Chinese OFDI in Africa

A firm-level analysis of Chinese investments in Sub-Saharan Africa

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ABSTRACT

As a result of the widespread globalization, historically separated markets have merged into one global marketplace and consequently MNEs have been able to disperse their operations abroad. Over the past decades, there has been a shift in the FDI pattern as flows now originate from developing and emerging economies, in particular from China. More recently the OFDI flows from China have not only been targeted towards countries in the West but also into countries in Africa known for their natural resources endowments. Earlier research has retained its focus on an aggregated level. Therefore the purpose of this thesis has been to analyze China’s motives behind investments in African firms and the subsequent consequences considering the long-term impacts on economic development in receiving countries. This has been done by analyzing a number of selected case studies that illustrate Chinese OFDI in firms in South Africa, Nigeria and Angola. Our empirical findings have been analyzed utilizing Dunning’s eclectic paradigm (1980, 1988, 2000) extended with Rugman’s FSA/CSA Matrix (1981, 2010) and Mathews’ LLL-model (2006). We found that Chinese MNEs invest in African firms primarily for resource-seeking motives and in the long-term Chinese OFDI provides economic and social development in receiving countries. Nevertheless, political and institutional aspects could increase the risk and impede potential economic development for the FDI receiving countries and its people. Hence, emphasizing the importance of a long-term strategy for global investment, not only for China as an investor, but for the receiving African country.

Keywords: China, Africa, FDI, OFDI, motives, economic development
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LIST OF ABBREVIATIONS AND ACRONYMS

Bpd                             Barrels per day
BRIC                            Brazil Russia India China
BRICS                           Brazil Russia India China South Africa
CDB                             China Development Bank
CEO                             Chief Executive Officer
CIF                             China International Fund
CNOOC                           China National Offshore Oil Corporation
CSA                             Country Specific Advantage
DRC                             the Democratic Republic of Congo
EAMI                            East Asia Metals Investment
EU                              European Union
Exim Bank                       Export-Import Bank of China
FDI                             Foreign Direct Investment
FSA                             Firm Specific Advantage
GDP                             Gross Domestic Product
GRN                             Gabinete de Reconstrução Nacional
HDI                             Human Development Index
IB                              International Business
IMF                             International Monetary Fund
<table>
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<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>JV</td>
<td>Joint Venture</td>
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<tr>
<td>LimDev</td>
<td>Limpopo Economic Development Enterprise</td>
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<tr>
<td>LLL</td>
<td>Linkage Leverage Learning</td>
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<tr>
<td>MD</td>
<td>Medical Doctor</td>
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<tr>
<td>Mint</td>
<td>Mexico Indonesia Nigeria Turkey</td>
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<td>MNE</td>
<td>Multinational Enterprise</td>
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<td>MOFCOM</td>
<td>Ministry of Commerce of China</td>
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<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
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<td>OFDI</td>
<td>Outward Foreign Direct Investment</td>
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<td>OLI</td>
<td>Ownership Location Internalization</td>
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<tr>
<td>OML</td>
<td>Oil Mining License</td>
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<tr>
<td>OPEC</td>
<td>Organization of the Petroleum Exporting Countries</td>
</tr>
<tr>
<td>POE</td>
<td>Privately Owned Enterprise</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
</tr>
<tr>
<td>SAPETRO</td>
<td>South Atlantic Petroleum</td>
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<tr>
<td>SINOPEC</td>
<td>China Petroleum and Chemical Corporation</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium Enterprises</td>
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<tr>
<td>SOE</td>
<td>State Owned Enterprise</td>
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<tr>
<td>SONANGOL</td>
<td>National Oil Company of Angola</td>
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<tr>
<td>SSI</td>
<td>Sonangol International</td>
</tr>
<tr>
<td>UN</td>
<td>United Nations</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
</tr>
<tr>
<td>USD</td>
<td>United States Dollar</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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DEFINITIONS

**Developed economy:** there is no widely accepted definition, but in general it refers to highly developed countries according to some set of criteria i.e. GDP per capita, level of industrialization, living standard, infrastructure development.

**Developing economy:** economies where the majority live on less money than in the developed countries. Often rural economies with poor health and education systems, scarce infrastructure, water and power supplies, low government quality and small domestic markets.

**Emerging economy:** an economy that is on the rise approaching advanced economies and have physical infrastructures such as banks, a stock exchange and a unified currency.

**Latecomers and newcomers:** economies facing accelerated internationalization, organizational innovation and strategic innovation, often leapfrogging stages in their internationalization process.

**Sino-African:** term that aims to describe the relationship between China and Africa.
1. INTRODUCTION

1.1 Background

Globalization could be referred to as the economies around the world becoming more integrated and interdependent as a result of technological advances and human innovation. Thus, historically separated markets are moving towards a global marketplace, which has increased the movement of labor and technology, as well as trade and financial flows across borders. Since the 1980s, when globalization evolved as a common term, the striking increase of globalization has resulted in the value of goods and services growing from 42.1% to 62.1% in 2007 measured in world GDP (IMF, 2008). Furthermore, the growth in global markets has opened up the opportunities for multinational enterprises (MNEs) to disperse their operations in order to take advantage of factors of production such as capital, technology, labor and expertise in larger or more diversified markets. The globalization has led to a rapid increase in trade and production through MNEs becoming more internationalized and as a result the global foreign direct investment (FDI) inflows have grown from 6.5% in 1980 to 31.8% in 2006 in terms of world GDP (ibid.).

Foreign investments refers to “ [...] the transfer of tangible or intangible assets from one country into another for the purpose of their use in that country to generate wealth under the total or partial control of the owner of the assets” (Sornarajah, 2004:7). FDIs are investments undertaken by a company to take on a lasting interest and a long-term relationship in other enterprises across the borders of their economy. Moreover, the direct investor seeks to acquire a large degree of influence and control over the management of the enterprise they intend to invest in, which is an important disparity in comparison to foreign portfolio investments. Hence in order to serve as a FDI investor, the minimum shares have to account for 10% or more (UNCTAD, 2013a). When looking further into FDI, there is a distinction between FDI flows and FDI stocks. The former refers to capital supplied by either a foreign direct investor to a company or capital obtained from an investing company by a foreign direct investor. Conversely, FDI stock includes the share value of the invested capital and reserves in the company (UNCTAD, 2007).

Generally, since the late 1980s there has been a surge in FDI flows among industrialized economies where other developed countries have been the main recipients. Yet, over the past decades, governments have been more optimistic towards FDIs, liberalizing FDI regimes and policies in order to attract FDI. Thus this has led to a shift towards FDI flows into developing countries as well as emerging economies that have
primarily seen FDI as a source generating economic growth (OECD, 2002). As of 2009, the global economy faced a recession during the financial crisis which resulted in a fall in FDI flows worldwide. Still, the developing countries and transition economies both accounted for almost half of global FDI inflows. The increase of FDI from developing countries, both in terms of inflows and outflows, contributed to a retrieval thus changing the global pattern of FDI (UNCTAD, 2010). This development is most remarkable in Asia, where China as the leading developing economy, measured in world GDP, has become one of the top recipients of FDI (Zhang & Daly, 2011).

Over nearly two decades, FDI flows towards China have greatly promoted growth and been important for the country, resulting in a shift away from severe poverty and under-development to becoming highly integrated into the world economy (Renard, 2011). But FDI has not always been permitted in China. At an initial point, FDI were concentrated in China’s Four Special Economic Zones involving a limited number of sectors. In the early 1980s foreign investment laws and preferential policies were adopted which resulted in a growth in China’s FDI inflows (Whalley, 2011). However, most importantly in this context, is the increase of outward FDI (OFDI) from emerging markets, a development that has risen sharply over the past years. As a result, the world has seen a steady increase of Chinese OFDI flows as China has become more integrated into the world economy (Zhang & Daly 2011). This is also a result of the nation’s great governmental current account surplus and international reserves (Ahuja et al., 2012; Forbes, 2014).

When looking further into China’s OFDIs, they have historically been small in comparison to its inward FDI (Whalley, 2011). In this context, the Chinese government has played an important role, shaping policies which have encouraged firms to go overseas and thus significantly increased China’s OFDI (Alon et al., 2012). China’s development of OFDI policies have gone through three important phases (Buckley et al., 2008; Luo et. al, 2010). During the initial phase (1979-1990) foreign investment laws and preferential policies were adopted by the Chinese government as a result of China’s “open door policy” in 1979, which led to the emergence of China’s OFDIs (Whalley, 2011). During the second phase in the early 1990s (1991-2000) China faced a significant growth in OFDI when policies were promoted for further openness as well as market-oriented reforms and tax preferences. In the third phase (2001-present) the Chinese government initiated the “going out policy” in 2000, which resulted in an enhanced OFDI strategy on a country level, lowering protectionist barriers, which fostered China’s competitive advantage and encouraged investors to invest overseas. Moreover China’s accession to the World Trade Organization (WTO) in 2001 further promoted openness and less strict policies in order to achieve a business climate that facilitated OFDIs. This included, among other things, deregulations in investment approval as well as
in foreign exchange control, such as the “Further Measures on Foreign Exchange Administration Stimulating OFDI 2005”. The state also supported investments with financing as well as credit and insurance (Alon et al., 2012). As a result of such measures undertaken by the Chinese government, China’s OFDIs faced an exponential growth in the early 2000s as illustrated below (see figure 1). As a matter of fact, in 2012 China ranked the third largest investor in the world after the United States and Japan (UNCTAD, 2013b).

![Figure 1. China’s outward FDI boom (PRC State Administration of Foreign Exchange, UNCTAD, Rhodium Group, 2012)](image)

In the early 2000s the majority of China’s OFDIs were made in Asia, followed by Latin America and only 2% were directed towards Europe and Africa (Whalley, 2011). Over the past years, however, China’s OFDIs have dispersed to other destinations targeting developing countries ahead of industrialized countries, with a movement towards the African continent where China has become a leading FDI investor among developing countries (OECD, 2008).

1.1.1 Chinese Investments in Africa

China and Africa has a long history of trade relations. Already back in the post colonial period, Guinea, Ghana and Mali were closely politically related to China as a result of Chinese contributions including loans as well as economic and technical cooperation. Among these countries, Ghana was the first African nation to establish diplomatic relations with China. In the 1960s relations between China and Africa were
preserved as China offered a number of benefits. Compared to Western countries, it was easier to get Chinese assistance in financing as well as services that aimed to enhance technical and professional development of personnel. Furthermore the Chinese assistance was granted at very low prices and a long payback period. Until 1954 trade between China and Africa was marginal and it was not until China opened up its economy in the late 1970s that its presence in Africa became more vigorous and the Sino-African trade faced a significant growth (Renard, 2011). African nations also viewed China as an alternative to the Soviet Union and the West, former colonial powers (Jauch 2011; Renard, 2011). As early as in 1956 China supplied with aid and its engagement in Africa also involved military support and investments in for example prestigious projects in infrastructure as well as in hospitals and stadiums. Furthermore, as China implemented its “going out policy” its relations with countries in Africa became more crucial in order to secure supplies of resources such as energy and raw materials, with the aim to feed its rapid economic development (Renard, 2011).

Historically, Africa’s abundance of natural resources has attracted many Western countries to the continent for different purposes. In particular during the colonization era, Western people strived to obtain the well-known reserves of natural resources found in the African continent (David, 2011). In modern times, the world has seen a tremendous rise in FDIs into Africa, which is expected to enhance economic growth and thereby reduce poverty in the continent (UNCTAD, 2005). In general, Africa as a receiver of global FDIs saw a steady increase measured by historical standards before the financial crisis in 2008. In comparison to the total FDIs of $16 billion USD in 2002, Africa as a continent received $87 billion USD in FDIs in 2008 (Ford, 2011). The aftermath of the financial crisis caused FDIs into Africa to fall down to $55.9 billion USD in 2009 followed by $50.1 billion USD in 2010, however the decline was not spread equally across the continent (ibid).

As the FDI flows into Africa are increasing, the World Bank confirms that investors are starting to widen their eyes, not only focusing on the traditional mining, oil and gas sector, but other sectors such as agricultural, banking, tourism as well as manufacturing as productivity and growth opportunities are improving (UNCTAD, 2005). Even though the major part of FDI flows to Africa still derive from Europe and the United States, Asian investors and especially Chinese, are players with increasing importance (Ford, 2011), where China’s main interest is known to be the search for Africa’s natural resources endowments (Allen, 2014). As previously discussed, the growth of China’s FDI into Africa has been linked with the increase in Sino-African trade relations, although when comparing with China’s total OFDIs, the flows to Africa are relatively small. Yet, over the past decade, Chinese FDIs in Africa have
grown sharply by 46% according to the Chinese Ministry of Commerce (Renard, 2011).

1.2 Problem Discussion

The fact that China’s presence in the world has developed over the past years is hardly news. However, in recent years attention has been drawn to the sharp rise in China’s OFDI, which has spurred discussions as there has been a movement of flows towards developing countries such as to the countries in Africa (Kolstad & Wiig, 2009).

Our preliminary investigation on recent empirical studies and publications reveals that research primarily has been focusing on questions regarding motives, determinants and impacts of Chinese OFDIs in Africa. According to Buckley et al. (2007) one major force driving Chinese investments into Africa is, in general, the exploitation of natural resources endowments such as raw materials and energy to feed its domestic production. Africa has also been the destination for Chinese investments in the search for new, pertinent markets for Chinese low-cost manufacturing (Shinn & Eisenman 2012; Wang, 2007). Zhang and Daly (2011) further mention other motives for Chinese firms investing overseas such as the call to gain management skills and advanced technology.

Further, our preliminary investigation shows that Chinese investments are associated with overseas markets with poor institutions and governance as well as high country risk. Nonetheless, this has raised concerns and criticism towards China that the country is exploiting natural resources and has constituted poor regimes in host countries (Kolstad & Wiig, 2009). China’s increasing OFDIs in Africa are especially criticized by Western countries claiming that the increased flows is a result of China’s strategic plans to obtain oil and other important raw material resources (Cheru & Obi, 2014). Although Chinese investments mainly have been associated with aid, debt relief, investments and preferential loans (Jauch 2011; Renard 2011), there has been a recent debate concerning China’s underlying motives behind the increased investments into Africa, whether China’s economic relationship with Africa promotes development or more likely, contributes to the development of neo-colonialism. Jauch (2011:51) claims in his article that:

“There is a danger of the Africa-China economic relationship following the colonial pattern of relegating Africa to the role of a raw materials supplier”
Also the Chinese labor exploitations in Africa are addressed in his article, particularly regarding labor conditions at Chinese companies operating in Africa. Findings in a study that was put forth by African Labour Research Network (ALRN) 2008-2009 show how Chinese employers violate worker’s rights with insufficient working conditions and low wages in comparison to other employers within the same industry (Jauch, 2011).

In nearly two decades the economic growth in Africa has been observed, a continent whose development has gained considerable attention (e.g. Arbache & Page, 2009; Obel, 2013). However, we found that existing research on Chinese OFDI in Africa retains its focus on a more aggregated level (Alden, 2005; Kaplinsky & Morris, 2009; Sanfilippo, 2010; Wang 2007), observing Africa as a whole, rather than deepening the perspectives by conducting further studies on a micro-level. Unlike other studies that have been made in the field of FDIs, our ambition is to fill these gaps by studying the investment flows in terms of motives and implications, which we believe would provide future researchers with new perspectives.

1.3 Purpose

The purpose of this thesis is to analyze China’s motives behind investments in African firms and the subsequent consequences considering the long-term impacts on economic development in receiving countries. As previously discussed, the underlying motives behind Chinese OFDI into Africa have mainly been analyzed on an aggregated level and as far as we know, little attention has been drawn to research on a firm-level. Our aim is therefore to investigate Chinese OFDIs from a new perspective by analyzing a number of selected case studies that illustrate Chinese investments in African firms and apply these findings on our theoretical framework. Finally, the aim is to hopefully contribute to new findings and results within this field, whose importance has not been addressed so far as concerned.

1.4 Research Question

By taking the above discussion into account, the following research question has been formulated:

*What are the motives behind Chinese OFDI into African firms and how do they affect economic development in receiving host countries in the long-term?*
For clarification, the motives will mainly be viewed from a Chinese point of view while the subsequent consequences will mainly be viewed from an African standpoint.

1.5 Delimitations

In order to ensure a focused study with satisfactory results, a number of delimitations have been made throughout the process. First and foremost, the thesis will solely focus on Chinese OFDIs into Africa, referring to OFDI flows and not stocks. When FDI in terms of outflows is mentioned in this thesis we refer to China’s perspective whereas inflows naturally are regarded from Africa’s point of view. Further, we delimited our study by undertaking a firm-level analysis, looking into Chinese investments in three countries in Africa; South Africa, Nigeria and Angola.

Secondly, we decided to conduct our thesis focusing on case studies by looking further into Chinese investments in the aforementioned African countries. Since the flows vary by size and over time, the selection of these countries were based on calculations of the highest average inflows of 18 African countries, which served as guidelines when we selected these countries (see figure 3. under section 4.1). However, the selection was also based on the access to relevant and sufficient data for each country, leading to the decision to not only base the choice on the highest average OFDI flows.

Finally, we encountered a number of limitations throughout the process. The time period that was studied in this thesis is dependent on available data, which unfortunately was somewhat difficult to access regarding the years after 2010. Therefore, the findings in this thesis will be presented based on data of Chinese OFDI that was found in the time period between 2004 and 2010, since the aim is to predicate the study on as accurate and updated data as possible. However the World Investment Report (UNCTAD, 2006) shows that in 2005 global OFDIs faced a decline while those from China surged. Part of this growth could be explained by a number of measures and regulations that were undertaken by the Chinese government in 2004 and 2005, which encouraged and considerably facilitated Chinese OFDI. Therefore we found this time range suitable as it captures the exponential growth in Chinese OFDI that occurred in the mid 2000s.
1.6 Disposition

This thesis is divided into six chapters. The introductory chapter presents a brief historical background in order to provide a better understanding of the chosen research area. The problem discussion emphasizes the importance of the chosen topic and highlights gaps in earlier research. This is followed by the purpose and the research question of our thesis. Lastly, it describes some delimitations that have been made throughout the process in order to ensure a focused study that provides satisfactory results.

Methodology

The second chapter describes how the thesis has been conducted, as well as motivations for our selected research methods and approaches. More specifically, it describes how the empirical data was collected and analyzed. Lastly, this chapter discusses the credibility of the collected data to ensure a thesis with high quality.

Theoretical Framework

The third chapter presents the theoretical framework and models that have been selected and utilized to provide proper explanations and analysis of our empirical findings. Based on our selected field of study, one fundamental theory is presented based as an extension of earlier theories, followed by criticism that has been addressed and complementary theories in order to provide a solid foundation and avoid a biased analysis.

Empirical Findings

The fourth chapter presents the empirical findings that were conducted by utilizing secondary data sources. It provides an overview of the African countries studied followed by three selected case studies with real life examples of Chinese MNEs investing in African-based firms.

Analysis

The fifth chapter presents an analysis and discussion of the empirical data applied on the theoretical framework that has been presented. It highlights differences as well as similarities and discusses the significance of the results.

Conclusion

The sixth and last chapter presents a conclusion of the findings in the thesis and aims to fulfill the purpose
and answer the research question. It also provides suggestions for future research within the field of study.
2. METHODOLOGY

2.1 Research Design and Process

Research design could be referred to as the “structure of an enquiry” (De Vaus, 2001:16). Before commencing a research process it is of high importance to first and foremost determine a research topic of interest and thereafter make a thorough plan of how the research should be conducted. This also includes the selection of relevant theoretical framework, as well as accurate research methods and modes of available data collection given the research question (Eriksson & Kovalainen, 2008). Before starting with our research process we investigated earlier research and theories and made a brief literature review in order to grasp the ongoing discussion and recent development within the chosen field of study. The initial research also revealed whether the chosen topic was researchable in accordance with available data and empirical findings (De Vaus, 2001; Flick, 2002). We discovered that the ongoing research was lacking in some perspectives, which engendered an idea of what we wanted to investigate further and helped us put forward our research question.

When conducting a thesis it is crucial to have knowledge about methodology and how the choice of methods affect the results of the empirical findings in relevance to the research question that has been formulated. There are several methods that can be used in business research and one of these methods is the choice between exploratory, descriptive and causal research design. A descriptive research design is preferred when the research problem is clearly perceivable and focus is emphasized on the structure and procedures of conducting the study within a given and precise framework. The causal research design focuses on a rather structured problem but, on the other hand, it also addresses the emergence of potential causes and effects of the problem. Conversely, an exploratory research design is used when the problem is unstructured and less distinct. This implies a more flexible approach that allows new information to be gathered, which might result in new insights that change the strategy to find the solution to the problem. Since the problem of the latter type of research design is rather unstructured it requires skills of gathering and observing adequate data (Ghauri & Grönhaug, 2010). We argue that the selected research question in this thesis is of an exploratory kind as it focuses on description of the phenomenon followed by reasons and motivations of a behavior. Many times it digs deeper into the reasons and also answers questions as why the phenomenon exists and is the way it is (Donley, 2012). Thus, this research method was useful in
the thesis as the purpose was to gain new insight and fill the gap of a rather unexplored field. The most common tools to use in an exploratory research is secondary data analysis, which will be explained more in detail below (Ghauri & Grönhaug, 2010).

There are different ways knowledge can be presented and the three basic models commonly used for inquiry are known as deduction, induction and abduction. Whereas the former bases the empirical observations on the theory, the second views theories as an outcome of the empirical findings. On the other hand, abduction requires a more systematic combination of the parts involved in the research process, where the researcher moves between the empirical data and the theoretical framework. We reason that the chosen model in this thesis has been the inductive approach since empirical findings have been the main driver in our research process. Due to the fact that the field of study was rather unknown and needed sufficient research before determining the theoretical framework, this choice felt naturally most suitable and was also in line with our exploratory research design. Furthermore, our empirical findings have also been the factor determining the chosen theory, in order to ensure relevant and accurate interpretation and analysis (Eriksson & Kovalainen, 2008). The inductive research approach is often used when conducting a qualitative study and as general conclusions are drawn based on the empirical data, there is always a potential risk for conclusions that are not entirely certain, even though a high number of observations are made. However, except for the fact that this was the most suitable choice in consideration to our aim of study, the logic of generating theory by observations is also known to be the key and start in most scientific methods (Ghauri & Grönhaug, 2010). Nevertheless, throughout the process of research the theoretical framework has been modified as new empirical findings have been discovered. Thus, this has helped to gradually approach the core of the research problem and therefore we would not label the approach utilized as purely inductive since there are some signs of abduction along the process.

2.2 Qualitative Approach

The distinction between quantitative research and qualitative research is that the former focuses on explanation and analysis on a statistical level where the collection of data is emphasized by structure, standards and abstract models. On the other hand, qualitative research focuses on the complexity of a phenomenon within a business context which provides a more critical, reflexive and analytical approach (Eriksson & Kovalainen, 2008). In addition, Ghauri and Grönhaug (2005) suggests that qualitative research is useful in particular when earlier insights about a phenomenon that are being investigated are
moderate. This indicates that the approach is often rather exploratory and flexible in a sense that problems are indistinct as a result of modest insights. This thesis has been written based on a qualitative research strategy as the goal has been to understand the motives behind Chinese investments in African firms as well as its implications on economic development in the receiving countries. As the investigation has posed analytical challenges and required continuous data collection in order to be compared, interpreted and discussed, we found this research strategy most suitable.

2.2.1 Case studies

When writing a thesis several research methods can be used such as surveys, history and archival records. The research methods all differ in the way empirical evidence is being collected and analyzed. In this thesis case studies have been utilized for the chosen topic. The case study method is relevant when questions such as “how” and “why” are raised and when an extended and detailed description of a phenomenon is required. In case studies a wide range of evidence are used such as interviews, documents, artifacts and observations (Yin, 2003).

Generally, building theories around the inductive model has been the preferable choice when conducting a case study. However, Welch et al. (2011) keep a relatively open-minded view of modes in theorizing case studies and give another explanation of approaches to conducting case studies, stating that there are multiple alternatives other than the inductive method. The second alternative predicates a case study on natural experiment as a way of transforming existing theories, whereas the third relates to case study by focusing on interpretive sensemaking, which means that the context or action is interpreted by emphasis on human understanding and experience. The fourth and most recent alternative in methodological literature refers to case study as an ability to obtain a contextualizing explanation. This alternative focuses less on uniformity, aims to find causes-of-effects explanations and to integrate the context into explanation. All four alternatives have their advantages and disadvantages depending on what aspects that are focused on in the case study. However, Welch et al. (2011) argue that the classification of case studies are often difficult to make and that the way case studies are carried out are known to be hard to differentiate compared to other qualitative methods.
2.2.2 Choice of Case Studies

After having conducted a case study research, we agree with Welch et al. (2011) that the type of method used is relatively difficult to define. However, we have found that among the given four alternatives, the most recent development, *contextualizing explanation*, fits best into our research approach even though it has elements of the inductive one as well. We motivate the decision by the fact that our focus is to understand the context and gain an in-depth knowledge without sacrificing causal explanations. By contrast, an inductive method has less focus on the context integrated into explanation and tend to prioritize a rather law-like explanatory and descriptive view more than an analytical and causes-of-effect explanation.

In our case studies we have focused on studying three cases in depth rather than touching upon a wide range of cases as our aim is to increase the ability to make more in-depth findings, analyze and draw conclusions. This decision was also affected by the fact that the accessibility to relevant information on a micro-level has been limited, thus leading to the selection of case studies primarily based on accessibility and relevance. Nevertheless, the “China Global Investment Tracker” (The Heritage Foundation, 2014), a list with Chinese global investments on a company level between 2005 and 2013, has been our most valuable source. The list enabled us to get an overview of Chinese investments, which helped us to select our case studies. More specifically, the list provided us with valuable information about the investing firm, the firm in the host country and the shareholder size, a necessary foundation which made it possible to select the most interesting cases and continue with a more targeted research.

In our study we proceeded with a number of criteria when selecting our case studies. The investing Chinese enterprises are large MNEs that could be both state owned and privately owned. In addition, we studied cases where Chinese MNEs invested in African-based enterprises where the investments exceeded 10% of voting power according to the definition of FDI (UNCTAD, 2013a). In regard to the list of China’s global investments, we saw a pattern where larger MNEs tended to make both larger and a higher number of investments. Thus these factors served as a foundation when selecting our case studies.

2.3 Data Collection

When conducting a thesis, the data needed could be found in both *primary* and *secondary* sources. The
former refers to original data that is collected as a primary source with the aim to serve the purpose of the research problem directly, by for example conducting interviews. On the other hand, data collected by someone else where purposes might differ from one’s own is referred to as secondary data. This type of source is often important to obtain in order to facilitate understanding, analysis and explanations to the chosen research area. The fact that the data is secondary might however imply that the given information is biased or amplified, such as in cases where web pages of companies are used. Additionally, the scope, the time period and the related geographical location of given information need to be taken into account. However, notable organizations gathering information generally provide wider perspectives to ensure transparency and neutral information (Ghauri & Grönhaug, 2005).

Given the accessibility to gather information in the chosen field of study, the data collected in this thesis has been collected based on secondary sources. According to Ghauri and Grönhaug (2005) secondary data is often used as a dominant source when starting the research process, which has been the case while conducting this thesis. This source is known to be time saving and provides the researcher with information to better grasp the research problem, advantages which have certainly been affecting the writing process of this thesis. This type of source has contributed to a comprehensive knowledge of the field of study, which has facilitated the ability to draw scientific conclusions.

As a starting point to further understand the FDI flows on a more concrete level and judge whether our field of study would be feasible, we studied data and statistics provided by electronic databases such as the United Nations Conference on Trade and Development (UNCTAD), the World Bank, the International Monetary Fund (IMF), the Organization for Economic Co-operation and Development (OECD) and the Ministry of Commerce of China (MOFCOM) to mention some. In addition, we read several articles mainly collected from the databases such as Business Source Premier and Science Direct provided by the University of Gothenburg, School of Business, Economics and Law. This was done with the aim to gain a deeper understanding of findings in existing studies in order to discover in what fields it was lacking and how it could be useful for our study. The keywords we based our research on were primarily: *FDI, OFDI, China, Africa*. This led to the finding of our most crucial data that enabled us to continue our study in this field, namely the China Global Investment Tracker. Moreover, we used the library collection LIBRIS to gain access to books and journals published by for example SAGE, Journal of International Business Studies and International Business Review related to our topic. Nevertheless, articles from Western news sources such as the Economist and New York Times and from the related geographic locations in the field of study, as for example African Business Magazine and China Daily have been utilized. These articles
have served as very important and complementary sources especially in our search for empirical evidence on a case study level.

2.4 Qualitative Data Analysis

The purpose with the analysis is to structure and interpret the collected findings in order to gain insights and give it a meaning (Marshall & Rossman, 1995). It is thus a process of gathering, reducing, displaying, dividing and narrowing down information with the goal to draw conclusions and answer the research question. This process poses analytical challenges of different kinds, thus a good starting point is to determine the most significant attributes of the data analysis (Ghauri & Grönhaug, 2005).

In our case, the data found on FDI flows on a country level have been compared and narrowed down in order to select the most relevant African countries based on our criteria mentioned above. In the search for data on firm-level, we have used keywords such as: acquisition, joint venture, Sinosteel, CNOOC and Sinopec. The findings in our case studies have been sorted out by using a data reduction method, which is a process where data are selected, transformed and interpreted with the aim to understand and create a meaning of the observations. This helped us to select information and focus our study, which increased the ability to provide an explanation to our research question and identify patterns of the Chinese investments. Yet, data reduction is a process that requires accuracy and a critical approach since alternative explanations other to what has been given are most likely to occur (Ghauri & Grönhaug, 2005). To overcome this risk, we have put much effort in our research process to ensure that the most significant data related to our study have been found. The data have then been compared and interpreted from different perspectives as a way of trying to limit biased results or missing important data, which could affect the given explanation. In particular, this has been important in our case study since it is conducted on a micro-level As access to information and the possibility to compare cases have been rather limited, these factors might however affect the explanation and the ability to identify commonalities and differences.

2.5 Reliability and Validity

Eriksson and Kovalainen (2011:63) claim that “One of the fundamental parts of research is the issue of
trust created in the research community”. Thus it is of high importance, regardless of what empirics are used, that the collected data is relevant and trustworthy (Jacobsen, 2000). When measuring the quality of a research study, in terms of credibility, it is common to use the standard criteria of reliability and validity (Yin, 2009).

A study that has a high level of reliability assesses that the same results and conclusions can be given if repeated by another investigator with the same methods (Flick 2007; Yin, 2009). Validity refers to if the conclusions drawn describe and explain what it is intended to and if the findings are trustworthy (Eriksson & Kovalainen, 2008). Furthermore, it refers to the assessment whether the research has been carried out with objectivity, if relevant causes are explained when presenting the results and to what extent the results can be generalized (Yin, 2009).

Throughout the process when conducting the thesis, we have kept these terms in mind in order to provide a study with high quality. As a result, we decided from the beginning not to conduct any interviews, partly due to time- and resource constraints but also because of the vast geographical distance between us and potential respondents from companies in Africa as well as in China. The decision was made by taking the objectivity into consideration. If our data collection would derive from interviews rather than from secondary sources, we argue that the potential risk for biased information, questioning the level of objectivity and reliability, would have been considerably higher. In addition, we believe that there is a risk that errors and bias could occur from us as interviewers if structuring and conducting the interviews, making it difficult to know who the respondent on the other side of the world would be. In addition, given answers could be interpreted differently depending on how the questions are raised and who is answering them.

Another factor influencing this choice was related to our chosen topic, which treats a rather sensitive subject where the potential risk for biased and inaccurate information received from distant respondents was considered as very high. According to Ghauri and Grönhaug (2010), interviews are rather difficult to interpret and the risk for influencing the given answers might lead to issues of objectivity. Moreover, since the aim with an interview is to obtain valid and truthful information from the right respondent involved in the field of study, the risks with conducting interviews were considered as even higher. As a result, we saw the risks of conducting interviews outweighing the benefits, but we also saw the decision to base our study on secondary data as an interesting and challenging method to use.
As our data collection has been based on secondary sources we are aware that they might be biased. However, in order to reduce elements of subjectivity, we have used evidence from multiple sources and chosen our sources by carefully reviewing the content, of which many are brought from highly credible databases. Furthermore, we selected the most relevant sources by questioning the publisher and author as well as when it was written, and always referred to peer-reviewed sources as far as it has been possible. In regard to the importance of reliability, we have also made sure to present the data collected from a wider perspective, for example by providing empirical information from different perspectives if our observations revealed that more than one explanation was needed. We reason that the ability to keep a wider approach would have been more limited if conducting this type of study based on interviews. In addition, the data collection from interviews is rather difficult to verify whereas the data from our secondary sources are well documented and easier to access, thus increasing the level of reliability.

LeCompte and Goetz (1982) claim that the researcher’s observations should be carried out in accordance with his or her theoretical ideas. However there is a risk that researcher bias might occur. According to Burke (1997:284) “research bias tends to result from selective observation and selective recording of information, and also from allowing one’s personal views and perspectives to affect how data are interpreted and how the research is conducted”. Since our data has been based on collection from secondary sources it has been crucial to critically reflect our own subjectivity and tendency to affect the research process and conclusions, something that could be referred to as reflexivity.
3. THEORETICAL FRAMEWORK

3.1 Motivation of Theories

As the emergence of FDI has been observed in recent decades, several theories have been developed with the aim to explain why MNEs exist as well as describe their internationalization process. Many researchers such as Stephen Hymer (1960, 1976), Raymond Vernon (1966), Peter J. Buckley and Mark Casson (1976) have examined the motivations associated with FDI that drive companies to invest abroad rather than exporting or outsourcing their production. Over the years, however, many theories have been unable to fully explain and capture the complexity with the rise in FDIs (Dunning, 2000).

In the following section we will present the theoretical framework that has been utilized in this thesis when analyzing Chinese OFDIs into African firms. The choice of our key theory is motivated by the fact that John H. Dunning’s eclectic paradigm (1977) is one of the most dominated and utilized frameworks when studying and explaining MNE’s foreign activities (e.g. Alon et al., 2012; Kolstad & Wiig, 2009). In addition, over the past decades, the eclectic paradigm has become a general framework covering various theories, which further strengthens its impact within the field of international business (Dunning, 1993).

3.2 Internalization Theory

A well established theory that explains the existence of the MNE is the internalization theory which is a “ [...] firm-level theory explaining why the MNE will exert proprietary control (ownership) over an intangible, knowledge-based, firm-specific advantage (FSA)” (Rugman, 2010:3). The theory is based on Ronald Coase’s work in 1937 and over the past decades the theory has been developed by several researchers such as Buckley and Casson in the 1970s, contributing to the understanding of the governance of the MNE (Buckley & Casson, 2009).

In the initial work Coase (1937) argued that a firm would exist if the transaction costs of organizing exchanges within a company would be lower than on the market. But as the production of goods and services have become more sophisticated, they have come to include intermediate products and not only materials but also intangible assets such as knowledge and expertise (Buckley & Casson, 1976). Thus this
has required an effective coordination of these activities in a market involving a large number of trading
partners. Nonetheless, the external markets for intermediate products suffer from imperfections, especially
in knowledge intensive markets (DeGennaro, 2005). According to Buckley and Casson (1976) these
imperfections mainly include considerable time lags, buyer uncertainty and government interventions.
Thus the internalization theory (e.g. Buckley and Casson, 1976; Hennart, 1982; Rugman, 1981) suggests
that MNEs, due to market imperfections, benefit when coordinating their economic activities and
operations under common ownership rather than by intermediate firms. Consequently, when these
activities are located in different countries the MNE will emerge.

3.3 The Eclectic Paradigm

The eclectic paradigm, commonly known as the OLI-model, is a theory that was published by Dunning in
a number of publications (e.g. 1977, 1980, 1988, 1992, 1993, 1995, 2000). It is a further development of
the internalization theory (Buckley & Casson 1976), which “[...] seeks to identify and evaluate the
determinants of international business (IB) activity” (Dunning, 2003:3). In the general OLI-model, three
interdependent variables are carried out in three sub-paradigms:

The first letter “O” derives from Ownership specific advantages (or Firm Specific Advantages, FSAs) that
often refer to intangible assets such as brand name, technology and benefits of economies of scale that are
being transferred within the MNE. The sub-paradigm suggests that, if the investing company has a
competitive advantage that outshines those of the firm in the host country, the more likely the firm will
engage in production overseas. Moreover these advantages need to outweigh costs that often arise in order
to successfully operate on the international market (Dunning, 1980, 1988, 2000). When looking further
into a company’s O specific advantages, these can be divided into three types (Dunning, 1980):

1. Monopoly - advantages which provide beneficial access to markets by means of ownership of
   scarce natural resources, trademarks and patents.
2. Technology - knowledge advantages which cover a wide range of innovation related activities.
3. Economies of large size - advantages in learning, economies of scale and scope and broader access
to financing.

The second letter “L” derives from Location specific advantages (or Country Specific Advantages, CSAs),
which refers to the company finding it more beneficial to exploit its ownership specific advantages by engaging in FDI instead of renting them or selling them to foreign firms. More specifically, location advantages of different countries are crucial when MNEs make the decision on which country that will be hosting their value adding activities (Dunning, 1980, 1988). Each country’s specific advantages can be separated into three classes (Denisia, 2010; Hanson, 2001):

1. *Economic advantages* - advantages associated with factors of production, cost of transport, cost of communication, scope and size of the market etc.
2. *Political advantages* - favorable FDI policies implemented by governments.
3. *Social advantages* - benefits that relates to physical distance between markets, cultural diversity etc.

The third and last letter “I” derives from *Internalization*. As Dunning was influenced by his colleagues and their internalization work (Buckley & Casson, 1976), he incorporated the internalization variable in his own model (Rugman, 2010). When a firm has managed to develop its ownership specific advantages and transferred these advantages to new markets based on location specific advantages, it undertakes internalization the greater the advantages of producing overseas rather than through e.g. licensing (Dunning, 1980, 1988). The OLI parameters vary among companies and highly depend on the host country’s characteristics. Thus, the goals and the strategies as well as the production of a company will vary due to challenges and opportunities in different countries (Dunning, 2000; Hennart, 1982).

According to Dunning (2000:164) “The eclectic paradigm further asserts that the precise configuration of the OLI parameters facing any particular firm, and the response of the firm to that configuration, is strongly contextual”. The theory particularly provides different contextual variables, for example insights about the economic and political foundation of the country or region related to the investing firm but also the characteristics of the hosting country that will receive the investment. Additionally, it also reflects the industry and the nature of the activities that add value to the firm but also the specific features of the investing firm, its objectives and strategies and the overall reason behind the FDI. The latter is a contextual variable in which researchers have recognized four key points that describe the motives behind MNE foreign involvement (Dunning, 1993, 2000):

1. The so called *market-seeking* aspects which involve investments that aim to reach new attractive
markets and satisfy customer demand by engaging in FDI.
2. FDI with resource-seeking or supply oriented motives, that relate to the access of acquiring resources in different forms such as minerals and oil but also high-skilled labor.
3. Foreign activities developed to foster efficiency-seeking FDI such as enhanced division of labor or existing portfolios that are specialized in either foreign or domestic assets, a form of FDI often derived from the two other types mentioned above.
4. FDI emphasized by strategic asset-seeking motives, attempted to protect or improve the ownership specific advantages of the paradigm, related to the investing firm. This is often done by acquiring strategic assets from the firm in the host country in order to maintain or strengthen its position among competitors.

It should be noted however that since the eclectic paradigm first was published, nearly forty years ago, several events have occurred in the world economy. These events have changed the characteristics and pattern of international production and thus led to modifications and sometimes even replacements in existing explanations and related economic and business theories (e.g. Mathews 2006, Rugman 1981, 2010). In addition, the ownership specific advantages have changed as markets have opened up and moved towards knowledge intensive activities. This has resulted in the emersion of alliance capitalism and firms seeking to use FDI as a tool to protect and exploit their existing O specific advantages. Due to these changes, there are raised concerns whether the specific O advantages still can be incorporated in the general paradigm that was first presented (Dunning, 1993, 1995).

3.4 Criticism to the Eclectic Paradigm

Although the eclectic paradigm has served as a dominant framework within the field of IB for explaining why firms exploit their production overseas, it has also been criticized. Alan M. Rugman (2010) argues in his article “Reconciling internalization theory and the eclectic paradigm” that Dunning’s OLI-model is somewhat lacking as it focuses on OFDI into host economies. Thus his OLI variables and four motives for FDI (natural resources-seeking, market-seeking, efficiency-seeking and strategic asset-seeking) are all based on the host economy’s point of view and do not consider changes that occur in the home market.

The OLI-model has also been criticized for being outdated and limited as it only explains FDI that involves large MNEs in developed economies. Over the past decade, recent research has to a greater
extent focused on FDI from developing economies, in particular on *latecomer and newcomer MNEs* from East Asian countries. Thus there is an ongoing debate whether the OLI-model should be modified or replaced by new models to fit the characteristics of developing economies (Li, 1994; Li, 2003; Matthews, 2002; Matthews, 2006; Yeung, 1994). The OLI-model has also been challenged as it implies that MNE latecomers and newcomers tend to invest in less developed countries, which is proven not to be the case for countries such as China, South Korea and Taiwan whose FDIs lately have been directed towards United States as well as countries in Europe. Furthermore, when considering entry modes, the OLI-model has been challenged as it emphasizes full internalization whereas MNE latecomers and newcomers often undertake partial internalization or enter countries overseas utilizing external modes (Li, 2003; Matthews 2006). Next, we will highlight some disparities between the eclectic paradigm and the internalization theory and briefly present two models that could serve as complementary models to Dunning’s OLI-model in order to fully explain the determinants of FDI in our field of study.

### 3.5 Comparing the Eclectic Paradigm with the Internalization Theory

Since the eclectic paradigm and the internalization theory first were published, both theories have provided a foundation for the current theory of the MNE within the field of IB (Verbeke, 2009). Even though they are greatly intertwined, there are some important disparities between the theories that will now be addressed.

Whereas the O-advantages in the internalization theory are efficiency-based and applied on transaction cost theories, the eclectic paradigm deals with asset-based O-advantages. Thus Dunning’s eclectic paradigm focuses more on the transaction, yet an industry-level analysis, whereas the internalization theory focuses on the firm as the unit of analysis of their strategic decision-making (Buckley & Casson, 1976; Hennart, 1982; Rugman, 1981). Moreover, the theories differ in the sense that they deal with entry modes differently. The internalization theory avers that the choice of entry mode for an MNE, whether through FDI or another mode of entry, depends on the relative costs and benefits over time. It also highlights the potential risks associated with foreign entries, especially in hazardous market. The eclectic paradigm, on the other hand, has a broader approach and focuses on the O, L and I parameters on an industry-level. To sum up, the eclectic paradigm provides more descriptive explanations of OFDI motives while the internalization theory has a narrower and more analytical approach (Rugman, 2010).
3.6 The FSA/CSA Matrix

As Dunning’s eclectic paradigm only focuses on host countries, Rugman suggests that the eclectic paradigm could be reconciled with Rugman’s traditional firm and country matrix (1981), which in addition to the eclectic paradigm also includes MNE activity in home countries. It should be noted that Rugman’s traditional FSA/CSA matrix in fact can be used when looking into host country aspects as well, simply by relabeling his original matrix or use a second matrix where host country CSAs are considered (Rugman, 2010).

Whereas Rugman’s FSA/CSA matrix consists of two axis, Dunning’s eclectic paradigm is composed by three variables. Thus it could be questioned how Dunning’s eclectic paradigm could be well incorporated in Rugman’s FSA/CSA matrix. First, when comparing Dunning’s location variable with Rugman’s CSA factors they match almost perfectly. Dunning’s location specific advantages from a host country perspective include factors such as natural resources, size of the market, labor as well as culture. Moreover the location specific advantages include government behavior in the host country. Although there is some disparities when defining the location variable, there is generally no substantial difference when incorporating Dunning’s location variable with Rugman’s CSA axis (ibid.).

Rugman suggests that the remaining variables, the ownership variable and internalization variable could be combined and integrated in the FSA axis of the matrix as he argues that both ownership advantages and internalization advantages of the MNE are firm specific. Thus MNEs according to Dunning’s model use a combination of internalizing and exercise control of firm specific advantages when undertaking OFDI (ibid.).

Finally, when considering Dunning’s four motives (e.g. Dunning 1980, 1988, 2000) for undertaking OFDI; natural resource-seeking, market-seeking, efficiency-seeking and strategic asset-seeking, they can also be reconciled with the FCA/CSA matrix as illustrated in figure 2. below. In the first cell the factors in the host country become crucial as the home country lacks in FSAs. Hence an MNE undertakes FDI in order to exert control over natural resources endowments, cheap labor force and take advantages of fair government policies in the host country. Moreover the MNE strives for a larger consumer base and a market with well established infrastructure as well as supplier networks. The first cell also incorporates efficiency based factors, in particular cost savings in labor in the foreign country (Rugman, 2010).
In the second cell no FDI will be undertaken when both the home country and host country can not take advantage of FSA and CSAs. Likewise, none of Dunning’s four motives are included in the fourth cell and no FDI will take place. This goes in line with his OLI-model that suggests that the determinants behind OFDI are based on high CSAs in the host country. Finally the third cell deals with asset-seeking motives as MNEs, in particular those from emerging countries, use OFDI as a tool to gain knowledge in the host country. However, this form of FDI has been discussed over the course of the past two decades. In many cases it is not certain whether the host country actually prefers to sell their knowledge assets or not, and it is questioned if the knowledge is transferred to the home countries (ibid.).

![Diagram](image)

Figure 2. The FSA/CSA matrix reconciled with the motives for FDI in the eclectic paradigm (Rugman, 2010)

### 3.7 The LLL-Model

As previously discussed, the OLI-model focuses primarily on large MNEs from developed economies. Whereas firms in developed countries use internationalization as a means to exploit existing resources, latecomer and newcomer MNEs from developing countries expand overseas to get hold of resources they lack on the domestic market (Mathews, 2006). Thus they primarily use FDI as a tool to overcome their existing disadvantages, which challenges the traditional OLI-model (Li, 2003; Mathews, 2006). Hence
John A. Mathews put forward a complementary model, the *LLL-model*, which asserts that: “... MNE latecomers engage in FDI to achieve new competitive advantages via external linkage, leverage and learning rather than exploiting existing internal advantages via internal control” (Li, 2007:299). What characterizes the latecomer and newcomer firms, according to Mathews, is that they internationalize at a very rapid pace. This is a result of organizational innovation as the latecomers and newcomers look at other established firms in order to adopt the way they organize, which could range from clusters to highly globally integrated organizations. Finally, they are strategically innovative as they have to find means to enter markets with already operating skilled firms (Mathews, 2006).

What motivated Mathews to his research was that he wanted to know how challenger firms, particularly those from from the Asia Pacific region, could successfully beat already existing, highly competitive firms on the international market. This was the case for firms such as Ispat International and Acer that he referred to as the “Dragon Multinationals” which, despite initially small markets, low skills and knowledge started off far behind and managed to internationalize and become industry leaders in many sectors in a short period of time (ibid.). In fact, Ispat, today a part of ArcelorMittal (Bloomberg, 2004), started off as a small Indonesian based company in the 1970s (Mathews, 2006) and over the course of the past decades the company has become the largest steel producer and among the most globalized companies worldwide (Sull, 1999).

Mathews argues that a the key success factor for the latecomer firms lies behind the widespread globalization. As a result of market openness, liberalization in trade and deregulation, the international marketplace has become more integrated. The globalization has thus created opportunities for the latecomer and newcomer firms who have been able to take advantages by penetrating into Western markets and adapting and learning advanced technologies (Mathews, 2006).

Mathews LLL-model can be summed up as follows: The first term *linkage* refers to latecomers and newcomers at an initial point seeking and acquiring resource advantages outside of their own economy. In order to overcome initial restrictions on the domestic market, due to lack of potential knowledge, a global approach is emphasized for their expansion. Moreover, a foreign partnership such as joint ventures (JVs) are the most common form of entry to be linked up in networks and exchange sources of advantages. The second term *leverage* refers to what extent these links can be leveraged as well as how resources can be imitated, transferred and substituted on the new market. Finally, the determinant of a firm’s successful organizational *learning* is a result of a firm’s repeated adaption of linkage and leverage (ibid.).
According to Mathews the LLL-model (2006) can serve as a strategic framework for all kinds of companies, including small and medium enterprises (SMEs) as a means for a successive expansion in the global marketplace. These stages in the process of a latecomer firm engaging in FDI could be highlighted in the example of Ispat. Starting off with very small mills and low skills in technology, Ispat dispersed their operations worldwide by leveraging acquisitions of state-owned steel plants overseas and utilizing new technology and integrated management systems. Ispat made use of their latecomer advantage and once it became a part of a global network the company started to make acquisitions in Europe and the United States as well. Finally in 2004 Ispat became the number one company within the steel industry.

After having studied Mathews’ LLL-model (2006) our received apprehension is that the model mainly serves to explain the process of FDI engagement from the investing firm’s perspective. Moreover, we argue that the model describes the linkage, leverage and learning process when a firm from a developing or emerging economy undertakes investments in a developed country. This would imply that the model in this case could explain China’s global approach where the linkage, leverage and learning process is targeted primarily towards developed countries. However, as we study China’s engagement in Africa we will utilize the model trying to describe how the LLL variables could be analyzed when investing in less developed countries. Moreover, we will also try to apply the LLL variables on a host country perspective.

3.8 Summary of Theoretical Framework

To sum up, the eclectic paradigm (Dunning, 1977), which is a further development of the internalization theory (e.g. Buckley & Casson, 1976; Coase, 1937; Hennart, 1982; Rugman, 1981), has been used as a solid ground within IB and for further development in subsequent theories within the field. Therefore, we have argued that the OLI-model (Dunning, 1980, 1988) is an extensive and compatible theory suitable for our study as it provides a foundation for understanding our empirical findings from a wide perspective. Nevertheless, we are aware that a paradigm of such significance also has been widely discussed and criticized in recent years. The widespread globalization has considerably changed the global marketplace, which has made the model rather outdated. This is clearly evident in emerging markets where many economies have faced accelerated internalization. Moreover the OLI-model is focusing on host countries, excluding factors that change in the home market. This chapter has hence emphasized the ongoing discussion of the OLI-model and presented the recent development of the FSA/CSA matrix (Rugman,
1981, 2010) and the LLL-model (Mathews, 2006) as complementary theories adjusted to the prevailing circumstances in the world economy.
4. EMPIRICAL FINDINGS

4.1. Country Level

As shown below in figure 3., Africa is currently a continent with high potential and economic growth, which has created great business opportunities and attracted investors from all over the world. According to African Economic Outlook, a list brought up by the IMF and The Economist, six out of the ten fastest growing economies in the world are African. When comparing the continent to other developing economies, the return on investment in Africa is in fact higher and its rather unexploited markets of natural resources have attracted a large number of investors (KPMG, 2013).

![Figure 3. Overview of Africa’s historical and expected growth trends (African Economic Outlook, 2012)](image)

The figure below shows Chinese OFDI flows (in millions of USD) by country in Africa between 2004-2010 (see figure 4.). As the flows vary both in size and in relation to other African countries over time, we have calculated the average flow between 2004-2010 for every country in order to rank the countries with the highest inflows and get an idea of where the FDI flows are targeted. As shown in the figure the top five countries receiving the highest levels of FDI are South Africa, Nigeria, Algeria, Zambia and the Democratic Republic of Congo (DRC).

As earlier discussed, our initial thought was to select cases in the top five FDI receiving countries in Africa since we believed that higher inflows of FDI naturally would provide us with more valuable data. However, when conducting the thesis there were several parameters that needed to be taken into consideration. The selected countries are not only based on the highest average inflows of FDI, but also on the relevance and the type of data collected from the case studies as previously stated. Therefore, besides South Africa and Nigeria, Angola has been chosen to be examined based on the information found on a micro-level. Next, we will present a brief country overview and general characteristics of South Africa,
Nigeria and Angola in order to gain a better understanding of why these countries have received high levels of FDI. Later on, this chapter will present three selected case studies of Chinese MNE’s OFDI into South Africa, Nigeria and Angola. The chosen case studies involve Chinese MNE’s OFDI with a share of over 10% in African based firms in the energy and metals sectors.

<table>
<thead>
<tr>
<th>Year</th>
<th>Algeria</th>
<th>Angola</th>
<th>Congo DR</th>
<th>Congo</th>
<th>Egypt</th>
<th>Ethiopia</th>
<th>Gabon</th>
<th>Ghana</th>
<th>Guinea</th>
<th>Kenya</th>
<th>Madagascar</th>
<th>Mauritius</th>
<th>Niger</th>
<th>Nigeria</th>
<th>South Africa</th>
<th>Sudan</th>
<th>Tanzania</th>
<th>Zambia</th>
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<tbody>
<tr>
<td>2004</td>
<td>11.21</td>
<td>0.18</td>
<td>11.91</td>
<td>0.51</td>
<td>5.72</td>
<td>0.43</td>
<td>5.60</td>
<td>0.34</td>
<td>14.44</td>
<td>2.68</td>
<td>13.64</td>
<td>0.44</td>
<td>1.53</td>
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<td>84.87</td>
<td>0.47</td>
<td>5.07</td>
<td>8.11</td>
<td>13.31</td>
<td>4.93</td>
<td>2.08</td>
<td>2.57</td>
<td>16.34</td>
<td>2.05</td>
<td>1.17</td>
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<td>47.47</td>
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<td>2006</td>
<td>98.93</td>
<td>22.39</td>
<td>36.73</td>
<td>12.24</td>
<td>8.85</td>
<td>23.95</td>
<td>5.53</td>
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<td>13.24</td>
<td>16.59</td>
<td>7.94</td>
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<td>40.74</td>
<td>50.79</td>
<td>12.54</td>
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<td>2007</td>
<td>145.92</td>
<td>41.19</td>
<td>57.27</td>
<td>2.50</td>
<td>24.98</td>
<td>13.28</td>
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<td>15.58</td>
<td>100.83</td>
<td>390.35</td>
<td>454.41</td>
<td>65.40</td>
<td>-3.82</td>
<td>119.34</td>
</tr>
</tbody>
</table>
| 2008 | 42.25   | -9.57  | 23.99    | 9.79  | 14.57 | 9.71     | 32.05 | 10.99 | 8.32   | 23.23 | 42.56      | 34.44    | -0.01 | 305.35  | 4807.86     | -63.14| 18.22    | 213.97
| 2009 | 228.76  | 8.31   | 227.16   | 28.07 | 133.86 | 74.29    | 11.88 | 49.35 | 26.98  | 28.12 | 42.56      | 14.12    | 39.87 | 171.86  | 415.87      | 19.30 | 21.58    | 118.80 |
| 2010 | 186.00  | 101.11 | 236.19   | 34.38 | 51.65 | 58.53    | 23.44 | 55.98 | 9.74   | 101.22| 33.58      | 22.01    | 196.25 | 184.89  | 831.58      | 30.96 | 25.72    | 75.05  |
| Average | 113.99 | 23.44 | 85.47    | 13.80 | 36.13 | 26.45    | 11.98 | 17.37 | 12.82  | 23.77 | 23.64      | 15.03    | 50.31 | 153.75  | 831.58      | 48.73 | 10.97    | 88.56 |

Figure 4. Chinese OFDI into African countries in millions of USD (MOFCOM, 2011)

4.1.1 Country Profile: South Africa

Historically, South Africa was a British colony until 1934 and it was not until 1994 the country gained their independence from the white minority rule. Today, the country is a constitutional democracy with a government system that operates on a national, provincial and local level (BBC, 2014).

Over the course of the past decade South Africa has become a frontrunner, surpassing other African nations in terms of FDI attractiveness (Davie, 2013). With a GDP at $384.3 billion USD in 2012 (The World Bank, 2014a), South Africa stands as the economic powerhouse of Africa making it one of the top emerging markets in the world. Besides, in 2010 South Africa was admitted to BRICS, former BRIC, consisting of four of the major emerging economies in the world; Brazil, Russia, India and China (The Economist, 2013a).
South Africa is characterized by its diverse industries and some of the most potential sectors are in agro-processing, business process outsourcing, transport equipment, metals and electrical machinery, advanced manufacturing and tourism to mention some (The DTI, 2013a). In 2012 South Africa alone attracted about a fifth of all FDIs into Africa (Davie, 2013). Particularly, South Africa has an abundance of natural resources such as gold, coal and iron ore but also attracts a lot of investments in the oil and gas sector (KPMG, 2013).

There are many reasons why foreign investors are seeking the South African market. First of all, South Africa has a favorable location as investors have great opportunities in reaching the South African market but the country is also a gateway to the rest of the continent (The DTI, 2013b), whose economy lately has grown faster than any other continent in the world (Davie, 2013). Secondly, when considering its demography, South Africa has reached an upper middle income level (The World Bank, 2014a), which has enabled greater consumption. Also, the country has an abundance of both a semi- and unskilled labor and due to legislation introduced by the South African government, it has helped building skills and competences of world class (The DTI, 2013b).

Thirdly, South Africa is one the most business friendly countries on the continent with well established infrastructure, which is the most developed in Africa (KPMG, 2013). The country also attracts a large number of investments in research and development (R&D). It is also one of the leading countries in green technologies which has created many sustainable jobs (The DTI, 2013b). Lastly, South Africa enjoys political and macroeconomic stability and along with a preserved democracy (Davie, 2013) over the past twenty years, the nation has created a positive business climate. South Africa has become a popular destination as investors who seek to do business in the country can assure that investment requirements and trade rules are being met in the country (The DTI, 2013b). According to the World Bank’s list of “Ease of doing business” South Africa currently ranks #41 out of 189 countries (The World Bank, 2014b) and ranks higher than the other member countries of BRICS (KPMG, 2013).

4.1.2 Country Profile: Nigeria

Nigeria was a British colony until its independence in 1960 and is a federal constitutional republic with a multi-party system (KPMG, 2012). The country is Africa’s largest country in terms of population size with the largest oil and natural gas reserves, which makes them a very important oil exporter in the continent.
Furthermore, Nigeria has a low-cost labor force and with its large population size, the country has potentially the largest domestic market in sub-Saharan Africa (KPMG, 2012). During the first decade of the millennium, the economy in Nigeria has seen a steady GDP growth, amounting to an average of 7.6% between 2003 and 2010 (World Bank, 2013a). According to KPMG, Nigeria was ranked as the fourth most popular destination in the world attracting investment and fostering growth (This Day Live, 2013) and it is projected that in 2020 Nigeria will become one of the world’s top 20 economies (KPMG, 2012).

On a global scale, Nigeria ranked the 8th largest oil exporter in the world in 2012 (Oluduro, 2012). Over the past years, the country has worked hard to enhance governance in the oil industry, for example by being one of the pioneers among other African countries to implement the Extractive Industries Transparency Initiative (EITI). The aim with EITI, supported by the World Bank, is to facilitate transparency, improved governance and accountability in countries with an abundance of resources operating within the oil, gas and mining industries (World Bank, 2013b).

The Nigerian government has also tried to diversify its economy by fostering growth opportunities in the non-oil sectors and by introducing reforms in line with IMF’s requirements (KPMG, 2012). As a key step to improve the power sector, the Nigerian government decided to undertake a reform in 2005, which has posed some challenges along the following years. In 2010, the process of continuing the reform was implemented as a governmental strategy to improve power supply, open up the private sector and the services sector in Nigeria (World Bank, 2013a). The investments in power supply are believed to contribute to economic growth, value added and the development of other sectors in the country. Except for improvements in the energy sector, the government has also made efforts to enhance the business environment in Nigeria with the aim to promote FDIs with high returns. The country serves as regional hub in the sectors of manufacturing, service and innovation. In addition, the goal to develop a well-functioning infrastructure system has been highly prioritized as a way of enhancing transport capabilities and therefore ease the operations and increasing productivity of businesses (Mordi, 2013). However, impediments to economic growth still prevail, such as the lack of sufficient infrastructure and energy supplies. Besides, issues of corruption and stability in the regulatory environment and the pace of reforms are still factors hampering investments (KPMG, 2012). In fact, Nigeria ranked as low as #153 out of 187 in the United Nation’s (UN) Human Development Index (HDI) conducted in 2012 (UN, 2013). Other factors limiting the macroeconomic environment in Nigeria are the insufficient welfare system, the lack of job opportunities and still prevailing poverty (World Bank, 2013c).
More recently, analysts have turned their attention to Mexico, Indonesia, Nigeria and Turkey referred to as the Mint countries that are expected to be the “next giants”. The Mint term was developed by Jim O’Neill who also came up with the BRIC acronym in 2001 for identifying the current emerging economic powers in the world. Besides being populous nations, the economies of the Mint club have favorable demographics with a potentially strong work force consisting of a large number of young people. If the four countries act together, it is believed that their growth can be as high as China’s double digit growth rates were between 2003-2005. Furthermore, Mint can put pressure on Nigeria in becoming a member of the G20 as the other countries already are (BBC, 2014).

4.1.3 Country Profile: Angola

Angola is located in Sub-Saharan Africa and was controlled by the Portuguese until 1975, an independence that was gained by an anti-colonial war that lasted for fourteen years. Nevertheless, the country struggled with a long civil-war for twenty-seven years and it was not until 2002 peace prevailed in Angola. Politically, Angola is a unitary republic with a multiparty presidential regime and had its first post-war legislative elections in 2008. Unlike South Africa and Nigeria, the country’s economy is mainly driven by its abundance of oil reserves, where oil accounts for nearly 80% of governmental revenues (Jover et al., 2012). Besides, oil stands for 98% of their export and is the primary resource that attracts FDI into the country, where China alone stands for 40% of Angola’s total oil exports (ibid.). In fact, Angola together with Saudi Arabia is China’s largest and most important source of oil (The Economist, 2011). These factors have contributed to Angola becoming increasingly stable as an economy with an average real GDP growth of 11.6% accounted for the period between 2002-2011 (Jover et al., 2012).

Although Angola is highly dependent on global oil prices, the country has managed to reduce inflation and revenues from the oil sector have fostered fiscal expansion, increased domestic demand and the stimulation and development of other non-oil sectors. However, poverty still prevails and living standards are generally low, ranking Angola #148 out of 187 countries according to UN’s HDI (Jover et al., 2012). In 2006, Angola was accepted as a member of the Organization of the Petroleum Exporting Countries (OPEC) and its oil reserves have been used as a security when receiving financial support from the Chinese government. As a result, Angola was granted the first oil-backed loan by the Chinese Exim Bank in 2004. Such inflows of capital from major banks in China have contributed to great improvements in for
example the infrastructure in the country. In return, China has got access to Angola’s natural resources endowments and an increased number of Chinese contractors have been granted in the country (ibid.).

4.2 South Africa: Sinosteel Corporation - Samancor Chrome Minerals

Sinosteel Corporation, also known as Sinosteel, is a Chinese state-owned enterprise (SOE) and a leading developer and processor in metallurgical and mineral resources. As of today the company has great influence in the steel industry in China and is an important supplier for many leading Chinese steel mills. Already back in the 1980s Sinosteel strived for economic and technological collaboration and was one of the first SOEs to engage on the global market and develop resources overseas. As of today the enterprise has 86 subsidiaries, of which 23 operate abroad (Sinosteel Corporation, 2007).

In November 2006 Sinosteel expanded to the African market and signed two deals. The first agreement that was reached resulted in a strategic partnership between Sinosteel and China Development Bank (CDB) with Samancor Chrome (Reuters, 2006), a South African enterprise and one of the world’s largest producer of chrome ore and ferrochrome (Samancor Chrome, 2008) that currently owns 70% of the total ferrochrome ore resources in South Africa (Qiao, 2006). In the deal the Chinese bank agreed to help finance rising expansions of ferrochrome in South Africa (Reuters, 2006).

The second agreement resulted in a JV between Sinosteel and Samancor Chrome to exploit chrome ore resources in South Africa, which formed the company Tubatse Chrome Minerals, in which Samancor Chrome had 50% and the remaining 50% was sold to Sinosteel (Tubatse Chrome Minerals Pty. Ltd., 2008) for $230 million USD (Forbes, 2010; The Heritage Foundation, 2014). Tubatse Chrome would be able to produce 1.6 million tons of chrome ore and approximately 300 000 tons of ferrochrome every year. In addition, the JV would possess chrome ore resources seven times greater than the total chrome ore reserves in China (Qiao, 2006). Later on in 2008, Sinosteel established its subregional headquarter in Sandton, Johannesburg (Rabede, 2013).

According to the Sinosteel representative the agreement was a win-win project as Samancor has an abundance of chrome ore resources, something China wants to get hold of as a resource scarce country. Moreover, Liu Dong, MD of Tubatse Chrome minerals, pointed out that Sinosteel would enjoy a number of benefits when operating in South Africa. By having the smelters close to the mines the products would
leave the South African market with enhanced quality (Qiao, 2006). The Sinosteel representative also asserted that Samancor had the tools needed to promote Sinosteel’s business in the long-term;

“Its efficient equipment and infrastructure for mining, ore selecting and metallurgy are a foundation for further development” (Qiao, 22 December 2006)

In return, Sinosteel would provide the South African company with technology, management, marketing and fundraising (Qiao, 2006). According to Samancor the cash received from the deal would later be used for reinvestments in mineral processing which, if successful, would double their production by 2015 (Steelguru, 2006). Moreover, Samancor’s CEO Jurgen Schalamon argued that the partnership with Sinosteel would provide Samancor with access to the Chinese market for ferrochrome:

“Sinosteel is a strategic partner, they have a good knowledge of the Chinese market and offer good entry points for Samancor into the Chinese market for ferrochrome,” (Hill, 30 April 2007).

Besides the JV with Samancor, Sinosteel has been involved in other successful joint mining ventures in South Africa. According to Dong, part of the success could be explained by the healthy relationships between South African and Chinese government. As early as in 1997 the JV ASA Metals was established, consisting of the Chinese East Asia Metals Investment (EAMI), a 100% subsidiary of Sinosteel Corporation and Limpopo Economic Development Enterprise (LimDev). The deal was timely as the Limpopo mine previously only had been used as a training mine. When investing in South Africa Sinosteel has, unlike many other Chinese enterprises used the local workforce and management expertise, which is also the case in both Tubatse Chrome and ASA Metals. For instance, at ASA Metals only four workers out of 1525 are Chinese and at Tubatse only two workers out of 1344 are Chinese. Moreover, Nan Fengzhi, MD of Sinosteel South Africa argued that the company takes responsibility in the South African society. For example, a JV with local communities were established in order to build a recovery plant as well as improve water supplies, schools and hospitals for the local people (Rabede, 2013). Moreover, Fengzhi said:

"We are also cautious, when we procure or source material from our clients, that we encourage our clients — particularly the 70% sourcing business — to be BEE compliant,’ (Rabede, 25 January 2013).

where the term Black Economic Empowerment (BEE) in short refers to a policy where the government
ensures that black people in South Africa are equally treated and participating in the economy (The Economist, 2010).

However it should be noted that it has been argued that unlike many other agreements between China and Africa the establishment of Tubatse has mainly been driven by business- and profit making motives rather than to provide China with raw materials. According to Samancor’s chairman Danko Konchar, Samancor would be debt free after Sinosteel’s 50% acquisition of Tubatse (Reuters, 2006). He stated that:

"Sinosteel is a trading organisation, and Tubatse Chrome will be a profit-driven company. If China offers the best price we will sell it to China, but we will sell to wherever we can get the best price" (Reuters, 8 November 2006).

Moreover, Samancor has been criticized as the chrome ore exports to China would impair the South African industry’s prospects. Samancor clarified the criticism by stating that:

“We are looking to grow an industry, whose profile has remain static for nearly a decade, while the ferrochrome industries of India, Russia, Kazakhstan and China have been expanding. It is true that we exported to China, but our long term focus it to add value to the chrome ore we mine in South Africa.” (Steelguru, 3 September 2006).

Although China many times have been blamed for its involvement in South Africa, both countries have indeed benefited from their trade. Only between 2010 and 2011 South Africa’s exports to China grew at 115.2% while imports from China grew at 76.7% (Xiaomei, 2012). Moreover, as a result of increased trade with China, South Africa’s purchasing power has grown and millions of jobs have been created. For instance, Sinosteel’s JVs in Limpopo and Mpumalanga have contributed with additional 3000 local jobs. Moreover, at the Bank of China, Huawei Technologies and ZTE Corporation the management has relied on South African workers, who account for 70% of the total workforce. The blame towards China has also been considered untrue as Chinese companies have helped exhibit South African commodities in China in order to enhance trade structures between the two countries, which has proven to be successful (ibid.).

South Africa’s Foreign Ministry and Peter Draper of South African Institute of International Affairs have expressed that they are positive to South Africa’s economic relationship with China. The country has not only benefited from growth but also from an increase in prices and exports from South Africa (Cartillier,
Moreover, the former South African president Thabo Mbeki believes that China will not view Africa as a waste ground and repeat its colonial relationships:

“China understands that she can only prosper on a sustainable basis if Africa prospers on a sustainable basis” (Cartillier, 5 February 2007)

4.3 Nigeria: China National Offshore Oil Corporation - South Atlantic Petroleum

The China National Offshore Oil Corporation Limited (CNOOC), including its subsidiaries, is China’s biggest producer of offshore natural gas and crude oil. The SOE is also one of the largest operators in the oil and gas sector in terms of exploring, developing and producing measured on a global scale (CNOOC Ltd, 2013). In 2006, CNOOC acquired 45% of the shares in the South Atlantic Petroleum Limited (SAPETRO), a company with an oil mining license (OML) 130 belonging to one of the world’s largest oil and gas basins in Nigeria (CNOOC Ltd, 2006). The company CNOOC acquired their stake for $2.27 billion USD (The Heritage Foundation, 2014). The OML 130 covers an oil and gas field in the Nigerian Delta, a deep water block including different areas of oil discoveries that are all run by the global energy company Total. Among them, Akpo is the deepwater field involved in the deal, which was said to start its operations in 2008 with an estimated capacity of pumping 225,000 barrels per day (bpd), thus implying the need for external capital in line with CNOOC’s ability to finance such investment (Wang, 2006).

The acquisition needed approval from both the Nigerian National Petroleum Corporation and the government in China. The CNOOC’s former chairman and CEO Fu Chengyu expressed that:

"The purchase of this interest in OML 130 helps CNOOC gain access to an oil and gas field of huge interest and upside potential, located in one of the world's largest oil and gas basins. With one of the leading deep water experts as the operator of the field, we have every confidence for the fast and efficient production of oil." (CNOOC Ltd, 10 January 2006).

Moreover, the deal was a part of CNOOC’s strategy to increase productivity capabilities with the aim to raise profits in the long run (CNOOC Ltd, 2009). In addition, the acquisition was believed to contribute to diversification in terms of geographic location thus reducing risks. Besides, the deal provided CNOOC with an opportunity to acquire expertise from one of Nigeria’s frontrunners in oil production, knowledge
which could prove useful in internal operations in the future (CNOOC Ltd, 2006). Nevertheless, taking an international point of view, the deal the Chinese signed with SAPETRO was perceived as an overpayment thus indicating that the price tag was not the problem in the struggle to overcome oil reserves (Goodman, 2006).

In addition, China’s emphasis on finding energy sourcing has been widely criticized as the nation has been accused for doing business with regimes. One example of this is the business relation between Sudan and China’s National Petroleum, where the company has been the largest trading partner of oil in Sudan. However, the CNOOC has not been involved in a similar debate as far as we are concerned. Yet, the human rights issues in Nigeria have long been about the fact that profits from the oil originate from a corrupt government doing business at the expense of their people. In the deal with SAPETRO, Xiao Zongwei, the CNOOC’s spokesman, stated that such issues would not be involved in the deal. However, Zongwei’s description of the deal was more related to the company’s own interest; their source of funding, the control CNOOC would acquire over the oil field and the enhanced production capabilities the deal would bring, rather than explaining the mutual benefits of it (Goodman, 2006).

The Sino-Nigerian relationship used to be emphasized by long-term contracts where China was given access to oil on the market. However, as a result of China’s strong economic performance the need for oil has sought Chinese investors to aim for ownership of the oil reserves rather than just contracting. During 1999-2007, when Nigeria was run by the president Olusegun Obasanjo, the trade between China and Nigeria was strongly supported by the president’s philosophy of exchanging “oil for infrastructure”, which was based on the Nigerian government selling blocs of oil in bidding rounds. As a result, Beijing’s response was an increased interest in Nigerian oil reserves in return for construction and energy projects, primarily financed by loans from the Chinese Exim Bank with oil as the security (Mthembu-Salter, 2009).

However, when Obasanjo’s government was replaced in 2007, the main focus shifted to exchanging oil for cash, which has impeded the development of infrastructure severely. The first example of this type of investment was Sinopec’s $7.2 billion USD acquisition of Addax in 2009 (Mthembu-Salter, 2009), which covered great oil reserves in Nigeria. The deal clearly indicates the new shift in Sino-Nigerian trade relations based on purchasing the assets rather than providing the host country with infrastructure and financing, thus implying that oil deals of this size have primarily been focused on offering the highest bid. The shift in the Nigerian oil sector has been compared to the Angolan way of doing oil businesses by choosing either infrastructure or cash, but not both (ibid.).
4.4 Angola: Sinopec Limited - Sonangol E.P.

Sinopec, the former China Petrochemical Corporation, was founded in 1998 and is 100% owned and controlled by the Chinese government. Sinopec Group also exercise its investor rights in the full subsidiaries, controlling companies and companies in which it holds assets (Sinopec Group, 2011).

In Angola, the exploration of oil has been conducted since 1953 with the purpose to serve the need and development of the Angolan people. Sonangol E.P, was established in 1976 and has been a vital source of income for the Angolan government ever since, that has entered the international oil field by co-operations, JVs and sharing agreements (Sonangol EP, 2013). In 2006 the two SOEs, Sinopec and Sonangol, formed a JV named Sinopec Sonangol International (SSI) which gave Sinopec 75% of the stake (Campos & Vines, 2008). Sinopec’s investment in the Angolan oil assets of the official amount of $2.40 billion USD, included ownership in three different oil blocks; 15, 17 and 18, distributed by a stake of 20%, 27.5% and 40% respectively (ibid.). The acquisition was known to cover oil reserves of 3.2 billion barrels that together would contribute to enhanced production capabilities of 100,000 barrels bpd, (China Daily, 2006), with a total capacity that would then amounting to 240,000 bpd (Macauhub, 2006c).

Sinopec is Asia’s largest oil company measured by refinery capacity, and therefore sought to enter a partnership with an oil company promising returns of the same size. By establishing a partnership with the largest oil-producing country in Sub-Saharan Africa next after Nigeria, equipped by oil reserves substantial enough to secure an important part of the Chinese market’s need for energy sourcing, the JV appeared as greatly beneficial for Sinopec (Macauhub, 2006b). As a result, the deal would provide Sinopec with access to a new network and valuable knowledge about the Angolan way of operating. Angola on the other hand, would enjoy a boost in their FDI inflows as the SSI’s winning bid of the oil blocks was the world’s highest for a bid of that type. In addition, the deal would provide the country with financial support intended for social projects amounting to some $200 million USD and from a business point of view; eased access to the fast-growing Chinese market which would promote GDP growth (Campos & Vines, 2008; Macauhub, 2006a). Moreover, as a result of increased bilateral trade between the two countries during the time of the investments, the ambassador in Angola stated that China’s largest trade partner following South Africa was no other than Angola (Macauhub, 2006b).
The JV between Sinopec and Sonangol has been used as an example of a successful acquisition in different case studies (Global Trade Review, 2007; Macauhub, 2007;), and there are other investments strengthening the connection between Sinopec and Sonangol even further. In fact, the first investment occurred already back in 2004 shortly after the first Chinese credit involvement was signed, supported by the Exim Bank (Jover et al., 2012). The investment enabled the foundation of China Sonangol, also called China International Fund (CIF) (The Economist, 2011), a JV between Sonangol E.P and the New Bright International Development company based in Hong Kong (China Songangol, 2012). In 2010, Sinopec announced that it was going to purchase 55% of the stake in SSI through an agreement with their subsidiary in Hong Kong, which was 100% controlled by Sinopec itself (Sinopec, 2010). The acquisition gave Sinopec access to the oil assets that belonged to Block 18, in which SSI held a 50% stake (Sinopec, 2010).

Except for governmental financing through Exim Bank, the privately held Hong-kong based CIF has also been the channel in which financing has flowed into Angola (Campos & Vines 2008). Thus this has been through the JV between Sonangol and the Hong Kong-based company, the latter also named the” 88 Queensway Group” or “Queensway Syndicate”, whose originating investments and purposes have been widely discussed among analysts and researchers within the field (Levkowitz et al., 2009; The Economist, 2011). One of the reasons are, for example, that the former chairman and the CEO for Sonangol E.P., Manuel Vicente, has been a very important source for the establishment of the Sino-Angolan relationship between both the two governments as well as between Sinopec and Sonangol. According to the Economist (2011), Vicente was a partner of the Queensway syndicate runned by Cantonese businessmen, a group with high interest in Africa that has been the strongest contributor to one of China’s most crucial trade relations. The Queensway syndicate, originating back to the Cold war, has many names but the most well-known are the CIF or China Sonangol. The investments linked to the Queensway Group appear to be very beneficial, however, surrounded by secrecy. Therefore, the investment group has been criticized for ignoring poverty and ethical values in their aspiration for wealth. In addition, the Queensway group has been accused for being regime-supportive after having signed deals with the regimes in Zimbabwe and Guinea.

However, the CIF, or syndicate, has not only been involved in financing of oil investments in Angola but also reconstruction projects of infrastructure such as the national railway and the airport in the capital Luanda (Jover et al., 2012). In addition, the CIF has contributed to the post-war reconstruction, an office called Gabinete de Reconstrução Nacional (GRN) that is linked to the Angolan presidency, a set up made
in 2005 with the aim to handle larger investments of projects facilitating rapid improvements of infrastructure. Similar to the credit paid by the Chinese Exim Bank, the CIF funding was paid to Chinese contractors and distributed among the projects. Nevertheless, the financing through CIF on GRN projects came to an end in 2007, which drew media attention questioning the reason and the Sino-Angolan relationship. The CIF had difficulties in raising capital hence resulting in Angolan financing being needed to complete the projects of Chinese contractors. Later on in 2007, the CIF was investigated by the Chinese Security Regulatory Commission after being accused for attempts to influence the stock price in investments linked to Angola (Campos & Vines, 2008).

In general, the Sino-Angolan relationship has been a target for both discussion and speculation. Both parties seem to regard their partnership as strategic and mutually beneficial, which the President dos Santos confirmed in 2006 during the visit of China’s prime minister;

“China needs natural resources and Angola wants development” (Campos & Vines, 2008:18).

According to the Angolan point of view, one motive was the funding from China with beneficial terms and conditions and lower interest rates compared to Western financing, thus helping Angola to strategically build up their infrastructure. In addition, other sources of financing than Chinese required higher securities and interest rates on the same hand as Angola’s relation to both the IMF and the World Bank was critical. On the other hand, China needed sourcing for their increased energy needs as a result of strong economic performance over the last two decades hence increasing oil consumption. In addition, the Angolan construction industry with low competition emerged as very attractive for Chinese entrepreneurs. As a result of increased investments and collaboration, the government in Angola has benefited by for example economic development, improved trade relations, cheaper technology transfer, scholarship opportunities and better education and health solutions (Campos & Vines, 2008).

Nevertheless, there are other aspects that should be taken into account, indicating that the motives behind this acquisition and other related deals have contributed to the development of less beneficial outcomes that will be further discussed in the analysis chapter. For example, the economic cooperation raises new challenges for Angola that might have long-term impacts. In 2007 Sinopec and Sonangol were supposed to enter a refinery project together in Lobito with a production capacity of more than 200.000 bpd, in which Sinopec received very beneficial terms. But still, the two parts could not agree on what market to target. At the same time, a press conference was held where the CEO of Sonangol stated that:
“We have reached a point where we cannot make concessions, we cannot build a refinery to produce for the Chinese market” (Alves, 2010:19).

The technology involved in the agreement could not be used for both the Asian and Western market, thus leading to a choice between them where China preferred to supply their market whereas Angola wanted to provide its domestic, regional and the Western market with oil (Alves, 2010). Another example of such disagreement is Sinopec’s involvement in a severe legal dispute with the government in Gabon after their acquisition of Addax. As a result of violation against the laws in Gabon, Sinopec’s actions almost made them losing their oil mining license in the country (Farge, 2013).

4.3 Summary of Empirical Findings

In summary, South Africa, Nigeria and Angola all started off as colonies occupied by the West and are countries rich in natural resources. However they differ in terms of historical background as well as political and macroeconomic stability. Among the three countries, South Africa stands out as a well-developed economy that enjoys a business friendly environment, attracting a high level of FDI inflows into the continent. In a short period of time Nigeria has flourished and become a country with high growth potential where a major part of the revenues are generated from their great oil and natural gas reserves. Angola has been, and still is, an important supplier of oil, although their economy is not as diversified as for example South Africa or Nigeria since it is highly dependent on their oil reserves.

The characteristics of each country have been highlighted in our case studies which all involve large Chinese SOEs investing with relatively high shares in African companies in the metal and energy sector. Although the motives behind each investment have been quite similar for the Chinese SOEs, they differ in terms of entry modes. The outcomes of the investment have resulted in job opportunities, greater production capacities, as well as improved infrastructure and education. Nevertheless, the findings in this chapter have also shed light over questions regarding the real underlying motives behind the investments in the studied African firms and long-term effects on sustainability and economic development.
5. ANALYSIS

The following chapter will cover an analysis and discussion of our findings in our three case studies, which will be compared with our theoretical framework in order to provide answers to our research question;

*What are the motives behind Chinese OFDI into African firms and how do they affect economic development in receiving host countries in the long-term?*

Since the research question is composed by two elements, we will divide this chapter into two sections by first discussing the motives followed by the consequences of Chinese OFDI in African firms.

5.1 Motives behind Chinese OFDI in African Firms

In the first case we studied in South Africa, Sinosteel formed a JV with Samancor where the motive was to exploit chrome resources in South Africa in order to provide the Chinese company with necessary resources to fuel its rapid economic growth. Samancor appeared as a strategically important partner as it currently owns 70% of the total ferrochrome ore resources in South Africa and the JV would own chrome resources seven times bigger than the total chrome resources in China. Also, Sinosteel located smelters near mines in South Africa in order to improve the quality of their products before reaching the international market. These motives go in line with the resource-seeking and the efficiency-seeking motives described in Dunning’s OLI-model (2000). These motives could also be found in Rugman’s FSA/CSA matrix reconciled with the eclectic paradigm (1981, 2010) where home country characteristics are also taken into account. The resource-seeking motive and the efficiency-seeking motive could be found in the first cell in his model where the home country, China, lacks in FSAs and the host country, South Africa, has high CSAs. One could also argue that the investment was targeted to South Africa as a result of its location advantages such as its strategic location as a gateway to the continent but also the country’s fair government policies and healthy diplomatic relations between China and South Africa. This could be found under the political advantages in the location variable in Dunning’s OLI-model (Dunning, 1980, 1988).
In the second case in Nigeria, the benefits of the deal were only described from a Chinese perspective rather than from both perspectives as a “win-win project”. First of all, the deal was signed as an acquisition rather than an establishment of a partnership such as a JV, as in the case with Sinosteel and Samancor. This indicates that the most crucial point was to own the assets and not to mutually benefit from each other. Therefore, the importance of gaining access to a great oil field through the OML 130, belonging to one of the largest oil basins with huge upscale potential, was emphasized as the most important driver. This implies a resource-seeking investment found in Dunning’s OLI-model (2000) and Rugman’s matrix FSA/CSA (1981, 2010) reconciled with the eclectic paradigm. This asset exploiting strategy could also be explained by the ownership specific advantages in Dunning's OLI-model (1980, 1988) as CNOOC was able to engage in OFDI and acquire oil reserves as a result of being a capital intensive company. In addition, the deal was told to increase development opportunities and production capacities in the long run, which further stresses the linkage to the efficiency-seeking motive in Dunning’s OLI-model (2000) and Rugman’s FSA/CSA matrix reconciled with the eclectic paradigm (1981, 2010). From China’s point of view, the terms and conditions of the deal appeared as very attractive in comparison to other global upstream deals of the same size and in the same time, which could imply that SAPETRO saw CNOOC’s high bid as the primary motive for signing the deal perhaps due to their need to secure capital.

In the third case, we would claim that Sinopec’s JV with Sonangol is another example of a resource-driven investment explained by Dunning’s four motives for FDI (2000). In this case, it appears very obvious since oil reserves are Angola’s most important source of income, where the exports of oil are as high as 98%. Moreover China’s share of oil imports from Angola account for 40%, which could explain the determinants of Sinopec’s engagement in Sonangol. This is also confirmed when relating to Rugman’s FSA/CSA matrix reconciled with the eclectic paradigm (1981, 2010) where the host country Angola has an abundance of natural resources, thus a very high level of CSAs, compared to China hence being the key driver behind the investment.

In the JV called SSI, Sinopec immediately obtained the dominating stake of 75% and only four years later, Sinopec acquired a 55% stake of SSI. One could speculate whether this confirms that Sinopec had a rather unknown, long-term strategy with their investment, which perhaps was to preferably acquire the assets by owning rather than developing the JV together with Sonangol. This FDI strategy could be explained by Dunning’s (1980, 1988, 2010) ownership specific advantages in the OLI-model, where Sinopec’s dominant position at the home market and capital strength enabled them to exploit their advantages and
engage in FDI to gain access to oil. Except for providing Sinopec with access to their most important resource, the deal would contribute to gained knowledge within the field but also improved efficiency in terms of reduced operating costs, thus implying some signs of an efficiency-seeking investment, developed by Dunning (2000).

However, taking the motive behind this deal and the fact that Angola is extremely dependent on one source of income into consideration, one could argue that morality behind this investment should have been paid a greater deal of attention rather than just focusing on a business transaction of a high amount. As the Angolan economy is highly dependent on one precious resource and its global pricing, one could wonder whether the “beneficial” Chinese financing and support of infrastructure projects really outweigh the risks of being too dependent on a trading partner of that size. This is clearly evident as the real motives and long-term strategic plans might be more hidden than the ability to understand the origins and network of the “88 Queensway Group”, whom in many cases appears to be the real investor. One example of a strategy of that kind, is the refinery investment Sinopec and Sonangol was suppose to develop in Lobito, which ended up in a disagreement since Sinopec revealed that their aim with the refinery was to only produce for the Chinese market whereas Sonangol had another request.

Disagreements of this kind might impede the LLL-model suggested by Mathews (2006) to be successfully implemented. Both Sinosteel and Sinopec entered the African market through a JV, which implies less risk and greater opportunity for learning synergies to occur. However, in contrast to Sinosteel, Sinopec made an acquisition to gain access over 55% of the oil reserves in SSI shortly after having established a JV with the dominant stake of 75%. Moreover, Sinopec had a completely different prioritization in their project with Sonangol, which could imply that the learning stage in the LLL-process never occurs if the co-operation between the parties is not successful. Nevertheless, the Sinopec-Sonangol case has been used as an example of one of the best deals in 2006, which should indicate that the synergies should have been rather successful. Yet, these potential synergies remain unknown since this information has not been able to access in our study. However, one could argue that the synergies of the LLL-model were not as obvious as in the Sinosteel deal, where both parties seemed to mutually benefit from the co-operation through their JV.

On the other hand, CNOOC’s expansion to Nigeria was formed by an acquisition directly, which is often related to higher risk when entering a new market, as a company from an emerging economy might lack both links and experiences from a global expansion. Thus it should be considered less difficult to leverage
the links through the investment by forming a JV. In this case, no evidence has been found on how or if
the learning process occurred after the acquisition. What could explain the choice of entry mode in the
Nigerian market, though, is the change in preferring ownership rather than contracting as a way of
securing energy sourcing.

5.2 Consequences of Chinese OFDI in African Firms

As earlier mentioned, we consider that the LLL-model developed by Mathews (2006) focuses on a home
country perspective. Since we analyze the implications of Chinese OFDI in African firms mainly from an
African standpoint and a host country perspective, our aim is to apply the LLL-model and try to provide
an explanation of the consequences of Chinese OFDI in African firms as we believe that the consequences
are somewhat related to the motives.

As previously discussed, the deal between Sinosteel and Samancor was a win-win project as both
mutually benefited from the deal. Whereas Sinosteel benefited from gaining natural resources through a
JV with a reliable supplier and a key player in the South African chrome ore industry, South Africa was
provided with technology, management, marketing and fundraising as well as long-term access to the
Chinese market. Among the cases we studied we argue this was the most successful. When applying these
findings on Mathews’ LLL-model (2006), traditionally describing the synergies that occur when an
emerging country invests in Western countries, China could in this case be viewed as the advanced
country, almost equivalent to a Western country whereas South Africa rather resembles an emerging
market as China. This is clearly shown especially if relating to what the deal provided each of the two
countries, where skills enhancing the learning process as technology, management and marketing
normally are streaming from the West to an emerging market such as China.

It is evident that Sinosteel’s presence in South Africa has had positive outcomes, creating job opportunities
in the local community, boosting education and hospitals, thus being compliant with social and economic
development. We would reason that using the local workforce implies that Sinosteel wanted to adopt to the
South African company and preserve the way things were done. We believe that these factors could
influence a successful learning process consistent with Mathews’ LLL-model (2006), where both parties
benefit from an enhanced network, building a bridge between the countries. However, it has been argued
that the underlying motive was business-driven and one could question whether China’s intention was to
ensure energy supplies at a fair price or contribute to economic development. One could argue that a vast flow of minerals to boost the steel industry in China might hamper South African chrome ore industry and its economic development in the long-term.

In the case of CNOOC and SAPETRO, the outcome of the deal was dependent on the institutions and policies of the two parties involved. The Chinese way of investing and preferably own natural resources in Africa seems to be characterized by high bids. These bids are almost regarded as overpayments globally, which have resulted in a great inflow of capital into Nigeria as a tool to promote economic growth and development of other sectors. However, the success in achieving economic development is dependent on institutional factors and how the Nigerian government chooses to reinvest the money. As a result of the shift from President Obasanjo’s philosophy of trading “oil for infrastructure”, the development of construction and energy projects slowed down in exchange for a higher inflow of cash. One could argue that this shift from infrastructure to cash would have a negative impact on a greater part of the Nigerian people since improvements in infrastructure and other projects in society are tangible effects of investments. These investments are beneficial for the people as a whole and not only the government, whereas inflow of capital might stay within the governmental elite. Nevertheless, the implementation of EITI with the aim to increase transparency and governance in the oil industry should have a positive effect on these issues ensuring that oil businesses must be handled correctly.

In our study, little evidence has been found on the implications CNOOC’s investment has had on economic growth in Nigeria since the overall focus has been on the benefits the deal would contribute to CNOOC. However, it is fair to say that the increased inflow of FDI as a result of investments emphasized by higher ownership interest and bidding offers, would especially strengthen SAPETRO’s economic performance since a capital-intensive owner often allows for continued investments within the firm. For example, the acquisition of the deepwater field Akpo was said to enhance production capabilities up to 225,000 bpd after 2008, an increase which should indicate a higher level of oil exports from Nigeria. Taking the purpose with the LLL-model (Mathews, 2006) into account, it is fair to say that it is the purpose of the investment that basically determines whether successful leverage of the links results in learning or not. Therefore, one could question if CNOOC’s desire to gain access to oil reserves by ownership offsets the potential learning synergies that most likely occur if the two parties enter a JV and aim to operate by co-operation, mutual investments and management structure.

The effects Sinopec’s deal has had on Angola has been primarily linked to oil-backed financing and
infrastructure projects but also reconstruction improvements after the civil-war that ended as late as in 2002. The co-operation agreements between Sinopec and Sonangol have covered both development of existing reserves thus increasing productivity and the need for additional workers, but also exploration of oil reserves and new investments. As a result of the collaboration, joint exploration and investments this could indicate a successful learning phase according to Mathews’ LLL-model (2006) where experiences and knowledge from the industry could mutually benefit both Sinopec and Sonangol. This has contributed to economic growth and increased bilateral trade for Angola, mostly as a result of Sinopec’s and Sonangol’s oil relationship. However, one could claim that this relation between the two parts is purely governmental, which implies that the success of Angola’s economic development lies in the hands of its institutional pattern rather than its local people, thus hampering the purpose of the LLL-model (Mathews, 2006). As an example, Thomas L. Friedman suggests in his “First Law of Petropolitics”, that the price of oil and the pace of freedom tend to move in opposite directions (Friedman, 2006). Therefore, one could state that there might be a trade-off for Angola between China’s support in infrastructure and beneficial loans, and transparency in society and in the political system as well as improvements of corruption, which indicates that there is a need for Angola to implement EITI as well.

Nevertheless, China’s beneficiary treatment could also be a factor impeding the long-term economic development in Angola. As Angola’s economy is highly dependent on China and their trade relation, where more than 40% of their oil exports are directed to China, the country is vulnerable for changes that could occur in the future. However, the disagreement in the joint investment of the new refinery in Lobito changed the relationship between Sinopec and Sonangol to become increasingly strict (Alves, 2010). As a result, analysts studying the relationship between the two parties have expressed Angola’s ambition to diversify its trade pattern to not only being dominated by China. Applying Mathews’ LLL-model (2006) on the above discussion, one could reason that in the case of Angola the focus should be on developing the links and the leverage rather than the learning process. Since Angola has not attempted to fully diversify its trade relations until recently, the global linkages need to be strengthen by expanding their network on a global scale. As a part of their global linkages strategy, this should facilitate enhanced leverage possibilities in the future. According to Campos and Vines (2008), the President of Angola, dos Santos, claimed in 2008 that the nation, as a result of globalization, naturally sought to broaden its economic relations internationally. Consequently, it has been discussed whether Sinopec ought to add value in other forms than primarily financing and providing infrastructure with the aim to strengthen its relation with Sonangol (Alves, 2010).
5.3 Discussion

We believe that the success factor of the deals much could be explained by the characteristics of each country. With a well established political environment and macroeconomic stability, it is no wonder that South Africa has become a leading recipient of FDI in Africa. Thus the mutual benefits of the Sinosteel-Samancor deal could partly be explained by healthy diplomatic recognition as well as relationships emphasized by development between China and South Africa. These aspects are included in the location specific advantages in Dunning’s OLI-model (1980, 1988). Furthermore, as South Africa is the easiest country in terms of conducting business in sub-Saharan Africa, we can assume that the trend regarding Chinese investments in South Africa will last in the foreseeable future. In the Nigeria and Angola cases it is evident that China was the primary country benefiting from the relationship by satisfying their self interests. Although Nigeria is projected to be one of the most promising emerging economies in the near future, the country still face issues such as corruption, poor infrastructure and power supplies. These are also challenges that are more apparent in Angola. Both Nigeria and Angola are also highly dependent on specific natural resources rather than on diversified industries, especially Angola where oil is their dominating source of income. Whereas MNEs keep location advantages in mind (Dunning, 1980, 1988) when engaging in the foreign market, one could speculate whether Sinopec took advantage of locational disadvantages such as poor regimes and under-development in Angola. Therefore, we believe that the benefits to get hold of natural resources of such importance outweighed the risks associated with an investments in a country with these characteristics.

Taking the above discussion of Chinese investments in African firms into account, we would like to emphasize and discuss the fact that the outcomes might have differed depending on the type of enterprises studied. In our cases the Chinese enterprises were all SOEs, thus the distinction between the SOE and privately owned enterprise (POE) might have had an impact on the motives and the objectives behind each deal. First of all, whereas private investments usually are targeted towards sectors in agriculture, manufacturing and communications, public investments are often directed towards natural resources, infrastructure and transport (Egbula & Zheng, 2011). Secondly, as there is a grey zone between business and politics such as in the example of the “88 Queensway Syndicate”, it is not always clear who the real investor is and what their motives are. Thirdly, SOEs might ignore the prospects of their own citizens and hamper economic growth and competition. As we have seen in the cases, especially regarding Nigeria and Angola, it is particularly the powerful elite that benefits from controlling natural resources rather than the citizens, which could pose the question on how much is reinvested in the economy (SARW, 2012). One
could argue that if a POE was to invest in the sectors we have analyzed, they might have paid more attention to local laws concerning labor rights and the environment as their goal is to maximize profits and maintain transparency in order to add value for stakeholder and shareholders. Conversely, the opposite seems to be true in some cases of SOEs, for example in Sinopec’s acquisition of Addax, where the company violated local laws in Gabon resulting in disputes and the risk of Addax losing their license.

Finally, we would like to highlight our reasoning that since each case involved the search for non-renewable resources it could be questioned if long-term aspects of sustainability were taken into account in the Chinese investments. There was no evidence that the intention of the Chinese investments were to exploit resources and then leave the countries. Instead we perceived that the investments were undertaken on a long-term. Therefore we question if the investments really are lasting and sustainable as these kinds of resources are limited. Besides, as the strong growth in the Chinese economy is said to stagnate (The Economist, 2013b), this could have severe implications on economic development on a too dependent Africa, especially on countries like Angola. Therefore, Africa as a whole needs to be determinant with their strategy when engaging in global trade relations to ensure a continued development of their economy in the long-term, as many observers have pointed out that “China has a clear strategy for Africa, but Africa has no strategy for China” (SARW, 2012).

After having analyzed the motives and consequences of Chinese FDI engagement in Africa we would claim that although China in earlier research has been accused for exploiting natural resources in Africa due to self-interests, it is a somewhat unjustified accusation. Despite the fact that China has benefited from a greater access to natural resources, it is evident that Chinese investments have promoted growth and economic development in African countries. Accordingly, we would claim that the responsibility also lies in the hands of the governments in South Africa, Nigeria and Angola and how they choose to develop the growth potential offered by its investors in order to achieve a win-win situation where not only China benefits but also Africa. Besides, Africa needs to reconsider their global strategy and overhaul the reasons hampering their economic growth, such as their political and institutional systems (SARW, 2012).

5.4 Summary of Analysis

After having compiled the results from our three case studies, we could see a major tendency towards resource-seeking motives behind the Chinese investments in South Africa, Nigeria and Angola. As
discerned from Dunning’s OLI-model (1980, 1988, 2000) and Rugman’s FSA/CSA matrix (1981, 2010), resource-seeking investments are often a result of low levels of natural resources in the home country, which would motivate investments in a market overseas where there is an abundance of natural resources. This is clearly evident for China as well as for the investing companies in our cases whose national reserves of natural resources are relatively scarce. We could also see investments associated with efficiency-seeking motives enhancing Chinese operational activities such as increased productivity and value-adding processes for Chinese production.

The consequences of Chinese investments have had positive outcomes, creating jobs, improving infrastructure, hospitals and schools as well as increasing production to mention some. In the case with Sinosteel and Samancor, both mutually benefited from the deal which formed a JV. Despite the increased inflow of FDI and enhanced production, the CNOOC’s investment in SAPETRO indicated that the purpose was to acquire the assets rather than co-operate through a JV, which might have impeded the emergence of the learning phase in the LLL-model (Mathews, 2006). In Sinopec’s JV with Sonangol, they mutually developed and explored oil reserves where the collaboration led to shared knowledge in line with Mathews’ level of learning in the LLL-model (2006). However, four years later Sinopec made an acquisition of the JV, holding the dominant stake which could have had implications on the synergies of the LLL-model. In addition, even though Sinopec’s investments increased the bilateral trade between China and Angola, Angola’s dependency on China might increase risks and hamper economic growth. This further facilitates the perception that the main challenges for Angola as a country are to develop their global linkages by diversifying its trade relations in order to achieve the phases of leverage and learning in accordance to the LLL-model (Mathews, 2006). Finally, as the Chinese investments involved non-renewable resources it could be questioned if these investments really are sustainable in the long-term thus emphasizing the need for a diversified economy as well.
6. CONCLUSION

The purpose of this thesis has been to analyze China’s motives behind OFDI in African firms and the subsequent consequences considering the long-term impact on economic development in the receiving host countries in Africa. Our aim has therefore been to investigate Chinese OFDI from a firm-level perspective by analyzing a number of selected case studies that illustrate Chinese investments in African firms and apply these on our theoretical framework. The empirical findings were based on Chinese investments in three countries; South Africa (Sinosteel - Samancor), Nigeria (CNOOC - SAPETRO) and Angola (Sinopec - Sonangol), of which all Chinese MNEs were SOEs. Our ambition has been to hopefully contribute to new findings and results within this field, which could prove useful in future research. The motives behind Chinese ownerships in African firms have mainly been analyzed from a Chinese perspective whereas the consequences in the receiving host countries in South Africa, Nigeria and Angola have been viewed mainly from an African standpoint.

6.1 Answers to Research Question

In order to fulfill our aim of this thesis we will now provide answers to our research question, which was formulated as followed;

What are the motives behind Chinese OFDI into African firms and how do they affect economic development in receiving host countries in the long term?

Chinese MNEs invest in African firms primarily for resource-seeking motives.

After having compiled our empirical observations we could see a tendency towards resource-seeking motives explained by Dunning’s four motives in the OLI-model (2000) in the cases we studied in South Africa, Nigeria and Angola. The motives in each case were driven by strategic considerations with China’s aim to secure natural resources supplies in the mining and oil sector to fuel its rapid economic development on the domestic market.

In the long term, Chinese OFDI promotes economic development by offering beneficial funding,
improved infrastructure, job opportunities and social projects in the country receiving the investment. Yet, due to political and institutional factors and a change in the Chinese investment pattern, this statement does not always hold true. Instead, some economies are too dependent on specific resources and some investment relations are based on governmental contact only thus increasing risks and hampering potential economic development for the country and its people.

For the greater part, the receiving host countries benefited from the Chinese investments. In addition, all three cases have indicated that great improvements in infrastructure and reconstruction projects have been a major factor affecting economic growth. Moreover, the deals have contributed to enhanced production capacities within the enterprise thus resulting in increased export capabilities and bilateral trade. What our study also showed, was that the investment pattern from Chinese SOEs has changed over the past years implying a greater importance of ownership-interests rather than long-term contracting, which has led to record high bids and higher inflow of capital as a result. Besides, due to country specific characteristics and an economy that is very dependent on one type of resource or one trading partner, this have implications on economic development and sustainability in the future. In turn, this might hamper the emergence of linkage, leverage and learning processes described by the LLL-model (Mathews, 2006). Except for the importance of diversifying an economy, this also stressed the significance of investments that are sustainable in the long-term. Therefore, the African countries receiving the FDI inflows, and especially Angola, need to reconsider their global strategy in order to ensure economic development.

6.2 Theoretical Contributions

Our findings prove that the eclectic paradigm (e.g. Dunning, 1977, 1980, 1988, 2000) itself does not succeed to fully explain the results of our research. As previously discussed, over the past decades the dynamics of the global economy and the widespread globalization have resulted in modifications in existing FDI theories. The pattern for investment flows has changed, not only originating from developed countries but from developing and emerging countries as well, making the OLI-model that dates back to 1977 somewhat insufficient to capture the motives behinds FDIs. Therefore we have, besides the OLI-model, utilized complementary contributions from Rugman’s FSA/CSA matrix (1981, 2010) and Mathews’ LLL-model (2006) in order to critically judge and provide a deeper understanding when analyzing our results. The eclectic paradigm reconciled with Rugman’s FSA/CSA matrix (1981, 2010) have primarily served as a foundation to explain the motives behind Chinese OFDI in Africa, as home
country and host country aspects are considered simultaneously.

Secondly, when analyzing the long-term implications of Chinese investments in the receiving African countries we have utilized Mathews LLL-model (2006) as our dominating framework. We argue that the LLL-model to some extent could describe the synergies and the learning that occur when using the model from the reversed perspective, i.e. the host country, where the African firms leverage the links that emerge. However, we hold on to our previous assertion that the LLL-model better serves to explain its primary purpose: the process of FDI engagement from the investing firm’s perspective where the linkage, leverage and learning process is targeted primarily towards developed countries rather than developing and emerging countries. In addition, we claim that the synergies deriving from the links, leverage and learning phases in Mathews’ LLL-model (2006) should appear more clear if applying the model on a period of time including several events rather than focusing on a specific case study of a company.

6.3 Suggestions for Future Research

In this thesis we conducted case studies of Chinese SOEs investing in African firms in South Africa, Nigeria and Angola analyzed on a micro-level. As we only analyzed three cases, we would suggest to conduct additional case studies in future research in order to draw conclusions based on a broader range and increase the reliability. As previously discussed, it would also be interesting to investigate whether and how the motives and the outcomes of investments by POEs would differ from SOEs as the ones we studied in this thesis.

Secondly, when analyzing the empirical findings we found that the theories utilized did not fully explain the Chinese investment patterns in Africa in our cases. The LLL-model suggested by Mathews (2006) does indeed complement Dunning’s eclectic paradigm (1980, 1988, 2000), however we found that this model was more applicable to emerging countries investing in developed countries rather than less developed countries such as the countries in Africa. Thus the LLL-model describes the process of linkage, leverage and learning mainly from the investor’s perspective, in this case China. As far as we know, there are no such models that describe how the host country could leverage the links achieved by its global investors into the country. Therefore we would suggest an extension of the LLL-model covering the process of integration for the host country receiving the FDI or develop a reversed model to apprehend the perspectives from the host country, which was done in this case. As the dynamics of the global economy
has led to yet another shift where the pattern of OFDI\textsc{s} tend to target developing countries with poor institutions not sufficiently equipped to face the vast amount of investments, the need for a model explaining the emergence is urgent. We believe that in order to fully understand and leverage the global links this would also provide African economies with a tool to strategically overcome the risk for neo-colonialism to occur but also to strengthen its presence and competitiveness in the global economy.

Finally, in this thesis we did not come across implications on a managerial level, data which we initially had an ambition to find. Thus we would suggest for future researchers to conduct a study based on a manager’s perspective and perhaps implications on employees in the firm receiving the investment in the host country. Rather than focusing on the general pattern, one could possibly analyze FDI and MNE activity from an organizational perspective and thus use organizational paradigms in order to explain managerial behavior when exploiting scarce resources overseas (Buckley, 1996).
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