avoid problems of multicollinearity.
We test all models for multicollinearity through the VIF test for multicollinearity
which we report in Table 7.3.
In model 1, we test the direct effects of institutional distance and aid on Chinese OFDI into Africa. The coefficient of institutional distance is positive and statistically significant ($\beta = 0.64827$, $p < 0.01$) while the coefficient for aid is positive but not statistically significant. We observe that overall institutional distance does not deter Chinese OFDI into Africa and even has a positive effect, thereby suggesting that CMNEs invest in African countries with either much better or worse institutional quality than at home. Chinese firms in Africa are relative newcomers in comparison to MNEs from Western European countries that possessed colonies in Africa (Alden and Davies 2006). These firms have an advantage over Chinese firms in operating in African countries due to their long-standing connections and relationships in African countries accumulated over an extended period.

In model 2, we test the moderating effect of Chinese aid on the relationship between institutional distance and Chinese OFDI into Africa. The coefficient of the interaction term institutional distance*Aid is negative and not statistically significant. We perform
a conditional test that examines the standard errors of the MEs of the institutional distance across the entire range of aid.

Figure 7.4 presents a plot of the AMEs of institutional distance on Chinese OFDI over the entire range of the standardised values of Aid. While the coefficient for the interaction term Institutional distance*Aid is not statistically significant (Model 2), figure 7.4 above shows that there is a range of the standardised values for aid (from -0.6 to 0.4) over which we find evidence of a moderating effect. This result means we find support (at least partial) for Hypothesis 6a – predicting that Chinese aid negatively moderates the relationship between institutional distance and Chinese FDI such that the effect is stronger when aid is present in Chinese FDI. Model 1 in Table 7.4, shows a slight reduction in the size of the coefficients of the MEs of institutional distance from $\beta = 0.534$ significant at the 0.01 level to $\beta = 0.512$ significant at the 0.05 level. This result suggests that when aid is closely integrated with Chinese FDI, CMNEs appear to prefer to invest in African countries with similar institutional quality (lower institutional distance).

This preference to invest in African countries with lower dissimilarity in institutional quality to China is not surprising. The use of Chinese loans with non-interference in the domestic affairs of African countries has been used by the Chinese government as a means of securing investment opportunities for Chinese firms in African countries with the lowest levels of institutional quality (Alden and Davies 2006). The explicit willingness on the part of the Chinese government to do business with any African country regardless of the quality of its political and economic institutions provides Chinese firms with a competitive political advantage – especially in African countries that Western MNEs are barred from operating (Patey 2007; Habyiaremye 2013).
Table 7.3. OLS Models with Robust Standard Errors: Institutional Distance and Aid as Determinants of Chinese OFDI into Africa

<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Log FDI</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Institutional distance</td>
<td>0.64827***</td>
<td>0.64248***</td>
<td></td>
<td>0.54583*</td>
</tr>
<tr>
<td></td>
<td>(0.20721)</td>
<td>(0.21926)</td>
<td></td>
<td>(0.30268)</td>
</tr>
<tr>
<td>Regulative distance</td>
<td>0.54583*</td>
<td>0.40421</td>
<td>0.00214</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.30055)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Institutional distance*Aid</td>
<td>-0.02201</td>
<td></td>
<td></td>
<td>-0.59498**</td>
</tr>
<tr>
<td></td>
<td>(0.24414)</td>
<td></td>
<td></td>
<td>(0.23984)</td>
</tr>
<tr>
<td>Regulative distance*Aid</td>
<td>-0.59498**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.19494)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aid</td>
<td>0.73005</td>
<td>0.97072</td>
<td>1.28051</td>
<td>-1.79700</td>
</tr>
<tr>
<td></td>
<td>(0.73812)</td>
<td>(0.43464)</td>
<td>(0.77729)</td>
<td>(0.47005)</td>
</tr>
<tr>
<td>Log GDP</td>
<td>0.20056</td>
<td>0.19936</td>
<td>0.12830</td>
<td>0.00056</td>
</tr>
<tr>
<td></td>
<td>(0.18837)</td>
<td>(0.18934)</td>
<td>(0.18519)</td>
<td>(0.19494)</td>
</tr>
<tr>
<td>GDP per capita growth</td>
<td>0.03984</td>
<td>0.04011</td>
<td>0.06560</td>
<td>0.09053</td>
</tr>
<tr>
<td></td>
<td>(0.06089)</td>
<td>(0.06082)</td>
<td>(0.06337)</td>
<td>(0.06372)</td>
</tr>
<tr>
<td>Ores and metals exports</td>
<td>0.00506</td>
<td>0.00501</td>
<td>-0.00052</td>
<td>0.00067</td>
</tr>
<tr>
<td></td>
<td>(0.00617)</td>
<td>(0.00613)</td>
<td>(0.00617)</td>
<td>(0.00599)</td>
</tr>
<tr>
<td>Inflation</td>
<td>-0.04326***</td>
<td>-0.04338**</td>
<td>-0.03127</td>
<td>-0.05900**</td>
</tr>
<tr>
<td></td>
<td>(0.02159)</td>
<td>(0.02135)</td>
<td>(0.02147)</td>
<td>(0.02471)</td>
</tr>
<tr>
<td>Foreign direct investment</td>
<td>0.04902*</td>
<td>0.04768</td>
<td>0.03473</td>
<td>0.00804</td>
</tr>
<tr>
<td></td>
<td>(0.02838)</td>
<td>(0.03081)</td>
<td>(0.02792)</td>
<td>(0.02935)</td>
</tr>
<tr>
<td>Fixed telephone subscriptions</td>
<td>-0.02662</td>
<td>-0.02593</td>
<td>-0.03557</td>
<td>-0.01365</td>
</tr>
<tr>
<td></td>
<td>(0.03734)</td>
<td>(0.03814)</td>
<td>(0.03811)</td>
<td>(0.03906)</td>
</tr>
<tr>
<td>Trade balance</td>
<td>-0.01368</td>
<td>-0.01379</td>
<td>-0.00862</td>
<td>-0.00589</td>
</tr>
<tr>
<td></td>
<td>(0.01254)</td>
<td>(0.01258)</td>
<td>(0.01243)</td>
<td>(0.01231)</td>
</tr>
<tr>
<td>Real effective exchange rate</td>
<td>0.00608</td>
<td>0.00610</td>
<td>0.00409</td>
<td>0.00442</td>
</tr>
<tr>
<td></td>
<td>(0.00521)</td>
<td>(0.00524)</td>
<td>(0.00537)</td>
<td>(0.00529)</td>
</tr>
<tr>
<td>Constant</td>
<td>-2.18693</td>
<td>-2.16180</td>
<td>0.08081</td>
<td>3.39971</td>
</tr>
<tr>
<td></td>
<td>(5.15483)</td>
<td>(5.17574)</td>
<td>(5.06432)</td>
<td>(5.1920)</td>
</tr>
<tr>
<td>Time effects</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Industry effects</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Mean VIF</td>
<td>1.98</td>
<td>1.95</td>
<td>1.97</td>
<td>2.13</td>
</tr>
<tr>
<td>Observations</td>
<td>128</td>
<td>128</td>
<td>128</td>
<td>128</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.50979</td>
<td>0.50982</td>
<td>0.48644</td>
<td>0.51588</td>
</tr>
</tbody>
</table>

Robust standard errors are in parentheses, ***p<0.01, **p<0.05, *p<0.1 indicate significance at the 1%, 5%, and 10% levels respectively.
### Table 7.4. Marginal Effects of Institutional, and Regulative Distance on Chinese OFDI

<table>
<thead>
<tr>
<th>Moderating Variable</th>
<th>(1) Standardised Values of Aid</th>
<th>Institutional Distance</th>
<th>Regulative Distance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td><strong>0.534</strong>*</td>
<td><strong>0.564</strong>*</td>
</tr>
<tr>
<td>1._at</td>
<td>-0.6</td>
<td>(0.191)</td>
<td>(0.193)</td>
</tr>
<tr>
<td>2._at</td>
<td>0.4</td>
<td><strong>0.512</strong></td>
<td>-0.0306</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.229)</td>
<td>(0.194)</td>
</tr>
<tr>
<td>3._at</td>
<td>1.4</td>
<td>0.490</td>
<td>-0.626</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.433)</td>
<td>(0.392)</td>
</tr>
<tr>
<td>4._at</td>
<td>2.4</td>
<td>0.468</td>
<td>-1.221**</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.665)</td>
<td>(0.620)</td>
</tr>
<tr>
<td>5._at</td>
<td>3.4</td>
<td>0.446</td>
<td>-1.816**</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.903)</td>
<td>(0.854)</td>
</tr>
<tr>
<td>6._at</td>
<td>4.4</td>
<td>0.424</td>
<td>-2.411**</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(1.144)</td>
<td>(1.091)</td>
</tr>
<tr>
<td>7._at</td>
<td>5.4</td>
<td>0.402</td>
<td>-3.006**</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(1.386)</td>
<td>(1.329)</td>
</tr>
</tbody>
</table>

Observations | 128 | 128

Standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1

#### 7.3.1. The Effects of Regulative Distance and the Moderating Effect of Aid on China’s OFDI into Africa

Models 3 and 4 in Table 7.3 provides the main results assessing whether aid moderates the relationship between regulative distance and Chinese OFDI into Africa. Both models include industry effects. We create all interaction terms using standardised values of the independent and moderating variables to avoid problems of multicollinearity. We test all models for multicollinearity through the VIF test for multicollinearity which we report in Table 7.3.

In model 3, we examine the main effects of regulative distance and aid on China’s OFDI into Africa. The coefficient of regulative distance is positive and marginally significant ($\beta = 0.54583$, $p < 0.1$). Thus, we observe that regulative distance does not deter Chinese OFDI into Africa and even has a positive effect suggesting that CMNEs invest in African countries with either better or worse institutional quality than at home. The coefficient for aid is positive but not statistically significant.
In model 4, we test the moderating effect of aid on the relationship between regulative distance and Chinese OFDI into Africa by introducing the interaction term between regulative distance and aid Regulative distance*Aid. The coefficient for the interaction term Regulative distance*aid is negative and statistically significant ($\beta = -0.59498$, $p < 0.05$). The coefficient for regulative distance remains positive but not statistically significant while the coefficient for aid is negative and not statistically significant.

The result of the interaction term Regulative distance*Aid suggests that CMNEs are more attracted by a low dissimilarity in home-host country regulative institutional quality when host countries are recipients of Chinese aid as implied by the coefficient of the interaction term Regulative distance*Aid.

Similar to previous analyses, we calculate the AMEs of regulative distance over the entire range of values of aid. As is apparent from inspection of Figure 7.5., regulative distance has a statistically significant negative effect on FDI over two range of the values of aid from -0.6 to -0.1 and from 2.9 to 5.4. The confidence interval bands do
not cross 0 for values of aid greater than -0.1 and less than 2.9, meaning we find evidence that the MEs are statistically different from zero over the range of values of aid from -0.6 to -0.1 and from 2.4 to 5.4.

Model 2 in Table 7.4 shows that regulative distance negatively moderate the relationship between regulative distance and Chinese OFDI into Africa as the coefficient of the MEs of regulative distance increases at higher amounts of aid. These results suggest that CMNEs are discouraged by a high regulative distance as they prefer to invest in African countries that are similar regarding regulative quality as implied by the negative coefficients on the MEs of regulative distance. This result means we find support for **Hypothesis 6b** – predicting that Chinese aid negatively moderates the relationship between regulative distance and Chinese FDI such that the effect is stronger when aid is present in Chinese FDI. The willingness to provide loans to African countries with no preconditions on the improvement of the domestic regulative institutions in the host country might suggest why CMNEs that accompany Chinese aid tend to invest in African countries with similar regulative quality to China.

**7.4. Conclusion**

The aim of this chapter was to investigate empirically how Chinese development aid inflows moderate the effect of institutional quality and institutional distance on Chinese FDI inflows. The provision of development aid mostly in the form of concessional loans to African countries based on a long-standing foreign policy of non-interference. The Chinese government has helped Chinese firms win new markets and open up investment opportunities in Africa (Alden and Davies 2006; Patey 2007). The Chinese approach to development assistance in Africa does not require the improvement of institutional quality as a pre-condition to the granting of aid compared to the conditions-based approach of the West (Tan-Mullins 2010; Taylor 2006). The
strategic integration of aid and FDI mean such an approach that disregards the level of quality of institutions in the host-country (political and economic institutions) can make CMNEs be less cautious to risk in circumstances where development aid is integrated with FDI.

In this chapter, we tested a series of interaction terms between our main independent variables and aid to assess our claim that the integration of Chinese development aid moderates the relationship between these institutional factors (institutional quality and institutional distance) and Chinese FDI. Our findings suggest that when Chinese Aid interacts with the institutional quality of the host country the negative relationship between the overall institutional quality and FDI is greater (more negative) due to the non-interference in institutional development, involvement and backing of the Chinese government in investments integrated with aid. We also find that the interaction of aid with institutional distance weakens the positive influence of institutional distance such that the positive effect is less (CMNEs prefer similar institutional quality) due to the non-interference approach to the improvement of domestic institutions in host countries.

With regard to the relationship between regulative quality and FDI, we find evidence of moderation of aid for the relationship between regulative quality and aid at very low levels of aid inflows. When distinguishing between overall institutional distance and regulative distance, we find evidence of a moderating effect of aid on the relationship between overall institutional distance and regulative distance and FDI. Our findings have important theoretical and policy implications considering the increasing political and economic ties between China and the African continent. We discuss these implications in the concluding chapter of this dissertation.
Chapter 8: Conclusion

8.1. Introduction

In this chapter, we summarise the main arguments of the thesis and the findings of our research. We also explain the theoretical and empirical contributions of this study as well as the implications for domestic policy in African countries and managers of MNEs planning on investing in African countries. Finally, we discuss the limitations of our study followed by a discussion of ideas for future research.

8.2. Thesis Overall Argument: A Summary

The literature on the impact of institutional quality and FDI flows examines this relationship strictly from an economic lens and rarely from social or political one (Busse & Hefeker 2007; Meyer & Nguyen 2005; Ali et al. 2010; Pajunen 2008; Buchanan et al. 2012). Furthermore, the literature also examines this relationship between institutional quality and FDI mainly in the context of DCMNEs investing in EMs while little or no attention has been paid to the impact of institutions on FDI from EMs into developing economies (South-South FDI) (Bailey 2018). This approach limits our understanding of the location decisions of MNEs from EMs and particularly China where a close relationship between business and the state is strong (Ramamurti and Hillemann 2018).

On the other hand, the literature on the impact of institutional distance pays more attention to the effect of this variable on firms from mainly developed economies and stresses the importance institutional isomorphism as the only mechanism through which organisational legitimacy is achieved. At the moment we are not aware of any studies on the impact of institutional distance and China’s OFDI into Africa.
The Chinese government can influence the investment pattern of China’s OFDI into Africa firstly through its role as the owner of Chinese SOMNEs and secondly through its provision of aid that is integrated with FDI without any conditions. Thus an approach that first examines separately the impact of institutions on FDI carried out by both Chinese SOMNEs and POMNEs and secondly accounts for the close integration of aid with FDI is currently lacking in the literature.

We believe that the influence of the Chinese government on Chinese FDI in Africa in its capacity as owner of Chinese SOMNEs and its provision of development aid are both nested within a PE dimension that is needed to provide a comprehensive explanation of the location decision of CMNEs in Africa. This PE dimension captures the influence of the Chinese government in the FDI location decision of CMNEs. Firstly, as the owner of Chinese SOMNEs, the Chinese government may influence the location decision of large SOMNEs to carry out FDI in accordance with the needs and objectives of the Chinese state. Secondly, as the provider of development aid – closely integrated with FDI projects – and based on a policy of non-interference, the Chinese government might influence the FDI location decision of CMNEs in Africa through its willingness to do business with any African country irrespective of the level of domestic institutional quality. Therefore, we develop a multi-disciplinary conceptual framework in which we propose that Chinese OFDI into Africa is attracted to low host country institutional quality and regulative quality. We also propose that low home-host country institutional distance and regulative distance will attract Chinese OFDI into Africa. We further propose that the aforesaid relationships will differ between Chinese SOMNEs and POMNEs and would strengthen when Chinese aid is included in Chinese investments.
With regard to host country institutional quality, we argue that CMNEs in general and Chinese SOMNEs, in particular, will be more attracted to African countries with low institutional quality. This investment pattern is mainly due to the PE of Chinese FDI in Africa that makes CMNEs in Africa more willing and likely to invest in African countries with low institutional quality. Due to their close affiliation to the Chinese government, Chinese SOMNEs have access to cheap capital and benefit from financial support from the Chinese government that is capable of offsetting the high transactions costs associated with operating in countries characterised by low institutional quality. Chinese SOMNEs are also likely to invest in African countries with very low institutional quality due to the political support provided by the Chinese government in circumstances where the risk of expropriation exists. CMNEs are also willing to invest more resources in African countries with low institutional quality due to the provision of and close integration of development aid and FDI with no conditions on the improvement of domestic institutions. Such an approach suggest that in circumstances where Chinese development aid is closely integrated with FDI, potential low levels of institutional quality in African countries will attract CMNEs from investing in the target location due to the non-interference policy of the Chinese government.

We also argue that CMNEs rely on other mechanisms of achieving legitimacy rather than from the process of institutional isomorphism alone. Specifically, we argue that high institutional distance as a determinant of the degree of institutional pressure for legitimacy does not apply to CMNEs in general and Chinese SOMNEs in particular. This is because the low institutional quality and lack of reliable enforcement mechanisms in African countries mean that Chinese SOMNEs face lower institutional pressure to conform to the institutional environment in these African countries.
Furthermore, due to this low institutional quality and lack of reliable enforcement mechanisms, legitimating powers rest mainly in the executive branch of government – that is the political regimes of African countries.

By creating good political relations with African countries, the Chinese government can negotiate the legitimacy of Chinese SOMNEs with African governments that consequently grant legitimacy to these firms. We further argue that one important mechanism through which the Chinese government secures the legitimacy of Chinese SOMNEs in African countries is through the provision of development aid with no conditions on the improvement of domestic institutions. This is particularly attractive to African governments as such an approach of non-interference is contrary to the conditions-based approach of the OECD and Western donors to development aid in Africa whereby transparency, respect for human rights, democratic accountability are all but a few conditions often demanded by Western donors. Based on the above discussion, this study seeks to answer the following research questions:

1. What is the impact of the host country institutional quality on Chinese OFDI into Africa?
2. How does the institutional distance between China and the host country affect China’s OFDI into Africa?
3. To what extent does the impact of the host-country institutional quality and the home-host country institutional distance differ between Chinese SOMNEs and POMNEs?

In the subsequent section, we present a summary of our research findings

8.3. Summary of Research Findings

In this section, we summarise the key findings of our research. We present the key findings of our research in relation to our research questions. Conceptually we
identified four factors that may have an effect on the FDI location decisions of CMNEs in Africa – institutional quality, institutional distance, ownership type, and Aid. Firstly, we seek to investigate the impact of institutional quality on the FDI location decisions of CMNEs in Africa using FDI from developed and developing economies as benchmarks. In this respect, the theoretical perspective of NIEs underpins our view. Secondly, we examine the effect of institutional distance on the location decision of CMNEs in Africa using FDI from developed and developing economies as benchmarks. In this respect, we employ the theoretical perspective of NIT acts as our theoretical underpinning. We then account for a PE perspective of Chinese FDI in Africa that constitutes the role of the Chinese government in its influence in the FDI activities of Chinese SOMNEs and its provision of Chinese aid that is closely integrated with FDI projects. We do this by disaggregating Chinese FDI into investments carried out by Chinese SOMNEs and POMNEs and by examining the moderating effect of Chinese development aid on the relationship between our independent variables and Chinese FDI. By empirically testing our hypotheses formulated earlier (Chapter 4), we obtained a number of findings. The summary of our main findings are as follows:

**RQ 1.** To examine the impact of host country institutional quality on Chinese FDI in Africa, we test our hypotheses formulated in our conceptual framework against data on Chinese FDI inflows from 2003 to 2015. We find that CMNEs are attracted to countries with low institutional and regulative quality. Our first empirical examination – the benchmarking analysis (Chapter 6) confirmed that CMNEs are attracted to low institutional, and regulative quality. We also found evidence that compared to DCMNEs and EMNEs, CMNEs are more willing to invest in countries with low institutional and regulative quality. In other words, CMNEs are more attracted to
African countries with low institutional, and regulative quality than DCMNEs and EMNEs.

**RQ 2.** We find that higher institutional distance attracts FDI from China. After disaggregating the institutional distance into the regulative distance, we found that high regulative distance attracts Chinese FDI. We also found that compared to DCMNEs and EMNEs CMNEs are more attracted to and invest more where a high institutional, and regulative distance exists between the home and host country.

**RQ 3.** The third research question relates to the extent to which the impact of both host country institutional quality and institutional distance differs between FDI carried out by Chinese SOMNEs and POMNEs. Regarding this question, we find that Chinese SOMNEs are more willing to invest in African countries with low institutional quality than Chinese POMNEs. On the effect of regulative quality, we find evidence that Chinese SOMNEs are attracted to low regulative quality while this does not seem to matter for Chinese POMNEs. Regarding institutional distance, the results show that Chinese SOMNEs are more attracted to high institutional distance than Chinese POMNEs. The disaggregation of the institutional distance variable into regulative distance shows that Chinese SOMNEs are attracted to high regulative distance while this does not matter for Chinese POMNEs.

**8.3.1 Summary of Findings of the Moderating Effect of Aid**

We summarise the findings regarding the moderating effect of aid on the relationship between our independent variables and Chinese FDI as follows. For the moderating effect of aid on the relationship between institutional quality and Chinese FDI, we find that aid negatively moderates the relationship between institutional quality and
Chinese FDI. The results on regulative quality show that aid positively moderates the relationship between regulative quality and Chinese FDI.

For the moderating effect of aid on the relationship between institutional distance and Chinese FDI, we find that aid negatively moderates the relationship between institutional distance and Chinese FDI. Regarding regulative distance, we find evidence of a negative moderating effect of aid on the relationship between regulative distance and Chinese FDI.

8.4. Research Limitations

Our study has some limitations. Firstly, our data is limited to greenfield investments in Africa. Therefore our empirical analysis does not account for other investment entry modes such as joint ventures, mergers and acquisitions. Although greenfield investments account for the majority of investments in Africa (UNCTAD 2017), it is possible that the determinants of the FDI location decisions of CMNEs might differ for different modes of entry.

Secondly, due to the lack of data, our choice of variables was limited, which continues to be a particular problem for scholars studying the determinants of FDI inflows into Africa. In our case, we would have liked to examine the effect of the distance in the cultural-cognitive element of the institutional environment between the home and host country of the firm. However, data commonly used to measure this aspect of the institutional environment (Dow & Karunaratna 2006) is not available for the majority of African countries.

Considering our data is limited to greenfield investments, future research should examine the impact of institutional quality and distance on alternative modes of entry by CMNEs in Africa. Future research might examine the effect of cultural-cognitive
distance on the location decision of CMNEs in Africa. Also, future research might examine the moderating effect of Chinese development aid on the relationship between institutional quality and institutional distance on FDI by Chinese SOMNEs compared to Chinese POMNEs.

8.5. Research Contribution

Although research has been performed on the FDI location decision of CMNEs in Africa and specifically the impact of host-country institutional quality (e.g., Jiang 2009; Biggeri & Sanfilippo 2009; Cheung et al. 2012; Drogendijk & Blomkvist 2013), some scholars have pointed out the gaps in previous research on this phenomenon. Kolstad & Wiig (2011) call for a closer consideration of the close integration of aid and FDI as this will assess the full impact of China’s involvement in the continent. Cheung et al. (2012) call for an examination of the effect of the non-conditionality approach to the provision of aid on the location decision of CMNEs in Africa. The relative increase in the number of Chinese POMNEs investing in Africa in recent years (Shen 2015) has led to calls for research on whether the investment pattern of Chinese POMNEs differs from that of Chinese SOMNEs (Drogendijk & Blomkvist 2013).

The literature review provided earlier in this dissertation (Chapter 3) shows that an investigation of the determinants of China’s OFDI into Africa that accounts for firm ownership and the effect of the integration of aid and FDI has not been investigated. To the best of our knowledge, the effect of institutional distance on the location decision of CMNEs in Africa has not been investigated. Thus, we not only follow the calls from the aforementioned scholars but also believe that empirical research that accounts for firm heterogeneity and the effect of Chinese aid on the location decision of CMNEs in Africa is needed to establish a comprehensive and understanding of Chinese OFDI in Africa.
In this dissertation, we view the influence of the Chinese government in Chinese FDI in Africa from two aspects 1) through its role as the owner of large Chinese SOMNEs and 2) through its provision of aid (closely integrated with FDI) with no conditions on institutional development in African countries. We purport both aspects constitute a PE perspective of Chinese FDI in Africa that has not been examined in extant research on the determinants of China’s OFDI into Africa. To account for this PE dimension of Chinese FDI, we construct a conceptual framework on which we specify an empirical model that captures our research questions.

The contribution of this study is the following: our first and main research contribution is an interdisciplinary conceptual framework that investigates that explains how Chinese SOMNEs invest differently from their counterparts from the private sector. Our conceptual framework also accounts for the nature of the effect of Chinese development aid on Chinese OFDI into Africa through the non-interference mechanism. Thus, the core contribution of this thesis is two-fold. The first core contribution is the comparison between OFDI carried out by SOMNEs and POMNEs and the second core contribution is the inclusion of the effect of Chinese development aid on the location decision of CMNEs in Africa.

Secondly, we use FDI from developed and developing economies as benchmarks to investigate whether CMNEs invest differently from DCMNEs and EMNEs. Thirdly, besides the traditional motivations of FDI, we pay particular attention to host country institutional quality and the institutional distance between home and host countries. Finally, having examined the effect of the absolute institutional distance between these investors (CMNEs, DCMNEs, and EMNEs), we disaggregate the absolute institutional distance into positive and negative institutional distance to inquire into the effect of
these variables on the location decision of CMNEs compared to DCMNEs and EMNEs.

8.6. Theoretical and Empirical Contributions

This study makes a theoretical contribution to – the NIEs approach to IB. Our conceptual framework extends NIEs in the following ways. Firstly, we extend this strictly economic approach by accounting for the effect of political cost on the strict transactions costs analysis of the location decision of MNEs. We do this by accounting for the influence of the Chinese government through its ownership of SOMNEs and provision of development aid that means Chinese MNEs face a lower political cost than other investors in Africa. This lower political cost is capable of offsetting any transactions costs associated with operating in countries with weak institutions and provide CMNEs in Africa with a competitive political advantage over other investors in Africa.

Secondly, our conceptual framework extends NIEs by accounting for political and strategic objectives of FDI rather than simply for profit maximisation and cost-economising perspective. The influence of the Chinese government on the location decision of CMNEs may result in investments being carried out for political and strategic objectives.

Our conceptual framework extends NIT by conceptualising a legitimising mechanism that Chinese MNEs employ when carrying out FDI in African countries. This legitimising mechanism is non-conditional development aid offered by the Chinese government to the governments of the target African markets of CMNEs.

8.6.1. Empirical Contribution

For our empirical contribution, prior studies on China’s OFDI into Africa (Blomkvist and Drogendijk 2013; Cheung et al. 2012; Mario Biggeri and Sanfilippo 2009; Kolstad
and Wiig 2011) measures the impact of institutions of China’s OFDI into Africa by using a single indicator. This use of a single indicator can underestimate the full effect of institutions – a multifaceted aspect of a country that is difficult to capture by using a single indicator. MNEs make decisions on whether to enter a foreign market based on a combination of institutional factors rather than a single one (Pajunen 2008).

Our first empirical contribution is the use of a composite measure of institutional quality, and regulative quality and the distance between the home and host country in these characteristics. This measure provides an overall effect of our independent variables on China’s OFDI into Africa. Secondly, we construct a novel dataset that comprises of institutional, macroeconomic and aid data that we collect from a number of different databases for 37 African economies, 11 developed economies and 8 developing economies between 2003 and 2015.

Thirdly, we employ a two-tier research methodology to empirically test our data firstly through a benchmarking analysis using the OLS method (Chapter 6) and secondly through a moderation analysis of the effect of aid on the effects of our institutional variables on China’s OFDI into Africa (Chapter 7). Fourthly, relying on our novel dataset, we investigate whether Chinese SOMNEs invest differently from POMNEs. Finally, we disaggregate the absolute value of institutional distance into positive and negative institutional distance because investing in countries with better institutional quality could be attractive to foreign investors.

8.7. Policy and Managerial Implications

Our research shows that higher levels of institutional quality and institutional distance do not deter CMNEs when deciding to invest in Africa. Our findings also show that Chinese SOMNEs, in particular, are more attracted to African countries with low
institutional quality and a high institutional distance than Chinese POMNEs. Another crucial factor further increasing the attractiveness of CMNEs in Africa to the low institutional quality of African countries is the close integration of aid and FDI. Specifically, the absence of conditionality on the improvement of domestic institutions in the provision of Chinese development aid means the CMNEs might not view the low institutional quality in African countries as problematic. This attractiveness to low institutional quality implies that Chinese FDI in Africa can be detrimental to the long-term development of the domestic institutions in African countries – and also exacerbate the problem of ‘resource curse’ in African countries with vast reserves of natural resources. However, although CMNEs are more attracted to African countries with low institutional quality, this behaviour is not specific to CMNEs alone as DCMNEs and EMNEs also seem to be attracted to weak institutions in Africa.

Although our results show a negative relationship between institutional quality and Chinese FDI, this does not mean policymakers in African countries should pay less attention to the improvement of the quality of their domestic institutions as a means of attracting FDI. It should be noted that our results also suggest that access to natural resources is a key motive for all types of investors while FDI in the construction sector is also key for CMNEs in particular. Thus, to enhance FDI flows beyond the extractive and construction sectors, policymakers in host African countries should focus on improving the overall quality of their institutions to attract more value-adding and technology-intensive FDI. These sort of knowledge-intensive FDI usually originates from high-quality locations with a high distance in institutional quality between the home and host country of the firm. Also, low quality in the domestic institutions in African countries does not only affect inward FDI but also problematic to local firms as it increases uncertainty, transactions and productions costs and consequently the
Overall performance of local firms (Ngobo and Fouda 2012), which in turn can reduce the quality of FDI inflows.

Overall, the African continent as a whole is already attracting a high amount of FDI in the extractive sectors. FDI in the construction sectors is also on the rise mainly due to a rise in Chinese investments in this sector (Corkin and Burke 2006; Foster 2009). The growth in investments in the construction sector from China is highly needed in a continent with very low levels of quality in physical infrastructure (Foster and Briceno-Garmendia 2009). CMNEs in general and Chinese SOMNEs, in particular, do not consider the presence of high-quality institutions as a factor when investing in Africa. However, to broaden the type of FDI African countries attract (e.g., FDI in the high-tech sectors), African governments must strive to improve the overall quality of their domestic institutions. The attraction of high-quality FDI alongside FDI from traditional sectors is crucial for sustainable long-term economic development – the ultimate objective for African countries.

Regarding managerial implications, our findings primarily suggest that CMNEs would value African countries with the very lowest institutional quality provided they have political and economic backing from their home government. CMNE managers are thus more likely to establish strong connections with the political regimes in African countries to avoid potential expropriation of assets. These connections point to an important role international relations plays between the governments of African countries and the Chinese government in influencing the locations decisions of CMNEs in Africa. Managers of MNEs from developed economies can lobby their home governments to improve relations with potential target locations in Africa and demand more support when they carry out investments in African countries.
Past research has argued that locations with highly profitable FDI and weak institutions tend to attract investors who aim to stabilise dictatorships (Aidt and Albornoz 2011). This, in turn, could give them access to a more stable and expropriation-free local environment. Intuitively, it can be argued that CMNEs use the support of their home country and the autocratic political regimes in African countries as an efficient way to deal with the complex, underdeveloped and weak institutional systems. This relationship further pushes firms to establish political connections and non-market transactions with African governments. However, such a practice can potentially have detrimental effects regarding the improvement of the quality of domestic institutions of many African countries.

8.8. Recommendations for Future Research

This study opens avenues for future research on the determinants of China’s OFDI into Africa in several dimensions. Firstly, this thesis has not examined the phenomenon from the new organisational institutionalism (NOI) approach to IB – that focuses on the institutional pressures MNEs face to conform to the external institutional environment of their host location through isomorphism as a way of achieving host country legitimacy. Particularly it would be interesting to examine how CMNEs achieve and maintain legitimacy in host African countries – and if the institutional pressures and ways of achieving host country legitimacy differ between Chinese SOMNEs and POMNEs.

Secondly, due to data limitations, this study does not examine the effect of normative institutions on the location decision of CMNEs and therefore opens an avenue for future research where the effect of normative (informal) institutions and the distance in this characteristic are examined. Thirdly, future research can also examine the effect of the distance in the cultural-cognitive element of the institutional environment.
between the home and host country of the firm on the FDI location decision of CMNEs in Africa. Data commonly used to measure this aspect of the institutional environment (Dow & Karunaratna 2006) is not available for the majority of African countries.

Also, Chinese development aid and its role in Chinese FDI projects will continue to represent an important strategy of the Chinese government in its quest to increase China’s influence in the African continent – and for large Chinese SOMNEs to win investment contracts in Africa. Thus, due to their close affiliation with the Chinese government future research may examine whether the moderating effect of Chinese development aid on the relationship between host country institutional quality and institutional distance on Chinese FDI differ between FDI projects carried out by Chinese SOMNEs and POMNEs. Such an investigation may become feasible as investments by Chinese POMNEs in Africa reach the current levels of Chinese SOMNEs.
### Appendix 1. List of Countries included in Analyses

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<tr>
<th>Host Countries</th>
<th>Source Countries</th>
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<td>Developed Economies</td>
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