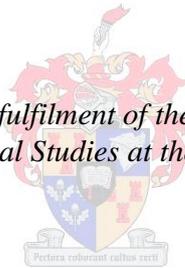


CREC7's infrastructural investment in the DRC: an in-depth study of the motives for Chinese outward FDI

by
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*Thesis presented in partial fulfilment of the requirements for the degree
Master of Arts International Studies at the University of Stellenbosch*



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December 2011

Declaration

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Abstract

The purpose of this Masters' thesis was twofold, namely, to contribute to a more holistic approach of the study of the motives of Chinese overseas investors and, secondly, to contribute to the adjustment of general FDI theory in such a way that it becomes more suited to the study of the motives of investors from any country of origin. FDI scholars who study emerging markets argue that general FDI theory needs to be adjusted because most of its theories are derived from studying outward FDI in an Anglo-Saxon context. The theories are therefore not necessarily applicable to investors from a non-Anglo-Saxon context. Furthermore, the study of the motives of foreign investors is of importance to policy makers of FDI host countries in order to create a balance between attracting FDI by deregulating, and controlling FDI by enforcing strict laws and regulations, thereby harnessing the full potential of incoming FDI. Therefore, the model that Lee (1966) developed in migration theory was introduced to FDI theory and tested by applying it to the case of the infrastructural investments in the DRC of a subsidiary of CREC, the world's largest contractor, namely CREC7. The main factors that influence the motives of CREC7 were investigated using the Four Factors Model, an adjusted version of Lee's model. A single-case study design was chosen in order to shed light on certain dynamics – in particular, the interrelation between the particular firm-specific, push, pull and intervening factors that influence CREC7's motives to invest in the DRC. In order to maximise the validity of this study, multiple sources of evidence were used, namely: documentation, face-to-face interviews and direct observations, the latter two of which occurred during August 2010. Lee's (1966) model indeed appeared to be useful for identifying the main factors that influence the motives of CREC7 for investing in the infrastructure sector in the DRC and the interrelatedness of these factors. The collected data from the desktop research and the fieldwork showed how conditions in the country of origin, conditions in the country of destination, firm-specific factors, and intervening factors influence each other in a highly complex way. In order to illustrate this complexity, the factors that influence each other most actively were grouped together in clusters. The two clusters of factors that were of specific importance for CREC7's decision to invest in the DRC, are: (1) relationship with the central government, access to finance, experience and skills, market access, and intervening factors; (2) experience and skills, experience of operating in a challenging institutional environment, high level of competition in the domestic market, high demand for infrastructure in the DRC, and the relatively low level of competition in large infrastructure projects in the DRC. Because the Four Factors Model uses

broad categories of factors that apply to all foreign investors, this model can be applied to the study of the motives of foreign investors from both developed and developing countries, thereby contributing to make general FDI theory more relevant.

Opsomming

Die doelstelling van dié Meesterstesis is tweevoudig. Eerstens, om 'n meer holistiese benadering tot die studie van die motiewe van Sjiniese buitelandse beleggers by toe te voeg en tweedens om by te dra tot die aanpassing van algemene direkte buitelandse beleggings teorie dat dit meer bruikbaar vir die studie van die motiewe van beleggers, onafhanklik van hulle land van herkoms, kan wees. Algemene direkte buitelandse beleggings moet aangepas word aangesien meeste van die teorie ontwikkel is deur uitwaartse direkte buitelandse beleggings binne 'n *Anglo-Saxon* konteks. Die studie van die motiewe van buitelandse beleggers is ook belangrik vir beleidsmakers aan die ontvangkant van direkte buitelandse beleggings aangesien 'n balans tussen deregulasie met die doel om buitelandse beleggings aan te lok en direkte buitelandse belegging te reguleer deur middel van streng wetgewing en sodoende die volle potensiaal van direkte buitelandse belegging te ontsluit. Sodoende is die model wat Lee (1966) ontwikkel het in migrasie teorie toegepas op direkte buitelandse beleggings teorie en getoets op infrastruktuur beleggings in die Demokratiese Republiek van die Kongo (DRK) deur CREC7 'n vleuel van die grootste kontrakkeerder CREC.

Die hoofkategorie wat CREC7 beïnvloed is ondersoek deur middel van die Four Factors Model, 'n aanpassing van Lee se model, gebruik te maak. 'n Enkele gevallestudie was gebruik om lig te werp op sekere verwickelinge veral die interverhouding tussen verskeie faktore spesifiek tot die maatskappy en die mark wat werk op die beleggingsmotiewe van CREC7 in die DRK. Om die geldigheid van hierdie studie te maksimeer is verskeie bronne gebruik. Naamlik dokumentasie asook onderhoude en direkte observering tydens Augustus 2010. Lee (1966) se model was bruikbaar gewees vir die identifisering van die hoofkategorie wat CREC7 se motiewe om te belê in infrastruktuur in die DRK beïnvloed asook die interafhanklikheid tussen hierdie faktore. Die versamelde data het geïllustreer hoe omstandighede in die land van oorsprong, die land van ontvangs en omstandighede spesifiek tot die firma mekaar beïnvloed in 'n baie komplekse manier. Om die kompleksiteit te illustreer is die faktore wat die meeste op mekaar inwerk in *clusters* gegroepeer. Die twee *clusters* wat die meeste op CREC7 se beleggingsbesluit ingewerk het is: (1) verhoudinge met die sentrale regering, toegang tot bevondsing, ondervinding en vaardighede, marktoegang en ingrypende faktore; (2) ondervinding en vaardighede, ondervinding om in 'n uitdagende institutionele omgewing, hoë vlakke van kompetisie in die plaaslike mark, hoë aanvraag na infrastruktuur in die DRK. Aangesien die Four Factors Model breë kategorieë van faktore wat van toepassing is op alle

buitelandse beleggers kan die model toegepas word op die studie an motiewe van buitelandse beleggers van ontwikkelde en ontwikkelende lande en sodoende daartoe bydra om direkte buitelandse belegging teorie meer relevant te maak.

Acknowledgements

First and foremost, I offer my sincerest gratitude to my supervisor, Professor Scarlett Cornelissen, who has supported me throughout my thesis with immeasurable dedication, a high level of expertise and invaluable advice. I would also like to show my gratitude to the Dean of the Faculty of Arts of Stellenbosch University, Professor Hennie Kotzé, for encouraging and supporting me to finish my studies next to my full-time position at the Centre for Chinese Studies. I would also like to thank the director of the Centre, Dr. Sven Grimm, who took over the arrangement I made with the Dean upon his appointment as the director and offered me time to write my thesis. I am indebted to my colleagues Daouda Cisse and Alexander Duanyong who helped me translating the interview questions into French and Mandarin. It is also a pleasure to thank the Congolese ambassador to South Africa and all the interviewees, my translator and driver in the DRC for sharing their opinions and for their time. With a special thanks to Mr Sun Jianwei who was so kind to introduce me to many of the Chinese contractors in Kinshasa. I am also grateful for the professional and rapid work and friendly words from my editor Jane Housdon that carried me through the last weeks of writing. A special thank you to Gys Hough for his help with the writing of the Afrikaans abstract. I am grateful to have such wonderful and loving friends and family who were able to support me even over long distance. Last but not least, I want to thank Abdessalem Boutaghou for his love and support and for believing in me from the beginning to the end.

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List of Acronyms and Abbreviations

ABC	Agricultural Bank of China
ACGT	<i>L'Agence Congolaise des Grands Travaux</i>
AfDB	African Development Bank
BEA	Bureau of Economic Analysis
BOC	Bank of China
CCB	China Construction Bank
CCP	Chinese Communist Party
CDB	Chinese Development Bank
COVEC	China Overseas Engineering Group Co. Ltd
CRBC	China Road and Bridge Company
CRECG	China Railway Engineering Group Co. Ltd
CREC7	China Railway Seventh Group Co. Ltd
DRC	Democratic Republic of the Congo
ENR	Engineering News Record
EU	European Union
FDI	foreign direct investment
GDP	Gross Domestic Product
IB	International Business
ICBC	Industrial and Commercial Bank of China
ICRG	International Country Risk Guide
IMF	International Monetary Fund
IPE	international political economy
MLC	Movement for the Liberalisation of the Congo
MNEs	multinational enterprises

MOFCOM	Chinese Ministry of Commerce
PI	private investors
PRC	People's Republic of China
OLI	Ownership advantages, Location-specific advantages, and Internalisation advantages
ROC	Republic of China
SAFE	State Administration for Foreign Exchange
SAMBs	state asset-management bureaus
SASAC	State-owned Asset Supervision and Administration Commission
SEHK	stock-exchange Hong Kong
SOE	state-owned enterprise
SOECG	state-owned enterprise affiliated to the central government
SOELG	state-owned enterprise affiliated to a local government
SSE	Shanghai stock exchange
UCOOP	<i>Unit de Coordination des Projets</i>
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
US	United States
WTC	World Trade Centre
WTO	World Trade Organisation

Chapter 1: INTRODUCTION

1.1 Background

The study of foreign direct investment (FDI) first drew scholarly attention after the Second World War. At that time the United States (US) accounted for around three-quarters of global FDI between 1945 and 1960 (Anand, 2006). The rise of (re-)emerging economies such as India, Malaysia, Brazil, and China have recently created a renewed interest in the study of FDI with a special focus on how the motives of investors from these (re-)emerging economies differ from the motives of investors from the more traditional FDI source countries (Sauvant, 2005; Kim, 2007; Masron & Shahbudin, 2010). China has therefore been of particular interest to many FDI scholars. In 1999 the Chinese government introduced the Go Global strategy and encouraged Chinese companies to invest abroad. Since then, many Chinese companies have started to explore foreign markets for investment opportunities. However, Chinese outward FDI only really started picking up from 2003 when private companies were also allowed to invest abroad (Kiggundu & Anfeng, 2008).

Africa has become an important destination for Chinese outward FDI. From 2003 to 2009, Chinese FDI flows to Africa increased by 1,823 per cent – from almost USD 75 million to more than USD 1.4 billion.¹ The USD 1.4 billion Chinese FDI to Africa accounted for 12.8 per cent of total Chinese overseas FDI in 2009, substantially more than Europe (USD 1.1 billion) and Latin America (USD 349.55 million) received (Chinese Ministry of Commerce (MOFCOM), 2009). However, the total FDI flow from the United States to Africa was much higher in 2009, namely: USD 44.8 billion, accounting for 76.5 per cent of the total FDI to the continent in 2009 (Bureau of Economic Analysis, 2011). The significance of Chinese FDI to Africa is therefore not the overall amount, but the pace at which it is increasing.

Chinese investments to Africa have been depicted as controversial and many researchers have focused on the characteristics of Chinese investors that distinguish them from other investors, for example: Buckley *et al.*, 2007; Kolstad & Wiig, 2010; Ramasamy *et al.*, 2010. The main finding of recent studies on Chinese FDI is that although general FDI theory is for the large part applicable to Chinese outward FDI, some adjustments need to be

¹ The number is based on the author's own calculation based on data from MOFCOM (2009).

made in order to improve its applicability to the study of Chinese outward FDI. So far, however, no suggestions have been made for a new (comprehensive) framework for the study of the motives of investors from any country –including China– to invest abroad. One of the consequences of the focus on the differences between the motives of investors from emerging markets and investors from the more traditional FDI source countries, is that FDI scholars currently focus much more on the factors associated with the country of origin (in other words, the ‘push’ factors), than the factors associated with the country of destination (‘pull’ factors). The main argument of this thesis is that in order to study the motives of a specific investor for investing in a particular country, a holistic approach is necessary in which the variability and the interrelatedness of the factors that influence the motives of investors are acknowledged. Therefore, this thesis introduces a model to FDI theory – that was developed by Lee (1966) within migration theory – as a potential tool for studying the motives behind outward FDI. It is argued in this thesis that FDI is also a form of migration, as it represents a migration of capital. While the term ‘push and pull factors’ is attributed to Lee, he did not coin the term himself and the focus on the push and pull factors does not do justice to the framework Lee developed. In fact, Lee’s model consists of four categories of factors that influence migration flows, namely: factors associated with the area of origin (later referred to as ‘push factors’), factors associated with the area of destination (later referred to as ‘pull factors’), intervening obstacles and personal factors. The wording Lee used to refer to the four categories of factors has been changed by the author, in order to make Lee’s model better suited to the study of the motives behind FDI flows. This revised model is referred to in this thesis as the Four Factors Model; this name was chosen by the author.

In order to test the use of the Four Factors Model for FDI theory, the model is applied to the case of the investments of a large Chinese contractor in the infrastructure sector of the Democratic Republic of the Congo (DRC). China Railway Seventh Group Co. Ltd (CREC7) – the large Chinese contractor under study – is a subsidiary of China Railway Engineering Group Co. Ltd (CRECG)² and, despite its experience in a broad range of infrastructure construction, it is currently only focusing on the construction of roads in the DRC. The DRC was the second largest recipient of Chinese FDI in Africa – after Algeria – in 2009 (MOFCOM, 2009). Located in the heart of Africa, this country is selected because it represents many of the challenges foreign investors encounter when doing business in Africa, such as conflict, bad infrastructural facilities and authoritarian leadership, while it also

² Also referred to as CRCC, CRECG or China Railway, however CREC is the acronym used in their official company logo. In this thesis the company will therefore be referred to as CREC.

possesses many of the much-desired natural resources such as gold, diamonds, copper, cobalt and timber. The Congolese government is also actively trying to attract FDI. The infrastructure sector is chosen because of its importance to the development of a country and the leading role Chinese companies play in the construction of infrastructure in Africa.

1.2 Rationale

Multinational enterprises (MNEs) are important political actors in the international arena. Business Insider, an American business website, recently compared the revenues of twenty-five large American corporations with the GDP of twenty-five countries (Business Insider, 2011). It appears from their study, for example, that the revenue of General Electric is greater than the Gross Domestic Product (GDP) of New Zealand (Business Insider, 2011). Besides their economic power and interests, MNEs also have political power and interest. Diplomatic relations are important for companies that want to invest abroad and, conversely, economic interests play an important role in diplomacy (Bayne & Woolcock, 2007). When interests of states and companies overlap, states can actively support their national companies to invest abroad (see for example Moody, 2005). The study of FDI flows, the actors involved, as well as the study of the motives behind outward FDI is therefore relevant for international political economy (IPE) theory.

Currently, one of the most controversial discussions in GPE theory is whether incoming FDI contributes to the economic development of the host country or not. One of the important conclusions from this discussion is that FDI needs to be managed well in order to be beneficial to the host country (Bezuidenhout, 2009). In order to attract FDI, governments have been focusing on creating an investor-friendly environment, guided by neo-liberal thinking. However, in order to manage incoming FDI in such a way that it does not harm the host country's economic, social or environmental context in the short and in the long term it is necessary to implement and enforce laws and regulations. In order for African policy makers to realise the full potential of FDI, it is important to maximise the control over it without jeopardizing potential investment. In other words, a balance needs to be struck between attracting FDI by deregulating, and controlling FDI by enforcing strict laws and regulations. In order to judge what regulations and laws can be tightened without losing (potential) investors, it is important to understand the motives of foreign investors.

The main problem in current research on the motives for Chinese outward FDI is that

the focus relies too much on testing the applicability of general FDI theory to the study of Chinese outward FDI, without critically reviewing general FDI theory. General FDI theory, however, neglects the role of push factors in the international location decision of investors. An explanation for this could be that in the 1960s and 1970s – the period in which the main FDI theories were established – the focus was mainly on the study of British and American firms. The situations in the countries of origin of these overseas investors were similar and therefore the pull factors were perceived to be most relevant. However, with the increasing influence on the global economy of emerging economies, FDI flows diversified and the role of push factors in the international location decision of investors is receiving more attention from FDI scholars (see for example, Masron & Shahbudin, 2010). Instead of only questioning the applicability of general FDI theory to the study of Chinese outward FDI, it would be more useful for scholars to establish a comprehensive framework that serves to study the motives for FDI from any country of origin. The main argument of this thesis is that the push-pull theory from migration theory – and in particular the model of Lee (1966) – offers such a potential framework. Lee (1966) emphasises that the set of factors at both origin and destination, as well as the positive and negative rating of these factors, is differently defined for every migrant or prospective migrant. Lee (1966) further argues that ‘since we can never specify the exact set of factors which impels or prohibits migration for a given person, we can, in general, only set forth a few which seem of special importance and note the general or average reaction of a considerable group’ (1966: 50). Since the same can be argued for the factors that encourage/ attract or discourage/deter FDI and since FDI flows can be regarded as a form of migration as well – migration of capital – this thesis aims to test the applicability of the model Lee developed in migration theory to the study of the motives of foreign investors.

1.3 Problem statement

In order to test the applicability of the Four Factors Model in FDI theory, the model is applied to the case of the investments of CREC7 – a Chinese contractor – in the infrastructure sector of the DRC. The main research question is:

What are the main factors that influence the motives for the infrastructural investments of CREC7 in the DRC and how can the Four Factors Model facilitate the study of the motives of foreign investors?

In order to answer this question, it is divided into four sub-questions, namely:

1. What are the main firm-specific factors of CREC7 and how do they influence CREC7's motives to invest in the DRC?
2. What are the main push factors from China and how do they influence CREC7's motives to invest in the DRC?
3. What are the main pull factors of the DRC and how do they influence CREC7's motives to invest in the DRC?
4. What are the main intervening factors and how do they influence CREC7's motives to invest in the DRC?

It is important to acknowledge that Lee's (1966) model will not support a search for the *true* motives for outward FDI, but it will give us better insight into the main motives for a specific investor, from a specific country of origin in a specific time and place. That is the intention of this thesis.

1.4 Preliminary literature review

1.4.1 General FDI theory

In its classic definition, foreign direct investment (FDI) is defined as an organisation's physical financial investment in establishing facilities in a country other than its country of origin. In recent years, this definition has been broadened to include the acquisition of a long-term management interest in a company or enterprise outside the investor's home country (Graham & Barry, 2004). The two questions that have been, and still are, central to FDI theory, are: why do firms invest abroad? And secondly, why do they invest in a particular economy?

Capital market theorists argue that in a world characterised by perfect competition – where regions specialise in the products they can produce most efficiently and where they import the other products they need from the regions where these other products are produced most efficiently – FDI would not exist. It took more than forty years after the introduction of the idea of *imperfect competition* by the two economists Joan Robinson and Edward H.

Chamberlin before the idea of imperfect competition formed the basis of FDI theory. Hymer (1976) wondered why the US was receiving FDI from the very countries to which it was sending FDI, and he developed a new theory. The most important contribution of Hymer (1976) to FDI theory is the differentiation between portfolio investment and FDI. According to Hymer (1976), outward FDI is motivated by the desire to use the full potential of a firm's cost advantages – later referred to as 'ownership advantages' – and to suppress competition.

Ownership advantages per se are not adequate to explain why FDI takes place. Establishing part of a business in a foreign country involves risks, therefore there needs to be an explanation why investors establish their businesses in a foreign country instead of licensing or selling their products/processes to a foreign firm and trading with them. During his study of the firm, Coase (1937) developed the idea of transaction costs. Brown & Hogendorn (1994) summarise Coase's theory as follows: 'A firm would follow an internal route if transaction costs exceeded administration costs and would follow an external route if the reverse were true' (1994: 632). Following the internal route is referred to by Coase (1937) as *internalisation*. Buckley & Casson (1976) built further on the Coasian nature of the firm and developed the *internalisation theory* in order to analyse the behaviour of the MNE and the motives for outward FDI (Buckley & Casson, 2009).

Some economists have suggested that even though ownership-specific advantages and internalisation advantages are necessary for FDI to occur, it is still not an adequate explanation. John Dunning (1977) is the first scholar who attempted to integrate a variety of strands of thinking and he developed a framework known as the OLI framework. OLI stands for: Ownership advantages, Location-specific advantages, and Internalisation advantages. His eclectic theory –which is in fact more eclectic than a theory– is a selection of elements of two FDI theories combined with location theory. Dunning (1977) argues that although ownership specific advantages and internalisation advantages are necessary conditions for outward FDI to take place, it must be profitable to use these advantages in combination with at least some factors associated with the country of destination; otherwise the foreign market could be served exclusively by exports. Dunning (1977) refers to these latter factors as 'location specific advantages'. Examples of location specific advantages are: government policy, abundance of natural resources, cheap labour force, good infrastructure, and so on. Dunning & Lundan (2008) emphasise that many of the larger MNEs in the 21st century are pursuing multiple objectives and that the motives may also change.

1.4.2 *Theories on motives for Chinese outward FDI*

This section discusses the theories on the motives for Chinese outward FDI and the locational decisions of Chinese investors. The often sensational media reports about the dramatic increase in Chinese outward FDI ‘spurred discussion and analyses of the motivation and implications of an increased Chinese presence, not least in developing economies’ (Kolstad & Wiig, 2010: 1). According to Buckley *et al.* (2007), the ‘[u]nderstanding of the rise in Chinese outward FDI remains very incomplete’ (2007: 499). One of the reasons for this, according to Buckley *et al.* (2007), is the lack of sufficiently disaggregated data to permit formal analysis of the forces shaping Chinese outward FDI. Their paper is, according to Buckley *et al.* (2007), one of the first attempts to formally model Chinese outward FDI. Their aim is ‘to test the extent to which the mainstream theory that explains industrialised country FDI is applicable to the context of emerging countries, and whether special explanations nested within the general theory are needed’ (Buckley *et al.*, 2007: 513). Buckley *et al.* (2007) analysed all approved investments abroad of Chinese MNEs from 1984 until 2001 in order to find out the effects of host market size, cultural proximity, policy liberalisation (in the home country), political risk, natural resource endowments, exchange rate, inflation, exports, imports, geographic distance and market openness on the location choice for Chinese outward FDI. Buckley *et al.* (2007) find that ‘the institutional environment has strongly shaped Chinese O[F]DI’, that cultural proximity is a significant factor and that Chinese outward FDI is attracted to political risk rather than deterred by it (2007: 513).

Kolstad & Wiig (2010) focus on the interaction between the attraction of Chinese outward FDI to resource-rich countries and countries with weak institutional environments. Kolstad and Wiig (2010) use more recent data on actual Chinese FDI flows than Buckley *et al.* (2007), namely the period from 2003 to 2006. Their main argument is that ‘the returns to any competitive advantage China has in operating in countries with poor institutions are greater where these kinds of resources are present’ (Kolstad & Wiig, 2010: 5). The study of Kolstad & Wiig ‘tests and finds of significant importance an interacted effect of institutions and resources, suggesting that Chinese investment is more attracted to a country with natural resources, the worse the institutional environment of that country’ (Kolstad & Wiig, 2010: 2).

The third and last study of the motives for Chinese outward FDI that will be discussed in chapter two is the study of Ramasamy *et al.* (2010), who investigated the international location decisions made by publicly listed Chinese firms during the period 2006-2008. Ramasamy *et al.* (2010) further categorise the firms into three distinct groups based on ownership – namely: State-owned Asset Supervision and Administration Commission

(SASAC), state owned enterprises (SOEs) affiliated to local governments (SOELGs), and private investors (PI). They find that only SOELGs are attracted to politically risky countries for natural resources while SASAC controlled firms are attracted to politically stable countries for strategic asset-seeking motives. According to Ramasamy *et al.* (2010), existing FDI theories explain adequately the actions of private Chinese firms; however ‘adjustments are needed to understand the behaviour of state-controlled multinationals’ (2010:1).

1.4.3 *Push and pull factors*

Migration theory developed a comprehensive framework that seems to be extremely useful for FDI theory, based on the push-pull theory. The push-pull theory can be traced back to the pioneering work of Ravenstein (1885) who tried to establish laws of migration after Farr remarked that migration appeared to occur without any definite law. Lee (1966) built further on Ravenstein’s work and established what is now being referred to as the ‘push-pull theory’. Lee’s framework exists of four categories of factors that influence migration flows, namely: factors associated with the area of origin (later referred to as ‘push factors’), factors associated with the area of destination (later referred to as ‘pull factors’), intervening obstacles and personal factors. As noted, Lee emphasises the subjectivity of the positive and negative rating of these factors.

Arguably, FDI can be regarded as a form of migration as well, as it represents a migration of capital. As discussed in this chapter, push and pull factors are currently mentioned in FDI studies but do not refer to a specific theory. The main argument of chapter two is that Lee’s model can serve as a tool for the analysis of FDI flows, the characteristics of investors and their motives. It will enable FDI scholars to better explain the correlation between firm-specific, push, pull and intervening factors and why FDI does not always take place even though conditions in the source and host countries seem to be similar.

1.5 Theoretical framework

As noted, the two questions that are central to FDI theory are: firstly, why do firms invest abroad? And secondly, why do they invest in a particular economy? General FDI theory focuses only on pull factors in order to explain the international location choice of investors. On the other hand, Dunning’s (1977) OLI framework focuses predominantly on what the

countries of destination have to offer foreign investors and it misses the interrelationship between political, economic, institutional, social and cultural factors in the country of origin and the country of destination. Ideally, a study of the international location decision of an investor incorporates both push and pull factors.

Buckley *et al.* (2007) provide some insight into the role of push factors – and the interaction between push and pull factors – for the international location choice of Chinese investors, such as the Chinese institutional environment and cultural proximity. However, Buckley *et al.* (2007) over-generalise by making general statements about Chinese outward FDI in 2007 based on studying the investment of Chinese MNEs from 1984 to 2001. At that time Chinese MNEs were synonymous with Chinese SOEs. However, since 2003 Chinese private companies have also been allowed to invest abroad and therefore Chinese outward FDI is now much more diversified (Quer *et al.*, 2008). A clear understanding of ‘Chinese MNEs’ could have made their statements more relevant. Buckley *et al.* (2007: 513) find also that ‘Chinese O[F]DI is attracted to rather than deterred from political risk’. They attribute this to three factors that can be regarded as a combination of push factors and firm-specific factors, namely: capital market imperfections in China³, state-ownership as a firm-specific advantage, and the experience of operating in a highly regulated and controlled domestic environment (Buckley *et al.*, 2007: 513-514). However, since Buckley *et al.* (2007) did not compare Chinese SOEs with Chinese private firms, they cannot argue that capital market imperfections are an example of state ownership as a firm-specific advantage. Buckley *et al.* (2007) do not conceptualise *political risk* and only refer to the International Country Risk Guide (ICRG) as the source for the host country’s political risk rating. The political risk rating of the ICRG is based on twelve different political risk components such as ‘military in politics’ and ‘democratic accountability’, for example (IPRG, 2011). Buckley *et al.* (2007) do not critically discuss these components and their applicability to Chinese investors. Their ‘finding’ that Chinese firms are able to invest in high-risk countries because they have the financial means because the Chinese government supports them, is based on the assumption that the perception of risk among Chinese investors is similar to that of investors from the United Kingdom (UK) and US. This is not necessarily the case and requires further research. A last point of critique is that Buckley *et al.* (2007) do not make a distinction between macro-level and micro-level factors, or between push and pull factors to show the different levels of

³ Morck *et al.* (2008) argue that capital market imperfections in China lead to an extraordinary high savings rate among Chinese SOEs and weak corporate governance to manage these savings. These provide SOEs access to funds at below market rates. This explains, according to Morck *et al.* (2008), why investments from Chinese SOEs can afford to take place in countries with weak institutions.

analysis or possible interaction between certain determinants of FDI.

Kolstad & Wiig (2010) use more recent data than Buckley *et al.* (2007); however, their study appears to contain confirmation bias, in other words: Kolstad & Wiig seem to ask questions that are consistent with the hypothesis that is being tested. Kolstad & Wiig (2010) confirm the suspicion by providing the following example: ‘Companies with a competitive advantage in bribery are likely to invest more in countries where the payoffs from bribes are greater, which is arguably the case in resource rich countries’ (Kolstad & Wiig, 2010: 5). The underlying assumption in this statement is that Chinese firms have a competitive advantage in bribery; however, this is not confirmed by the findings of their study. Furthermore, the fact that many Chinese investors appear to invest in resource-rich countries with weak institutional environments could in fact be a spurious correlation and the findings of this study do therefore not confirm the statement that ‘Chinese FDI is conducted to exploit countries with poor institutions and large natural resources’ (Kolstad & Wiig, 2010: 8). Ramasamy *et al.* (2010) contribute to a better understanding of the motives of Chinese outward FDI by subdividing Chinese SOEs further, based on ownership. Their study is, however, not comprehensive, as it fails to take firm-specific factors other than ownership into consideration.

In summary, the empirical studies on the motives of Chinese outward FDI discussed above reveal some of the important contextual factors that influence the international location decisions of Chinese investors. However, a lack of conceptualisation of important concepts such as *Chinese MNEs* or *political risk* and the lack of a comprehensive framework mean that these studies do not have adequate explanatory power. The decision of investors to invest abroad is arguably based on a calculus of factors associated with the area of origin (push factors), factors associated with the area of destination (pull factors) and intervening obstacles. Therefore, Lee’s framework of ‘origin and destination factors and intervening obstacles in migration’ could be useful to FDI theory too. ‘Personal factors’ should become ‘firm-specific factors’ in this case. By referring explicitly to push and pull factors and placing them in a model together with firm-specific factors and intervening factors, researchers will be better equipped to deal with the compound nature of factors that encourage or attract FDI and the complex relationship between these factors.

1.5.1 Concepts

Foreign direct investment (FDI)

FDI is an organisation's physical financial investment in establishing facilities or investment in already existing facilities in the host country in an economy other than its economy of origin. For the latter to be considered FDI, the investment must be in a venture that lasts longer than twelve months, and it must be an investment of more than 10 per cent in a particular enterprise. An ownership of at least 10 per cent of the voting power of the enterprise is regarded as the necessary evidence that the investor has sufficient influence to have an effective voice in its management (Graham & Barry, 2004).

FDI host country/ country of destination

The country that is the recipient of the investment (World Trade Organisation (WTO), 1996).

FDI source country/ country of origin

The country of nationality of the investor. In other words, the country from which FDI flows originate.

Firm-specific factors

Factors associated with the characteristics of the investor. The international location choice is not so much based on the actual factors at origin and destination as it is on the perception of these factors. Forms of ownership, skills and experience and relational assets enter into the evaluation of the situation at origin, and knowledge of the situation at destination depends upon personal contacts or upon sources of information which are not universally available (based on Lee 1966, adjusted to the context of FDI theory).

Four Factor Model

This is the name coined by the author for the model Lee (1966) developed for studying migration flows. The wording Lee used in order to refer to the four categories of factors has been changed, in order to make Lee's model better suited to the study of the motives behind FDI flows: 'intervening obstacles' become 'intervening factors' and 'personal factors'

become ‘firm-specific factors’. The firm-specific factors shape the lenses through which the other factors and their interrelationships are perceived and do not show in the model.

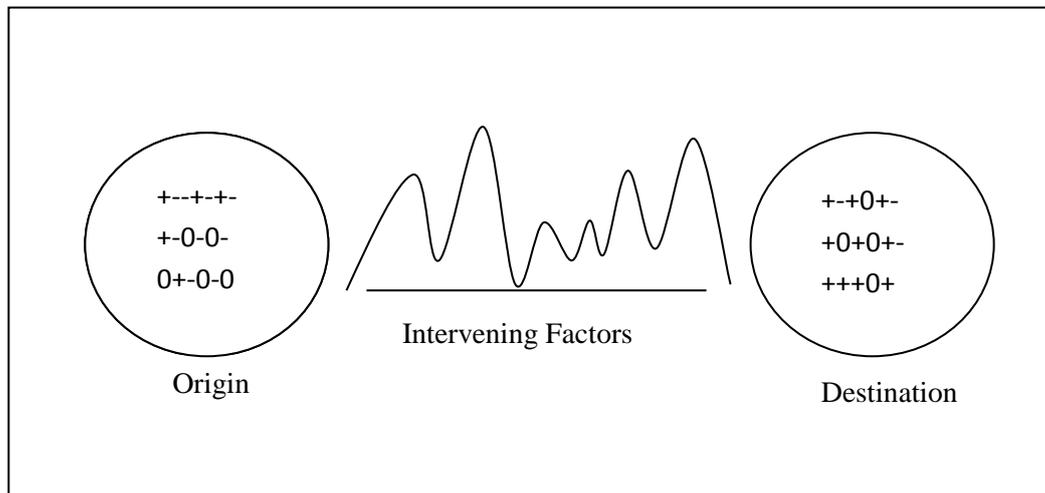


Figure 1.1 Four Factors Model

Source: produced by the author based on Lee’s model (1966: 50)

Intervening factors

A set of obstacles that stand between the country of origin and the country of destination. These obstacles might be slight in some instances and insurmountable in others. It is important to note that different investors are affected differently by the same set of obstacles (based on Lee 1966, adjusted to the context of FDI theory).

Investment

An asset or item that is purchased in the hope that it will generate income or appreciate in the future. In an economic sense, an investment is the purchase of goods that are not consumed today but are used in the future to create wealth. In finance, an investment is a monetary asset purchased with the idea that the asset will provide income in the future or appreciate and be sold at a higher price (Investopedia, 2011).

Multinational enterprise (MNE)

An MNE is an organisation that consists of entities in two or more countries. The legal form and field of activity are not prescribed but they are linked by ownership and a common

strategy. Decision-making is generally centralised, one or more of the entities may be able to exercise influence over the activities of the others, and they share knowledge, resources, and responsibilities (Ghoshal & Westney, 1993: 4).

Pull factors

Factors associated with the country of destination (Lee, 1966).

Push factors

Factors associated with the country of origin (Lee, 1966).

1.6 Methodology

This study can be classified as part of the qualitative research paradigm. Paradigms consist of three features that are interrelated, namely: ontology, epistemology and methodology (Cohen & Manion, Lincoln & Guba, Patton in Coll & Taylor, 2001). Together they answer the questions: what is reality and how can it be studied? Qualitative researchers tend to have a relativist ontology and a subjectivist epistemology – the belief that there exist multiple, socially constructed realities and that knowledge rests in subjective experience (Coll & Taylor, 2001; Morgan, 1980). Not surprisingly, ‘qualitative researchers always attempt to study human action from the insider’s perspective (also referred to as the “emic” perspective)’ (Babbie & Mouton, 2006: 53). The goal is to describe and understand the phenomenon under study, rather than to explain or to predict. Researchers who conduct qualitative research therefore prefer research ‘methods of observation and analysis that “stay close” to the research subject’ (Babbie & Mouton, 2006: 53).

The goal of this study is to describe and understand the factors that influence the motives of CREC7 for investing in the infrastructure sector in the DRC. In line with the epistemology of the qualitative research paradigm, the perception of the push, pull and intervening factors is regarded as subjective and depend on the firm-specific factors of the specific investor as well as the time of the investment. The research design used for this study is the case study. A case study is an empirical investigation of a contemporary phenomenon within its real-life context. According to Yin (2003), ‘case studies are the preferred strategy

when “how” and “why” questions are being posed’ (2003: 1). The case study method allows for depth of investigation at the expense of generalisation. Hodkinson & Hodkinson (2001) point out the main strengths and limitations of case study research. The most pertinent strengths are the ability to engage with complexity, to deal with unexpected issues and to show the processes involved in causal relationships (Hodkinson & Hodkinson, 2001). Currently, most studies on the motives behind Chinese FDI flows to Africa are based upon statistical correlation (for example, Buckley *et al.*, 2007; Kolstad & Wiig, 2010; Ramasamy *et al.*, 2010). According to Hodkinson & Hodkinson (2001) the depth and complexity of case study data can illuminate the ways in which such correlated factors influence each other. The limitations of case study research are discussed in section 1.7 of this chapter.

1.6.1 *Unit of analysis*

The main unit of analysis is CREC7, a subsidiary of CRECG – the largest civil construction company in China and the largest international contractor in the world (Engineering News Record (ENR), 2010).

1.6.2 *Single Case Study*

CREC7’s infrastructure investment in the DRC can be regarded as a *typical case*: CREC7 is a typical subsidiary of a large Chinese SOE of which there are many operating in Africa and the infrastructure sector is the second largest attractor of Chinese FDI in Africa – in terms of projects (United Nations Conference on Trade and Development (UNCTAD), 2010). Two main reasons are provided for the omnipresence of Chinese companies in the infrastructure sector in Africa, namely: Firstly, large Chinese construction companies are perceived to have a comparative advantage over their foreign competitors since they have acquired experience in working in a similar environment and in constructing many large infrastructure projects from scratch in a relatively short period of time. Secondly, Chinese investments in the infrastructure sector in Africa are perceived to be linked to China’s search for natural resources. Knowler (2011) for example, argues that Chinese investments in the road and rail infrastructure of Chile is more self-serving than philanthropic. Copper and iron ore mining requires a reliable electricity supply and it also needs a solid transport system to get the raw materials from the remote and rugged mining areas to the ports’. Brautigam (2009: 149) argues that this link between Chinese investments in infrastructure and natural resources is

based on China's own experience with 'resource-backed guarantees'. Brautigam (2009: 149) point out that 'in the late 1970s China learned how resources could be used to leverage investment and loans from Japan and the West as the wealthy world rushed to profit from China's initial opening-up' and she argues that 'these resource-backed guarantees have [now] become an important vehicle for expanding Chinese engagement in Africa' (2009). CREC7 is involved in such a 'resource-backed infrastructure loan' in the DRC referred to as the Sicomines agreement. The Sicomines agreement between the Congolese government and a Chinese consortium in which CREC7 is involved is therefore a special and important factor, though not unique in terms of China's economic relations with African countries. The discussion in international media and by multilateral organisations such as the International Monetary Fund (IMF) and the European Union (EU) on the Sicomines agreement offers useful information for the study of the factors that influence the motives of CREC7 for investing in the infrastructure sector in the DRC. As a subsidiary of CREC, CREC7 builds on a history of contracting large infrastructure projects in China since 1950 and as a SOE it enjoys strong connections with the Chinese Communist Party (CCP). CREC7 has been active in the DRC since June 2008. It has a total of 450 employees in Kinshasa alone of whom fifty-nine are Chinese nationals (interview with project manager CREC7, 29 August 2010). CREC is a typical SOE, supported by the national government to operate abroad; whereas CREC7 operates both nationally and abroad like a private company, with profit-maximising as its main aim (interview with project manager CREC7 in the DRC, 29 August 2010). Studying the case of CREC7 in the infrastructure sector of the DRC is therefore expected to provide more insight into the complexity of Chinese actors operating in Africa, especially in terms of the interaction between the Chinese state, CREC, CREC7 and the government of the FDI host country.

Studying the push, pull and intervening factors for CREC7 for both infrastructure projects that are part of this agreement and projects outside this agreement is expected to show that the appreciation of the respective push and pull factors depends on the contextual factors. It is assumed that the lessons learned from this study will inform about the experiences of Chinese SOEs investing in the infrastructure sector in the DRC. As previously mentioned, the DRC was the second largest recipient of Chinese FDI in Africa in 2009 (MOFCOM, 2009).

The single case study design is therefore chosen in order to shed light on certain dynamics – in particular the interrelation between the particular firm-specific, push, pull and intervening factors that influence CREC7's motives to invest in the DRC. Hodkinson &

Hodkinson (2001) argue that it is the restricting scope of case study research that facilitates the construction of a detailed, in-depth understanding of what is to be studied and enables the researcher to engage with complexity.

1.6.3 Sources of information

Case studies are usually associated with ethnographies and participatory observations, however, case studies do not depend solely on data collected by these two methods. Yin (2003) discusses six sources of evidence that are most commonly used in case studies, namely: documentation, archival records, interviews, direct observations, participant-observation, and physical artefacts. According to Yin (2003) one of the major strengths of case study data collection is the opportunity to use many different sources of evidence. In order to maximise the validity of this study, multiple sources of evidence are used. Yin (2003) refers to this practice as ‘data triangulation’. Yin (2003: 97) argues that ‘one finding or conclusion in a case study is likely to be much more convincing and accurate if it is based on several sources of evidence’. The data for this study has therefore been collected from three different sources of evidence, namely: documentation, face-to-face interviews and direct observations, the latter two which occurred during August 2010. This section discusses the way data has been gathered from these sources of information.

Documentation

This section describes the documents that have been used either to retrieve inferences as clues for further investigation or to corroborate information derived from other sources. For the literature review, academic articles and books on FDI, Chinese outward FDI and FDI flows to Africa have been collected using online academic research databases (J-stor and the website of the library of Stellenbosch University) and search engines (Google Scholar). The main search words and phrases used were: ‘FDI’, ‘Chinese FDI to Africa’, ‘motives Chinese overseas investors’ and ‘FDI flows to Africa’. The references of the books and articles were used in order to direct to further readings. This was carried out until the new literature found referred to literature that had already been collected which suggested that all main literature about the specific topic had been collected and the debates in the literature could be mapped.

Face-to-face interviews

The purpose of the face-to-face interviews was to obtain information about the investment climate in the DRC, the motives of Chinese construction companies for investing in the DRC, and the challenges and advantages for CREC7 – and Chinese construction companies in general – of investing in the DRC. Semi-structured, face-to-face interviews were conducted with the then Chinese ambassador⁴ to the DRC; two representatives of *L'Agence Congolaise des Grands Travaux (ACGT)*; a representative of the Congolese *Unit de Coordination des Projets (UCOOP)*; three Chinese project managers of CREC7; and six other Chinese project managers in the infrastructure sector in the DRC. The Chinese ambassador was chosen as a respondent because of his connections with both the Congolese and the Chinese government and the Chinese companies operating in the DRC. His position gives him an overview of the situation of Chinese investment in the DRC. The Congolese representatives of ACGT and UCOOP were chosen as interviewees in order to obtain and corroborate certain facts about the investment climate in the DRC and about the Sicominex agreement. The managers of CREC7 are the key persons in this study. They were interviewed to obtain information about all three of the main topics. Finally, the other Chinese investors in the infrastructure sector in the DRC were chosen in order to corroborate certain facts about the investment climate in the DRC, push factors from China and the challenges and advantages for Chinese investors in the infrastructure sector in the DRC. The interviews lasted for approximately one to one-and-a-half hours. All interviews were held either in the office of the interviewee or at the project site. Notes were made instead of using a tape recorder in order to create a more comfortable situation for the interviewee, to decrease the chance that the interviewee would hold back in answering the questions and to ensure that the interviewee would not refuse to be interviewed.

Direct observations

Conducting the interviews in the field offered the opportunity for direct observation. Direct observation differs from participant observation in the sense that the latter involves participation in the events being studied. In the case of this study it would mean that the researcher has the opportunity to be actively involved in the decision-making process about the choice to invest in the DRC. Since this is not the case, the author is merely a passive observer. The observations were made in Kinshasa (the capital of the DRC), the project sites

⁴ At the beginning of 2011 Mr Wang Yingwu replaced Mr Wu Zexian as the Chinese ambassador to the DRC.

of CREC7's infrastructure projects in Kinshasa and the offices of the managers interviewed during the course of the field visits. See addendum 7 for the list of key topics during these observations.

1.6.4 *Access to the study sites*

Access to the respondents in the DRC was arranged through a connection with the China Road and Bridge Company (CRBC) in Beijing. A manager on the ground from a branch of CRBC that is also active in the infrastructure sector in the DRC arranged meetings with managers from other Chinese infrastructure companies in the DRC, the Chinese ambassador and the Congolese representatives from ACGT and UCOOP. The same person also arranged a car with a driver and a translator for the period of the field research.

1.7 Limitations and delimitations

1.7.1 *Limitations*

Case study design

One of the limitations, mentioned by Hodkinson & Hodkinson (2001), seems to be a problem of excess. Hodkinson & Hodkinson (2001) argue that the detailed focus of case studies has the tendency to create too much data. This means that in order to represent the complexity in a simpler way, choices need to be made, and not all data can be used. This leads to a second limitation, namely: it is often difficult to give accessible and realistic portrayals of the complexity in writing. One reason for this, according to Hodkinson & Hodkinson (2001), is that writing is predominantly a linear form of communication, with a beginning, middle and end, and this does not necessarily account for what case study research reveals. Two other limitations of case study research that are interrelated are that these studies do not lend themselves to numerical representation, and they are not generalisable in the conventional sense (Hodkinson & Hodkinson, 2001). Yin (2003) explains that case studies, like experiments, are generalisable to theoretical propositions and not to populations or universes. According to Yin (2003) the aim of a case study is to expand and generalise theories (analytic generalisation) and not to enumerate frequencies (statistical generalisation).

Single case design

Due to restrictions related to time and finances it is not possible to include more than one case in this study. The study of Chinese investments in another sector or another country could however provide valuable insights. A potential vulnerability of the single-case design, according to Yin (2003: 42) is that ‘a case may later turn out not to be the case it was thought to be at the outset’. There are two other main pitfalls of which to be aware: selection bias and over-generalisation of results. Being aware of the limitations of the single-case study, the conclusions will only address the situation of the case studied. The findings can, however, lead to valuable suggestions for future research.

Holistic case design

The focus of this study is on only one unit of analysis, namely CREC7. A typical problem with the holistic design according to Yin (2003) is that ‘the entire case study may be conducted at an abstract level, lacking any clear measures or data’ (2003: 45).

1.7.2 Delimitations

The study is delimited by the choice to focus on one investor in a specific sector in a specific country. Although the larger aim is to contribute to a better understanding of the motives of Chinese investors in Africa, the findings of this study cannot be generalised for other Chinese investors active in other sectors or in other countries. The purpose of this exercise is however to test the use of the Four Factors Model for the study of the motives for outward FDI. In case the model appears indeed applicable to FDI theory, future research can focus on repeating this study for other cases of either Chinese investors in the infrastructure sector in other African countries, or Chinese investors in other sectors in the DRC, in order to make analytic generalisations about the factors that influence the motives of Chinese investors for in Africa.

The interviews were conducted in August 2010 and reflect therefore the political and economic context of that time. It means that the research was conducted during the implementation of the infrastructure constructions under the Sicomines agreement and immediately after the final decision of the IMF to support the DRC’s international debt relief. Furthermore, the study was conducted after the increase of the profit margin for the owners of CREC from 0.6 per cent in 2008 to 2.1 per cent in 2009. The latter might influence the motivations of the leaders of CREC.

1.8 Outline of the remainder of the study

The aim of the second chapter is to position this study in the current academic debates on Chinese outward FDI. The chapter further expands on underlying theories and academic debates briefly discussed in the literature review in chapter one. It ends with the suggestion to introduce Lee's (1966) model that he developed in migration theory to FDI theory. Chapter three, the contextualisation, puts Chinese outward FDI flows to Africa into perspective and discusses Sino-DRC relations. This chapter ends with homing in on a particular economic agreement between Chinese companies and the Congolese government that has attracted much international attention, namely the Sicomines agreement. Chapter four is an attempt to apply Lee's (1966) model to a case study of the subsidiary of a large Chinese contractor in the DRC – namely CREC7 – in order to better understand the factors that influence CREC7's motives to invest in the DRC. Finally, chapter five summarises the main findings of the analysis, and discusses their implications.

Chapter 2: LITERATURE REVIEW

2.1 Introduction

The study of FDI does not have a central place in IPE theory yet. Currently, the main focus of IPE theory is on the impact of FDI on economic growth, which is ‘one of the most controversial topics in the literature of international political economy’ according to Lheem & Guo (2004). However, besides the potential impact of FDI on economic growth, there are other aspects of FDI that deserve the attention of IPE scholars. IPE is referred to as the study of interactions between states and markets (Maswood, 2008, 2nd edition). However, as correctly pointed out by Eden, ‘the market is a structure, not an actor, and hence a poor counterpoint to the state’ (1991: 197). According to Eden, the appropriate counterpoint to the state is the MNE, the key non-state actor dominating both domestic and international markets. Hymer (1982), a prominent FDI scholar, argues that the importance of the MNE has increased with the developments in modern technology as MNEs have profited more and more quickly than states, according to him. Hymer furthermore argues that MNEs are therefore ‘likely to have a certain degree of success in organising markets, decision making, and the spread of information in their own interest’ (1982: 327). An illustration of this is that some MNEs are more powerful financially than national economies as noted in chapter one. Eden (1991) argues that IPE scholars should no longer regard the MNE as a black box and instead put MNEs in the centre of their study next to states. To summarise, MNEs are key players in international relations and their motives for investing in specific locations are therefore of importance to an understanding of current international relations.

In its classic definition, foreign direct investment is defined as an organisation’s physical financial investment in establishing facilities in a country other than its country of origin. In recent years, this definition has been broadened to include the acquisition of a long-term management interest in a company or enterprise outside the investor’s home country (Graham & Barry, 2004). In other words, FDI is the flow of money from one economy to another by which the investor gains a share of ownership of a foreign asset. FDI flows and motives have been studied since the 1950s by scholars from several areas of economics (Penrose 1956; Dunning 1958, 1977; Vernon 1966; Caves 1971; Hymer 1976; Buckley & Casson 1976, 2009). The two questions that have been, and still are, central in FDI theory are: why do firms invest abroad? And secondly, why do they invest in a particular economy?

In summary, the main question is: what are the motives of foreign investors? Recently, these questions have sparked new interest as a result of the increase in emerging economies creating new FDI source countries. Several scholars point out that contemporary FDI theory is not adequate to explain the motives of emerging economies, particularly that of China, to invest abroad. (Child & Rodrigues, 2005; Buckley *et al.*, 2007; Kolstad & Wiig, 2010; Ramasamy *et al.*, 2010). However, thus far these scholars have not offered a more elaborate framework by which to study motives for outward FDI. The purpose of this chapter is to review both general FDI theory and the more specialised theory on Chinese outward FDI. The main theory of this literature study is that although FDI scholars have alluded to the push and pull theory from migration theory, there has been no direct reference to a theory. This thesis introduces Lee's (1966) model of migration theory into the theory of FDI in an attempt to provide a tool for the analysis of FDI flows, the characteristics of investors and their motives. The purpose of his paper was to develop a general schema in order to 'deduce a number of conclusions with regard to the volume of migration, the development of streams and counterstreams, and the characteristics of migrants' (Lee, 1966: 49). It is believed that when Lee's model is applied and its full potential realised, FDI scholars will be better able to explain correlations between firm-specific push and pull factors and also the reason that FDI does not always take place in countries where the conditions seem to be similar.

This chapter is divided into three sections. The first section discusses the motives for outward FDI and locational decisions as explained by general FDI theory. In the second, the theories on the motives for Chinese outward FDI and the locational decisions of Chinese investors are debated. The third section introduces Lee's (1966) model from migration theory.

2.2 General outward FDI theory

The common starting point of most FDI theory is that investors pursue profit maximisation (Stevens, 1974). The simple answer to the question: why do firms invest abroad? is therefore, in general, 'to make profit'. This answer is, however, not satisfactory and raises further questions about the specific circumstances that trigger outward FDI and the balance between the risks involved in, and the profit that can be made by investing abroad. FDI theory has developed over time in search of an answer to these and other questions.

According to one of the oldest theories linked to FDI, capital market theory, profit maximisation can be achieved through increasing efficiency. Adam Smith, who is regarded as the father of the capital market theory, although he never used the word ‘capitalism’ himself, argued that products should be produced where the production is most cost-efficient (Cho & Moon, 2000: 6). Capital market theorists argue that in a world characterised by perfect competition – where regions specialise in the production of goods that they can produce most efficiently and where they import the other goods they need from the regions where these goods are produced most efficiently – FDI would not exist. In 1933, the two economists Joan Robinson and Edward H. Chamberlin published almost simultaneously their books in which they each introduced models of *imperfect competition*. Robinson and Chamberlin argued that real-world frictions such as limited information, transaction costs, costs of adjusting prices, government actions, and barriers to market-entry for new firms all influence the demand and supply structure. It took almost thirty years for these models to be introduced into FDI theory. Until the end of the 1950s, the existence of FDI and MNEs was still explained from a perfect competition perspective (Gravino, 2011).

The study of FDI flows gained importance after the Second World War, when FDI acquired an important role in the international economy. At the end of the 1950s, the main belief was that investors direct their investments to where the returns are highest and that capital therefore moves in response to changes in interest rate differentials (Bredesen, 2006). It was only through the work of Stephen Hymer –presented in 1960, but published posthumously in 1976– that a shift took place in FDI theory from the idea of perfect competition to imperfect competition. Hymer questioned the reason for the US receiving FDI from the very countries to which it was sending FDI. This showed that differences in interest rate could not be the main or only reason for firms to invest abroad. Hymer made a distinction between portfolio investment and FDI, and argued that differences in interest rate caused the former and not the latter. Instead, Hymer argued that outward FDI is motivated by the desire to keep control over production ‘in order to appropriate fully the returns of certain skills and ability rents derived from advantages’ (1976: 25). According to Bredesen (2006), Hymer made a move towards an analysis of the MNE based upon industrial organisation theory –a field of economics that studies the structure of and boundaries between firms and markets and the strategic interaction of firms.

In order to illustrate Hymer’s theory I will use the example of a fictional canned fruit production company named WECAN. The owner of WECAN produces canned fruit in his country of origin because it is relatively cheap to produce due to an abundance of fruit. He

has developed operational expertise over many years and he is planning to expand his business and market in order to make full use of these advantages. Since the market in his country of origin is becoming saturated and transportation costs are high, he decides to build a factory in another country with a huge potential market. The reason that a local investor has not built a similar factory is that he lacks the experience of the WECAN owner which enables him to run the business more efficiently than a local investor would. Bredeesen quotes Hymer as follows: 'for firms to own and control foreign value-adding activities they must possess some kind of innovatory, cost, financial or marketing advantages - specific to their ownership - which is sufficient to outweigh the disadvantages they face in competing with indigenous firms in the country of production' (2006, slide 7 of a PowerPoint presentation Bredeesen prepared for Oslo University College). Another reason for the owner of WECAN to buy stakes in an existing factory for canned fruit in a country which he is exporting to is therefore in order to suppress competition. This example shows the strategic choices of and interactions between firms involved in FDI.

The most important contribution that Hymer made to FDI theory is the differentiation between portfolio investment and FDI. According to him outward FDI is motivated by the desire to use the full potential of a firm's cost advantages –later referred to as 'ownership advantages' – and to suppress competition. The example of the canned fruit company also shows that markets experience natural imperfections besides the constraints imposed on the market system by, for example, government policies. Huang (2005) refers to natural market imperfections as 'imperfections that are due to the fact that the implicit neoclassical assumptions of perfect knowledge and perfect enforcement are not realized' (2005: 11). Market imperfection is therefore considered to be the rule and not the exception.

Ownership advantages per se are not adequate to explain why FDI takes place. Establishing a part of a business in a foreign country involves risks, therefore there needs to be an explanation as to why investors establish their businesses in a foreign country instead of licensing or selling their products and or processes to a foreign firm. During his study of the firm, Coase (1937) developed the idea of transaction costs. Coase noted that using a market as well as managing the whole production chain internally carries costs. Coase refers to the costs of using the market as *transaction costs* and to the internal costs as *administration costs*. Brown & Hogendorn (1994) summarise Coase's theory as follows: 'A firm would follow an internal route if transaction costs exceeded administration costs and would follow an external route if the reverse were true' (1994: 632). Following the internal route is referred to by Coase as *internalisation*. Buckley & Casson (1976) built further on the Coasian nature

of the firm and developed the *internalisation theory* in order to analyse the behaviour of the MNE and the motives for outward FDI. The analysis of Buckley & Casson (1976) is based on three principles, namely that: (1) ‘the boundaries of a firm are set at the margin where the benefits of further internalisation of markets are just offset by the costs’, (2) ‘firms sought out the least-cost location for each activity’, and that (3) ‘the firm’s profitability, and the dynamics of its growth, were based upon a continuous process of innovation stemming from R&D [research and development]’ (Buckley and Casson 2009: 1564). In other words, according to internalisation theory, profit maximisation is still the main motive for outward FDI and the choice for specific locations of destination.

Some economists have suggested that even though ownership-specific advantages and internalisation advantages are necessary for FDI to occur, it is still not an adequate explanation. John Dunning (1977) was the first scholar to attempt to integrate a variety of strands of thinking into one framework, namely the OLI-framework. OLI stands for: Ownership advantages, Location-specific advantages, and Internalisation advantages. His eclectic theory – which is in fact more eclectic than a theory – is a selection of elements from two FDI theories combined with elements of location theory. Dunning argues that although ownership-specific advantages and internalisation advantages are necessary conditions for outward FDI to take place, it must be profitable to use these advantages in combination with at least some factors associated with the country of destination; otherwise the foreign market could be served exclusively by exports. Dunning refers to these latter factors as ‘location-specific advantages’. Examples of location-specific advantages are: government policy, abundance of natural resources, cheap labour force and good infrastructure, among others. According to Dunning, the greater the O and I advantages possessed by firms and the more the L advantages of creating, acquiring (or augmenting) and exploiting these advantages from a location outside its home country, the more FDI will be undertaken. This eclectic theory is currently the most widely used theory by FDI scholars (this is stated by among others: Blanton & Blanton, 2006; Bjorvatn *et al.*, 2008; Talay *et al.*, 2010). Dunning’s OLI-framework is often used in combination with Jere Behrman’s (1981) typology of FDI. The different objectives of FDI according to Behrman are: resource seeking, market seeking, and efficiency seeking. Dunning & Lundan (2008) borrow and extend Behrman’s taxonomy by adding a fourth ‘type of MNE activity’, namely: strategic asset/ capabilities seeking (Dunning & Lundan, 2008: 67). Dunning & Lundan emphasise that many of the larger MNEs in the 21st century are pursuing multiple objectives and that their motives are flexible.

The studies of Dunning (1977) and Dunning & Lundan (2008) focus mainly on what the countries of destination have to offer to these firms: pull factors. However, more recent studies of outward FDI from emerging countries have pointed out that push factors play an important role in outward FDI as well (see for example Masron & Shahbudin, 2010).

A reason for Dunning and Dunning & Lundan's neglect of push factor analysis could be that general FDI 'has been built largely on the experience of industrialised country investors' (Buckley *et al.*, 2007: 501). The contextual factors of the home countries of the main investors under study – namely, the UK and the US– could have been regarded as familiar and quite similar. This could have been the reason why the pull factors drew the attention of the scholars. This explanation seems to be confirmed by the sudden interest in and focus on push factors in recent studies on outward FDI from emerging countries such as Malaysia and Thailand (Masrun & Shahbudin 2010). Are push factors also considered to be important for the locational decision of Chinese overseas investors? The following section will discuss the theories on the motives for Chinese outward FDI and the locational decisions of Chinese investors.

2.3 Theories on motives for Chinese outward FDI

The study of the motives of Chinese investors is based on the assumption that Chinese investors differ from Anglo-Saxon investors in their motives for investing abroad and that FDI theory therefore needs to be adjusted in order to suit the study of Chinese outward FDI (see for example Buckley *et al.*, 2007; Ramasamy *et al.*, 2010). For example, Ramasamy *et al.* argue that the ability of MNEs from the developing world to invest abroad 'seems to defy the fundamental theories of internationalization' (2010: 1). Among the emerging economies, China receives the most attention as an increasing FDI home country. The main reasons for the focus on China according to Ramasamy *et al.* are: high profile Chinese M&As; the perceived attraction of Chinese outward FDI towards countries that do not fit the standard profile of host locations like Laos, Nigeria and Mali; and the assumption that the mining sector is the main target of Chinese investors (2010: 1-2). However, despite sensational reporting in popular media about Chinese overseas investments in the mining sector, the share of the mining sector in the total Chinese outward FDI actually averaged less than a quarter from 2004 to 2009 (MOFCOM, 2009).

Buckley *et al.* argue that the '[u]nderstanding of the rise in Chinese outward FDI remains very incomplete' (2007: 499). One of the reasons they provide for this is the lack of sufficiently disaggregated data to permit formal analysis. Buckley *et al.* argue that their paper is one of the first attempts to model Chinese outward FDI formally. Their aim is 'to test the extent to which the mainstream theory that explains industrialised country FDI is applicable to emerging country contexts, and whether special explanations nested within the general theory are needed' (Buckley *et al.*, 2007: 513). The remainder of this section will discuss the studies of Buckley *et al.*, Ramasamy *et al.*, and Kolstad & Wiig and the answers they provide to the two main questions: why do Chinese investors invest abroad? And what are the main determinants for their locational decisions?

Buckley *et al.* analysed the approved FDIs by the State Administration for Foreign Exchange (SAFE) of China in order to find out the effects of host market size, cultural proximity, policy liberalisation (in the home country), political risk, natural resource endowments, exchange rate, inflation, exports, imports, geographic distance and market openness on the location choice for Chinese outward FDI. They infer from their finding that host country natural resources play a significant role, that policy liberalisation has had a positive influence in stimulating Chinese outward FDI, and that 'the institutional environment has strongly shaped Chinese O[F]DI' (Buckley *et al.*, 2007: 513). Furthermore, they found that cultural proximity is a significant factor for Chinese outward FDI and that Chinese outward FDI is thereby attracted to political risk rather than deterred by it. However, Buckley *et al.* are performing a form of overgeneralisation when they make statements about Chinese outward FDI in general in 2007 based on studying Chinese outward FDIs from 1984 until 2001. During the period of their study, Chinese MNEs were synonymous with Chinese SOEs because prior to 2003 Chinese private companies were prohibited from investing abroad. Buckley *et al.* go a step further in making unfounded generalisations by making statements about other emerging countries based on their findings for Chinese MNEs: 'The second implication [of this study] is that liberalisation is a very powerful instrument for emerging economies' (2007: 514). Buckley *et al.*'s article would have been stronger had they acknowledged the limitations of their study and stuck to statements about the motives of Chinese MNEs for their overseas investments in the period from 1984 to 2001. A clear conceptualisation of 'Chinese MNEs' would thereby make their statements for the current situation more relevant.

The previously mentioned finding of Buckley *et al.* that Chinese firms are attracted to, rather than deterred by, political risk is attributed by them to three factors that can be

regarded as a combination of push factors and firm-specific factors, namely: capital market imperfections in China⁵, state-ownership as a particular specific advantage, and the experience of operating in a highly regulated and controlled domestic environment (Buckley *et al.*, 2007: 513-514). However, since Buckley *et al.* did not compare Chinese SOEs with Chinese private firms, they cannot argue that capital market imperfections are an example of state ownership as a firm-specific advantage. Buckley *et al.* do not conceptualise *political risk* and only refer to the ICRG as the source for the host country's political risk rating. The political risk rating of the ICRG is based upon twelve different political risk components such as 'Military in Politics' and 'Democratic Accountability' (IPRG, 2011). Buckley *et al.* do not critically discuss these components and their applicability to Chinese investors. Their 'finding' that Chinese firms are able to invest in high-risk countries because they have sufficient financial means and support from the Chinese government is therefore based on the assumption that the perception of risk by Chinese investors is similar to that of investors from the UK and US, while this does not necessarily need to be the case and needs further research. A further observation is that Buckley *et al.* list all determinants of FDI that they extracted from general FDI theory without subdividing them into macro- and micro-level factors, or between push and pull factors, for example, in order to show the different levels of analysis or possible interaction between factors.

In contrast, Kolstad & Wiig (2010) focus on the correlation between the attraction of Chinese outward FDI to resource-rich countries and countries with weak institutional environments. They use more recent data on actual Chinese FDI flows than Buckley *et al.*, namely: they study Chinese outward FDI for the period 2003 to 2006. The focus of Kolstad and Wiig is explicitly on the host country determinants – pull factors – for Chinese outward FDI. The study of Kolstad & Wiig 'tests and finds of significant importance an interacted effect of institutions and resources, suggesting that Chinese investment is more attracted to a country with natural resources, the worse the institutional environment of that country' (2010: 2). Their main argument is that 'the returns to any competitive advantage China has in operating in countries with poor institutions are greater where these kinds of resources are present' (2010: 5). However, their study appears to contain confirmation bias, in other words: Kolstad & Wiig seem to ask questions that are consistent with the hypothesis that is being tested. They confirm their hypothesis, for example, by providing the following example:

⁵ Morck *et al.* (2008) argue that capital market imperfections in China lead to an extraordinarily high savings rate among Chinese SOEs and weak corporate governance to manage these savings which provides SOEs access to funds at below market rates. This explains, according to Morck *et al.*, why investments from Chinese SOEs can afford to take place in countries with weak institutions.

‘Companies with a competitive advantage in bribery are likely to invest more in countries where the payoffs from bribes are greater, which is arguably the case in resource-rich countries’. (Kolstad and Wiig 2010: 5). It is interesting to note that bribery is considered a ‘competitive advantage’. What exactly is meant by this? Are Kolstad & Wiig referring to ‘experience with bribery’, ‘the financial means to deal with bribery’, or something else? The underlying assumption in this statement is that Chinese firms have a competitive advantage in bribery; however, this is not confirmed by the findings of Kolstad & Wiig.

The fact that many Chinese investors appear to invest in resource-rich countries with weak institutional environments could in fact suggest a spurious correlation and the findings of this study do therefore not necessarily confirm the statement that ‘Chinese FDI is conducted to exploit countries with poor institutions and large natural resources’ (Kolstad & Wiig, 2010: 8). Kolstad & Wiig admit that alternative interpretations are possible of their finding that the worse the institutions are in the host country, the greater the Chinese attraction to invest in that country, particularly if natural resources are present. For instance, Kolstad & Wiig mention the alternative explanation that ‘for China as a latecomer in FDI, the only opportunities for investment in natural resources are in poorly governed countries...’ (Kolstad & Wiig 2010: 5). However, they refute this explanation later in their article and state that their result ‘holds even when controlling for the stage of resource exploitation of host countries, which suggests that it is not due to China having only poorly governed countries left to invest in as a latecomer in foreign direct investment’ (Kolstad & Wiig 2010: 2). Other explanations for the fact that Chinese investments in resource-rich countries take place mainly in countries with weak institutions could be, for example, the ideas of the *resource curse*⁶ and *colonial heritage* that attempt to explain the link between resource-rich countries and weak institutional environments. A third possible explanation is that Chinese firms are attracted to the low level of competition in countries with weak institutional environments caused by the perception of European and American investors that operating in these countries carries higher risks. In other words, the possible interaction between the attraction of Chinese outward FDI to resource-rich countries and countries with weak institutional needs further research.

The third and last study on the motives for Chinese outward FDI discussed in this chapter is the study by Ramasamy *et al.* (2010), who investigated the international investment location decisions made by public listed Chinese firms during the period 2006 to 2008.

⁶ That countries with an abundance of natural resources tend to have less economic growth than countries with fewer natural resources because it is often easy to maintain authority through allocating resources to favoured constituents: corruption.

Ramasamy *et al.* categorise Chinese firms into three distinct groups based on ownership, namely: SASAC-controlled firms, SOELGs, and PIs. Their main finding is that existing FDI theories explain adequately the actions of private Chinese firms; however ‘adjustments are needed to understand the behaviour of state-controlled multinationals’ (Ramasamy *et al.*, 2010:1). Ramasamy *et al.* found that countries with large natural resource reserves are equally attractive to private firms; however, none of the private Chinese firms in their analysis is a mining firm. They suggest therefore that private firms follow the state-owned firms by investing in natural resource-rich countries in order to provide related products and services to the deals already made by the Chinese government. The findings of the study of Ramasamy *et al.* also show that Chinese private firms are more attracted to countries that are closer to home and that SOELG- and SASAC-controlled firms have a higher tendency to invest in countries with weak political institutions. Ramasamy *et al.* explain that:

SOEs view political risks differently than private firms. IB [International Business] literature tends to view undemocratic countries negatively because of the lack of institutions that can provide the legitimacy and rights required for long term investments [...] However, SOEs rely more on the government-to-government (G2G)⁷ relationship as the basis of their decisions. Uncertainties like nationalization and contracts failures maybe [*sic*] less likely when the investment is based on a G2G foundation (Ramasamy *et al.*, 2010: 8).

Ramasamy *et al.* argue that only SOELGs are attracted to politically risky countries for natural resources while SASAC-controlled firms are attracted to politically stable countries for strategic asset-seeking motives. According to Ramasamy *et al.*, SASAC-controlled firms are interested in acquiring technology, management and marketing know-how ‘[t]o withstand the onslaught of other foreign competitors who are already in China or waiting at its doorstep...’ (2010:8). According to the theory of Morck *et al.* (2008), SOELGs and SASAC-controlled firms are both expected to benefit from the imperfect capital market in China, however, only SOELGs are attracted to politically risky countries for natural resources. This means that the theory of Kolstad & Wiig that ‘the returns to any competitive advantage China has in operating in countries with poor institutions are greater where these kinds of resources

⁷ This idea is related to the concept of *Guanxi* that is embedded in Chinese culture. *Guanxi* (relationships or networking) is a key concept in Chinese (business) culture and means that Chinese business persons put a great deal of effort into building personal relationships with their business partners in order to build trust to enable them to close better deals (see, for example, Kiong & Kee, 1998).

are present' (2010: 5) is refuted by Ramasamy *et al.* who contribute to a better understanding of the motives of Chinese outward FDI by subdividing Chinese SOEs further into two categories based on ownership. The study is, however, not conclusive, because it fails to take other firm-specific factors other than ownership into consideration.

In summary, recent empirical studies on the motives of Chinese outward FDI have revealed some of the important contextual factors that influence the international location decisions of Chinese investors. However, a lack of complete understanding of important concepts such as *Chinese MNEs* and *political risk* and the absence of an elaborate framework does not give these studies enough explanatory power. The final section of this chapter will introduce and discuss a model from migration theory which can contribute to the development of such a framework for studying the motives for outward FDI.

2.4 Push and pull factors

Both push and pull factors have been mentioned in studies on FDI without specific reference to a theory. For example, Sternquist (1997) argues that locational advantages have been traditionally grouped as both push and pull factors. Sethi *et al.* emphasise that 'push and pull factors have to be viewed in tandem' (2002: 691). According to Gugler & Boie, 'such a categorization does not oppose or contradict the traditional approach, but arguably takes a wider perspective, since various motivations for investors deriving from conditions in the home as well as the host country may be addressed with such a scheme' (2008: 9). However, without embedding push and pull factors in a theory, push and pull factors are rather 'floating around' in FDI studies instead of offering a 'scheme'. This section aims to introduce and discuss the push-pull theory from migration theory, from where, arguably, the idea of push and pull factors in FDI studies are derived. The main argument of this section is that the push-pull theory in migration theory is much more developed than in FDI theory and that the model of Lee (1966) can be used to establish a comprehensive framework on the motives for outward FDI.

The push-pull theory is referred to as 'the earliest, classical approach to the explanation of migration' (Yang 2010:2). It can be traced back to the pioneering work of Ravenstein (1885) who tried to establish laws of migration after Farr remarked that migration appeared to go on without any definite law. Lee built further on Ravenstein's work and established what is now being referred to as the 'push-pull theory'. While the term 'push and

pull factors’ is attributed to Lee, he did not actually coin the term himself and by simply referring to Lee’s framework as one describing push and pull factors does not do justice to the framework that he developed. In fact, Lee’s framework consists of four categories of factors that influence migration flows, namely: factors associated with the area of origin (later referred to as ‘push factors’), factors associated with the area of destination (later referred to as ‘pull factors’), intervening obstacles and personal factors. Lee illustrated this as follows:

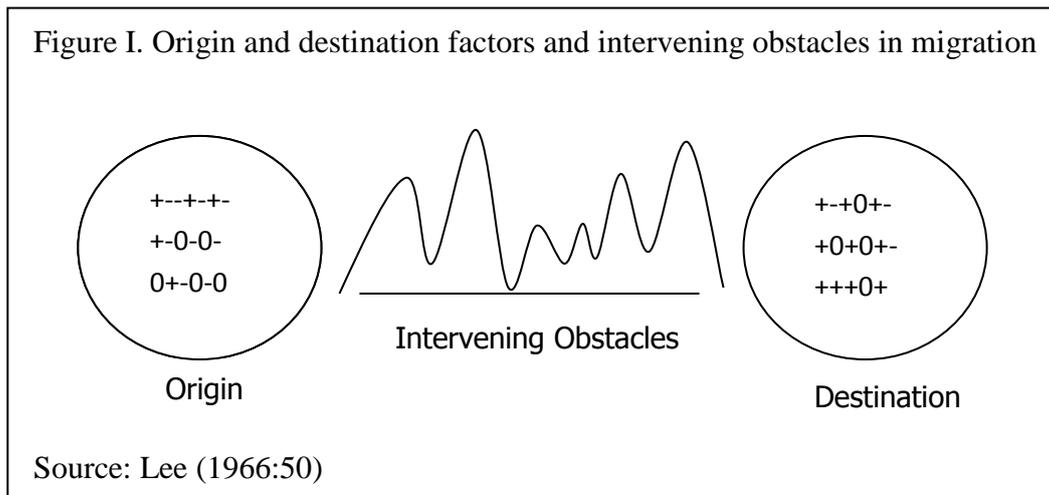


Figure 2.1 Origin and destination factors and intervening obstacles in migration

Source: Lee (1966: 50)

The + signs represent the factors that ‘hold people within the area or attract people to it’, and the – signs represent the factors that ‘tend to repel them’ (Lee 1966: 50). Lee points out the subjectivity of the positive and negative character of the factors by emphasising that the set of +s and –s at both origin and destination is differently defined for every migrant or prospective migrant. Lee further argues that ‘since we can never specify the exact set of factors which impels or prohibits migration for a given person, we can, in general, only set forth a few which seem of special importance and note the general or average reaction of a considerable group’ (1966: 50). Another important point made by Lee is that ‘the factors that hold and attract or repel people are precisely understood neither by the social scientist nor the persons directly affected. Like Bentham’s calculus of pleasure and pain, the calculus of +s and –s at origin and destination is always inexact’ (1966: 50). He adds that there is always an element of ignorance or mystery about the area of destination.

The critique on Lee’s framework is threefold, namely that the framework: (1) simply

lists push and pull factors; (2) is a-historical; and (3) is unable to predict migration (Yang, 2010). Lee admits that it is a very simple framework, however, he does not claim that this framework can predict migration; instead, he argues that the framework combines what is known about migration with indications of a number of fields for further investigation. The critique that Lee's framework simply lists push and pull factors without taking into account specific historical developments in particular areas contributing to migration is incorrect, because these critics focus only on the two factors associated with the area of origin (push factors) and the factors associated with the area of destination (pull factors). The other two categories of factors in Lee's framework make clear that a simple calculus of the +s and –s does not decide the act of migration. Lee argues that 'between every two points there stands a set of intervening obstacles which may be slight in some instances and insurmountable in others' (1966: 51). It is therefore important, according to Lee, 'to note that it is not so much the actual factors at origin and destination as the perception of these factors that which results in migration' (1966: 51). The critique of Yang that the theory 'cannot explain why with similar push or pull conditions some countries have large migration flows while others have not' (2010: 3) is not relevant, because Lee explains clearly that the factors are not conditions, but perceptions and that they are subject to change. The 'other conditions' that Yang argues should be taken into account – namely: cross-national connections, migrant's social networks, ability to migrate and migration policy– are all included in Lee's framework and can be identified if the focus is not on the push and pull factors alone.

FDI is regarded by some scholars as both a push and pull factor for migration (Aroca & Maloney 2005, for example), however, FDI can be regarded as a form of migration in itself as well, namely: the migration of capital. The decision of investors to invest abroad is arguably also based on a calculus of factors associated with the area of origin (push factors), factors associated with the area of destination (pull factors) and intervening factors. 'Personal factors' become 'firm-specific factors' in this case.

2.5 Conclusion

This chapter started with the argument that the contemporary central position of MNEs in international relations requires a more thorough study of their motives within IPE theory. Until now, IPE scholars have studied FDI mainly in relation to economic growth of the FDI host country, while the motives for outward FDI have been the terrain of economics.

Furthermore it has been argued that the question of the motives of foreign investors sparked new interest with the rise of emerging economies creating new FDI source countries. The study of outward FDI from these emerging countries has pointed out that push factors play a more important role in outward FDI than previously suggested. The argument put forward in this chapter is that Dunning (1977) has neglected push factors as important factors for the international location choice of foreign investors because his theory has been built largely on the study of FDI in an Anglo-Saxon context.

As previously mentioned, more recent studies of FDI outflows from emerging countries, including studies on Chinese outward FDI, place more emphasis on push factors (Masron & Shahbudin, 2010; Buckley *et al.*, 2007; Kolstad and Wiig, 2010; Morck *et al.*, 2008; Ramasamy *et al.*, 2010) without necessarily referring to them as such. When, in future studies, researchers refer explicitly to push and pull factors and place them in a model together with firm-specific factors and intervening factors they will be better equipped to deal with the subjectivity inherent in factors that encourage or attract FDI and the complex relationships between these factors. The next chapter provides a context for the conditions that explain how the decision making for FDI is shaped in the case of the Chinese contractor CREC7.

Chapter 3: CONTEXTUALISING CHINESE FDI TO THE DRC

3.1 Introduction

Chinese investment in Africa and the motives for Chinese outward FDI to Africa currently attract much attention in both popular media and in academic research. In chapter two it was pointed out that with the rise of emerging economies and the consequent diversification of FDI flows there is a renewed focus on the push factors for outward FDI as scholars expect to find differences in motivation between new FDI source countries and the more traditional FDI source countries. However, the danger of focusing on the differences between investors is that the most pertinent factors that influence the motives for a particular investor might be overlooked. A model from migration theory is therefore introduced in chapter two in order to enable a more holistic study of the motives for outward FDI. This chapter aims to contribute to this holistic approach by providing the context in which CREC7's investments in the infrastructure sector in the DRC are taking place. The Chinese company CREC7 is not operating in a vacuum and is interlinked with other actors, events and forces in the global context – not the least of which are: China's investments in the US, the Congolese government's international debt and other foreign investors in the infrastructure and the mining sector in the DRC. These will be explained in the following two chapters. This chapter puts Chinese outward FDI flows to Africa into perspective and discusses Sino-DRC relations. The first section reviews the available data on FDI flows to Africa and, specifically, Chinese FDI flows to Africa. The main finding is that Chinese FDI flows to Africa are in fact still relatively small compared to that of the US, the biggest investor to the continent; however, the speed of the growth of Chinese FDI to Africa is remarkable. The second section puts the economic relations between China and the DRC into perspective and discusses the history and developments of the economic and diplomatic relations between China and the DRC. This chapter ends with homing in on a particular economic agreement between Chinese companies and the Congolese government that has attracted much international attention, namely the Sicomines agreement. The reason for focussing on this particular agreement is that many of the infrastructure projects that CREC7 – the company under study – is managing in the DRC are part of this deal. It is therefore important to know which actors are involved in this agreement and to understand their exact role since they can influence how the

push, pull and intervening factors are perceived by CREC7 and therefore influence CREC7's motives for investing in the infrastructure sector in the DRC. The next chapter, chapter four, will provide more background information on CREC7: its company structure, its connections with the Chinese government, and its experiences abroad before the findings of the study on the motives of CREC7 for investing in the DRC will be presented. The reason for discussing the specific background of CREC7 in chapter four instead of chapter three is that a discussion of the firm-specific factors forms part of the analysis of the factors that influence CREC7's location choice for international investment.

3.2 Chinese FDI flows to Africa

Foreign direct investment flows from China currently attract much attention in both popular media and in academic research. With the use of impressive graphs and bold words China has been depicted as one of the main investors in the African continent. This image of China encouraged the desire to study this re-emerged influential actor, its motives for, and the impacts of its involvement on the African continent. This section reviews the available data on FDI flows to Africa, Chinese FDI flows to Africa, and the methods used for composing this statistical data in order to put the role of China as an FDI source country to Africa into perspective. This section also shows the importance of questioning the method of collection and analysis of statistical data, since the actual Chinese overseas FDI appears to be much lower than suggested by official data from United Nations Conference on Trade and Development (UNCTAD, 2011) and MOFCOM (2009) when FDI flows to Hong Kong are excluded.

3.2.1 All FDI flows to Africa

Africa is gaining importance as a destination of global FDI, in line with the general trend that developing countries are attracting more FDI. According to statistics from UNCTAD (2011), developing countries received more than half of global FDI in 2010, the first time that this has occurred. This shift can be explained by increased profits of foreign firms, especially in the developing countries, the uncertainties surrounding global currency markets, and the American and European credit crises. In 2009, Africa received USD 58.6 billion FDI, more than South America (USD 54.8 billion) and the Gulf States (USD 50.9 billion), however, still

far less than Asia (USD 301.4 billion), the EU (USD 361.9 billion) and the US (USD 129.9 billion) (see table 3.1).

Table 3.1 Volume of FDI inflow per region, 2000-2009 (in USD million)

Year Region	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
US	313997	159478	74501	53141	135850	104809	237136	265957	324560	129883
EU	698224	383962	309531	259503	213881	502235	586815	923810	536917	361949
Asia	148736	114040	218525	117180	271113	215769	283113	336922	372738	301367
Gulf States	331	1894	2734	6134	14145	21318	38080	46911	60060	50851
South America	57056	37851	28209	22936	37139	44248	43837	71562	91670	54754
Africa	9829	19995	16074	20418	21726	38197	55382	63092	72178	58563
World	1401466	825280	628114	565739	732397	985796	1459133	2099973	1770873	1117189
Africa's% of Global FDI inflow	0.70%	2.42%	2.56%	3.61%	2.97%	3.87%	3.80%	3.00%	4.08%	5.24%

Source: Produced by the author using statistics from UNCTAD (2010)

Despite the fact that Africa received lower levels of FDI inflow in 2009 than the past two consecutive years, the overall percentage of Africa's FDI inflow in comparison to the world total increased during that same period. In 2009, the total volume of FDI inflow across the world decreased by 37 per cent from 2008 – due to the effects of the global financial crisis that started in 2008 – while the FDI flow to Africa dropped only by 18.9 per cent in 2009. The financial crisis of 2008-2009 has therefore reinforced the trend of Africa gaining in importance as an FDI destination. This growth in importance is also linked to the increasing levels of FDI that African countries receive from emerging economies. The proportion of FDI inflow to Africa from developing countries has increased from an average of 17.7 per cent (1995-1999) to 20.8 per cent (2000-2008) of the total FDI inflow to the continent (United Nations Economic Commission for Africa (UNECA) 2010). Although a trend of increasing outward FDI is noticeable among many of the emerging countries, it should be noted that different motives may lie behind these increasing outward FDI flows. This thesis aims to contribute to a better understanding of the motives of a Chinese contractor to invest in the infrastructure sector in the DRC. The next section therefore focuses specifically on the trends of FDI flows from China to Africa.

3.2.2 *Chinese outward FDI to Africa*

Before looking at the volumes and flows of Chinese outward FDI, it is essential to disaggregate the complexity of China as an actor when considering what China is doing in Africa, in order to avoid generalisation. According to Taylor & Xiao (2009) there are, despite the existence of an official Africa policy issued by Beijing, in fact many actors in Africa that represent China. Taylor & Xiao argue that scholars who refer to China as one unitary actor

implicitly assume that there exists an overarching grand strategy, centred in Beijing and focused on Africa. However, there are in fact rivalries and competitions between Chinese individuals, representatives of different provinces, cities, municipalities and between Chinese firms – even between the SOEs – operating in Africa (Taylor & Xiao, 2009). There are many links between these different Chinese actors that will become apparent in the case study discussed in the next chapter.

Both MOFCOM and UNCTAD – the main sources for statistics on Chinese FDI – use Chinese outward FDI in order to refer to FDI outflows from mainland China. By excluding the customs territories from China, the FDI flows from mainland China to these customs territories are automatically included in the total amount of Chinese outward FDI. Because Hong Kong is by far the largest recipient of Chinese FDI (63 per cent in 2009), this substantially inflates the figure of Chinese outward FDI. In order to avoid this bias, Duanyong (2011) uses the term ‘overseas FDI’ instead of ‘outward FDI’ in his study. With ‘Chinese overseas FDI’ Duanyong refers to Chinese outward FDI excluding the flows to Hong Kong, Macao and Taiwan, because ‘they fall under the jurisdiction of China’s sovereignty’ and the flows to the British Virgin Islands and the Cayman Islands, because of the ‘virgin phenomenon’ which refers to the fact that most outward FDI to these islands comes back to China as FDI inflow with the additional benefits that FDI obtains (Duanyong, 2011: 5-6). Chinese FDI to Luxembourg (the second largest destination for Chinese FDI if China’s separate custom territories and the British Virgin Islands and the Cayman Islands are excluded) should also not be taken into account, since Luxembourg is a major tax haven. When China’s separate custom territories, the British Virgin Islands, the Cayman Islands and Luxembourg are excluded, Chinese overseas FDI only accounts for 1.02 per cent of global FDI outflow.⁸ In other words, despite impressive growth trends and big headlines, Chinese outward FDI is, in fact, relatively small.

In 2009 the African continent received USD 1.4 billion in Chinese FDI (12.8 per cent of total Chinese overseas FDI) which was more, respectively, than Europe (USD 1.1 billion) and Latin America (USD 349.55 million) received. In 2008, Africa was also the largest recipient of Chinese overseas FDI, surpassing Asia. This was mainly caused, however, by

⁸ When the sum of mainland China’s outward FDI in 2009 to Hong Kong (USD 35.6 billion), Macau (USD 456.34 million), Taiwan (USD 40,000), the British Virgin Islands (USD 1.6 billion), the Cayman Islands (USD 5.4 billion) and Luxembourg (USD 2.3 billion) is deducted from China’s total FDI outflow in 2009, China’s total overseas FDI was only USD 11.2 billion in 2009 instead of USD 56.5 billion (author’s own calculation based on statistics from MOFCOM, 2009). The total global FDI outflow in 2009 was USD 1.1 trillion (UNCTAD 2010) therefore Chinese overseas FDI counted for 1.02 per cent of total global FDI outflows in 2009.

one single investment by the Industrial and Commercial Bank of China in a 20 per cent stake of the South African Standard Bank Group for USD 5.5 billion.

Table 3.2 Volume of Chinese outward FDI per region, from 2003-2009 (in USD million)

Year	2003	2004	2005	2006	2007	2008	2009
Region							
Asia	1505.03	3013.99	4484.17	7663.25	16593.15	43547.5	40407.59
* ⁹	324.34*	359.02*	1056.13*	689.81*	2813.54*	4263.88*	4350.64*
Africa	74.81	317.43	391.68	519.86	1574.31	5490.55	1438.87
Europe	145.03	157.21	395.49	597.71	1540.43	875.79	3352.72
** ¹⁰					1536.24**	833.66**	1082.23**
Latin America	1038.15	1762.72	6466.16	8468.74	4902.41	3677.25	7327.9
*** ¹¹	21.86***	91.07***	77.33***	97.91***	424.68***	48.91***	349.55***
North America	57.75	126.49	320.84	258.05	1125.71	364.21	1521.93
Oceania	33.88	120.15	202.83	126.36	770.08	1951.87	2479.98

Source: Produced by the author using statistics from MOFCOM 2009

In 2009, the DRC received USD 227.16 million and accounted for 15.8 per cent of the total Chinese FDI to the continent. This made the DRC the second largest recipient of Chinese FDI on the continent, very close to the number one, Algeria (USD 228.76 million). The volume of Chinese FDI to the DRC in 2009 was, however, an exception as illustrated in Table 3.3 which represents Chinese FDI flows to the top Chinese FDI receiving countries in Africa from 2003 to 2009.

Table 3.3 Volumes of Chinese FDI to selected African countries, from 2003-2009 (in USD million)

Year	2003	2004	2005	2006	2007	2008	2009
Country							
Algeria	2.47	11.21	84.87	98.93	145.92	42.25	228.76
Benin	2.09	13.77	1.31	0.00	6.32	14.56	0.09
DRC	0.06	11.91	5.07	36.73	57.27	23.99	227.16
Egypt	2.1	5.72	13.31	8.85	24.98	14.57	133.86
Gabon	-	5.6	2.08	5.53	3.31	32.05	11.88
Guinea	1.2	14.44	16.34	0.75	13.2	8.32	26.98
Madagascar	0.68	13.64	0.14	1.17	13.24	61.16	42.56
Mauritius	10.27	0.44	2.04	16.59	15.58	34.44	14.12
Nigeria	24.4	45.52	53.3	67.79	390.35	162.56	171.86
South Africa	8.86	17.81	47.47	40.74	454.41	4807.86	41.59
Sudan	-	146.70	91.13	50.79	65.4	-63.14	19.3
Zambia	5.53	2.23	10.09	87.44	119.34	213.97	111.8

Source: Produced by the author using statistics from MOFCOM 2009

⁹ Excluding Chinese FDI flows towards Hong Kong, Macau and Taiwan.

¹⁰ Excluding Chinese FDI flows to major tax haven, Luxembourg.

¹¹ Excluding Chinese FDI flows to the Cayman Islands and the British Virgin Islands.

The total FDI inflow to the African continent in 2009 was USD 58.6 billion (UNCTAD, 2010). This means that Chinese FDI to Africa accounted for 19.2 per cent of the total FDI inflow to Africa in 2009. In comparison, FDI from the US to Africa in 2009 was USD 44.8 billion (Bureau of Economic Analysis (BEA), 2011) and accounted for 76.5 per cent. The significance of Chinese FDI to Africa is therefore not the overall volume, but the pace at which it is increasing. In 2003 (the earliest record of Chinese outward FDI by MOFCOM (2009)), Chinese FDI to Africa amounted to USD 74.81 million and accounted at the time only for 0.4 per cent of Africa's total FDI inflow (USD 20.418 million).

Unfortunately, there is not any data available that provides a sectoral breakdown of Chinese overseas investment per country or region and therefore there is no data on which sectors in Africa attract most Chinese overseas FDI. In general, the statistics provided by MOFCOM (2009) show that the top five sectors that receive the bulk of Chinese outward FDI globally are, in order of importance: 'leasing and business service', 'mining', 'finance', 'wholesale and retail', and 'manufacturing' (2009: 90). According to the World Investment Report 2010 by UNCTAD most of the investments in Africa from developing countries are – when measured in value – resource-seeking and often involve state-owned enterprises. However, when looking at the number of projects, most Chinese FDI projects in Africa are actually in manufacturing and infrastructure (Gu, 2009; UNCTAD, 2010).

This section served to put Chinese FDI flows to Africa into perspective. A closer look at the volume of Chinese FDI outflow, and the way it is often calculated, shows that China is actually not one of the largest sources for FDI in the world. It is instead the 'remarkable speed of the growth in [*sic*] this investment' that makes Chinese FDI significant (Gu, 2009: 572). Thus it is noted that contrary to popular practice 'China' is not a unitary actor in Africa. As such Chinese SOEs can be expected to be differently motivated to invest in Africa than Chinese private investors, because the relationship with the government has an effect on how the push, pull and intervening factors are perceived. The next section discusses the Sino-DRC relations that shape the context of the diplomatic and economic relations between China and the DRC.

3.3 Sino-DRC relations

‘China’ refers nowadays to the People’s Republic of China (PRC), sometimes including and sometimes excluding Taiwan, depending on one’s perspective. From the perspective of the government in Beijing, the PRC currently has control over mainland China, the separate custom territories of Hong Kong and Macau and the island of Taiwan. The Taiwanese authorities, however, claim to represent the Republic of China (ROC) and officially claim sovereignty over China. When the United Nations (UN) was established in 1945, the ROC was one of the founding members and occupied the seat for China. In 1949, the PRC seized power in China and claimed to have replaced the ROC. However, only since 1971 – with the support of newly independent countries from Africa and other regions – the PRC was recognised as the sole representative of China and took over the UN seat from the ROC. This section discusses the political and economic relations between the PRC and the DRC since the independence of the DRC. The first subsection provides a short history of the establishment of diplomatic relations between the PRC and the DRC, and an overview of official state visits and bilateral agreements between the two nations. The second part of this section discusses the trade, aid and investment relations between China and the DRC. The terms ‘PRC’ and ‘China’ are used interchangeably in this section.

3.3.1 Political relations

Since its independence in June 1960, the Congolese government has changed sides three times between the ROC and the PRC before establishing long-lasting diplomatic relations with the PRC in November 1972 (Chinese Foreign Ministry, 2006). The PRC supported the government of Patrice Lumumba right after the newly independent Republic of Congo was established. The talks about establishing diplomatic relations came, however, to an abrupt halt as a result of the coup staged by Joseph Mobutu who changed the name of the country to the Democratic Republic of the Congo (DRC) and soon after established diplomatic relations with the ROC. The PRC continued to support Lumumba and in February 1961, the PRC recognised the rival government in the eastern city of Stanleyville set up by Antoine Gizenga with support of pro-Lumumba forces (Chinese Foreign Ministry, 2006; Van Reybrouck, 2010). Later, when Gizenga established diplomatic relations with the Taiwanese authority, the PRC decided to recall its ambassador and close its embassy. More than ten years later, in November 1972, the Chinese government established diplomatic relations with President

Mobutu and his Republic of Zaïre – the name President Mobutu gave to the country in 1971. The Congolese government and China have maintained diplomatic relations since then. In 1997 the name of the country changed for the last time to the Democratic Republic of the Congo – as we know it today.

President Mobutu visited the PRC five times during his period in power (from 1965 to 1997) despite the difficult start of his relationship with the PRC (see table 3.4). His successor, President Laurent Kabila, visited China once, during his first year as president. The current president of the DRC, Joseph Kabila – who became president after his father was assassinated in 2001 – paid his first visit to China in 2000. He also attended the opening ceremony of the Beijing Olympics in August 2008 and met with a Chinese army official in China in 2010.

Table 3.4 State visits from the DRC to China from 1972

Key persons	Date
President Mobutu	1973, 1974, 1980, 1982, and 1994
Nguza Karl-I-Bond, Minister of Foreign Affairs and International Cooperation	1973
Kassongo Mukumgi, Speaker of the National Assembly	1984
Wa Dondo Kengo, First Member in charge of the State Affairs	1986
President Laurent Kabila	1997
Machako Mamba, Congolese Minister of Health visited China	2000
Leonard She Okitundu, Minister of Foreign affairs and International Cooperation headed a delegation	2000 (first Ministerial Meeting of the Forum for China-Africa Cooperation held in Beijing)
Leonard She Okitundu, Congolese Minister of Foreign Affairs and International Cooperation	2001
President Joseph Kabila	2002, 2008, 2010

Source: Produced by the author using Chinese Foreign Ministry 2006, Jansson 2009, People's Daily Online 2010

The first official state visit from China to the Republic of Zaïre took place in 1978 when Huang Hua, the Minister of Foreign Affairs, visited the Republic of Zaïre. Nine other Chinese state leaders followed in his footsteps until the state visit by State Councillor Dai Bingguo in 2010 (Chinese Foreign Ministry, 2006; Jansson, 2009; China-UN, 2010).

Table 3.5 State visits from China to the DRC from 1972

Key persons	Date
Huang Hua, Minister of Foreign Affairs	1978
Li Xiannian, Vice-premier of the State Council	1979
Zhao Ziyang, Premier of the State Council	1983
Tian Jiyun, Vice-premier of the State Council	1984
Rong Yiren, Vice-chairman of the NPC	1985
Zhang Jinfu, Member of the State Council	1986
Li Tieying, Member of the State Council and Director-General of the National Education Commission	1989
Qian Qichen, Vice-premier and Minister of Foreign Affairs	1995
Yang Wenchang, Vice-minister of the Ministry of Foreign Affairs	2001
Tang Jiaxuan, Minister of Foreign Affairs	2003
Deputy Foreign Minister Zhai Jun	2009
State Councillor Dai Bingguo	2010
Vice Premier Hui Liangyu	2011

Source: Produced by the author using Chinese Foreign Ministry 2006, Jansson 2009, China-UN 2010, Congo Planet 2011

It can be concluded by analysis of this data that the DRC has sent, over the course of time, officials of higher rank to China than the other way around. Three Congolese presidents visited China in the period between 1973 and 2002 while none of the Chinese presidents or premiers has paid official state visits to the DRC. This suggests that the presidents of the respective countries may not have maintained warm personal relations. This observation is corroborated by the fact that when President Kabila visited China in 2010, he only met with a Chinese army official (People's Daily Online, 2010).

Since 1972, China and the DRC have signed seven key bilateral agreements focused on strengthening the respective political, economic and cultural ties.

Table 3.6 Key bilateral agreements signed since 1960

Date	Agreement
1972	Joint communiqué on the normalisation of relations between the People's Republic of China and the Republic of Zaire
1973	Trade agreement
1980	Agreement on cultural cooperation
1988	Trade agreement
1989	Agreement for cooperation in higher education and scientific research
1997	Agreement on mutual protection and encouragement of investment
2005	Agreement on China-DRC economic and technological cooperation

Source: Produced by the author using Jansson 2009

The wide range of areas in which bilateral agreements have been signed implies that cooperation between China and the DRC takes place in the area of political, economic, social and cultural issues. The next section discusses the economic cooperation and trade relations between China and the DRC.

3.3.2 *Trade, Aid and FDI*

Whereas traditional donors to Africa differentiate between development aid and investment – thereby managing these two flows of capital through separate ministries – China explicitly links aid, trade and investment in its relations with African countries (Davies, 2008). This new approach – the approach to contribute to economic development in Africa via investments – is welcomed and applauded by African leaders and embraced by Moyo (2009), the author of the best-seller ‘Dead Aid.’ The explicit link between aid and investment is also visible in the kinds of projects that are referred to as ‘economic aids’ by the Chinese Foreign Ministry (2006):

Table 3.7 China’s economic development projects in the DRC

Year	Project name	Extra information
1970s	N’Djili, Chinese farm established with help of an agricultural institute in Hebei province	Provides training for Congolese workers
1975-1979	National Assembly	Worth USD 42 million (at the time)
1970s	Sugar factory	Destroyed
1994	Martyr’s Stadium	80,000 seats
2006	N’Djili, the Sino-Congolese Friendship Hospital	Chinese medical team
2008	Mineral water factory	USD 60 million

Source: Produced by the author using Chinese Foreign Ministry 2006, Jansson 2009

Besides these projects, the Chinese government provides scholarships for Congolese students each year, enabling the students to study for five years in China.

Trade between China and the DRC greatly increased between 2002 and 2008. This is largely due to massive growth in the DRC's export of raw materials to China, the largest portion of which consists of copper and cobalt ores (Jansson, 2009).

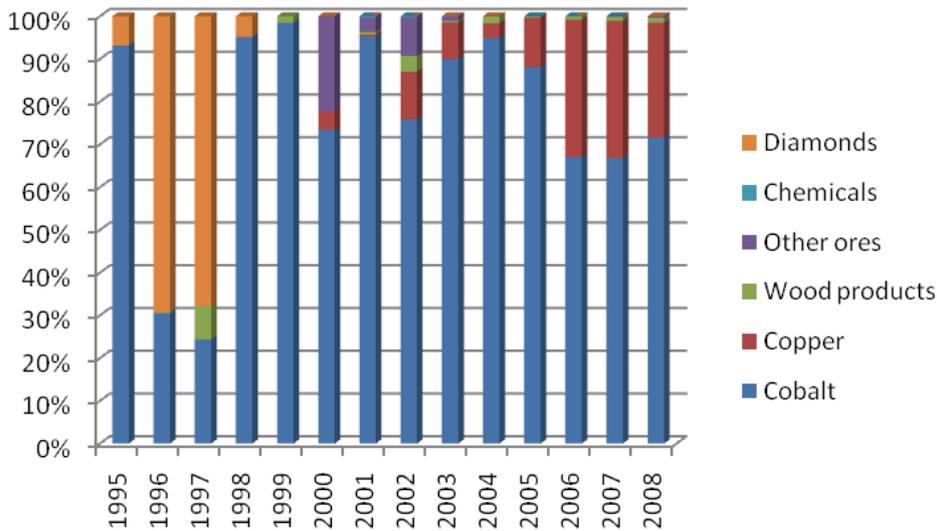


Figure 3.1 Composition of the DRC's top-20 exports (HS4 level) to China 1995-2008

Source: Jansson 2009

The imports of the DRC from China predominantly comprise manufactured products (largely electrical appliances), vehicles, textiles, machinery and pharmaceutical products (Jansson, 2009). In relation to Chinese investments in the DRC, the deal that drew most attention is undoubtedly the Sicomines agreement signed in 2008 between the Congolese government and Chinese SOEs Exim Bank, CREC and Sinohydro. The next section will discuss this deal in greater detail.

3.4 Sicomines deal

3.4.1 Introduction

The DRC is arguably still in the aftermath of the Great War of Africa, which officially ended in July 2003. Looting, rapes and fights are still the order of the day in some parts of the DRC, especially in the eastern part. However, serious attempts are being made to reconstruct and reunify the country politically, economically and socially. A representative of ACGT has stated that since the end of the war, the DRC is currently receiving about USD 400 million per year from donors for its reconstruction; however, the DRC is actually in need of several billions of dollars per year (interview with ACGT representative, 30 August 2010). The Congolese government has the difficult task of setting priorities at a time when all sectors are in desperate need of funding. In order to reconstruct the country in a quick but coordinated manner, President Kabila requested consensus between the different government departments

and installed a joint reconstruction and reunification strategy (interview with ACGT representative, 30 August 2010). President Kabila initiated a programme that he called *Les Cinq Chantiers* (the five pillars) in December 2006 (Cinqchantiers-RDC, 2007). These five pillars represent the five priority areas, namely: infrastructure, health and education, water and electricity, housing, and employment. All reconstruction and development projects in these areas have in fact been given priority in the DRC; however, due to a lack of finances choices still need to be made (interview with ACGT representative, 30 August 2010).

As noted, the DRC is rich in natural resources, especially copper and cobalt. A possible solution for collecting the necessary funding the Congolese government had thought of was to develop these mines first and use the profit for the development of the infrastructure (interview with ACGT representative, 30 August 2010). However, this is currently not feasible for the Congolese government for two main reasons. Firstly, it takes an average of three years before a mine becomes profitable, a period too long for the Congolese to wait before reconstruction can take place. Secondly, money is needed to develop these mines and the DRC is not able to borrow more money since the DRC already has international debt of over USD 4 billion – despite the debt relief of USD 7.9 billion from the IMF in July 2010 (IMF, 2010). The Congolese government sought another solution and found the ‘Angolan model’ – oil for infrastructure exchange between the Angolan and Chinese government – attractive.

3.4.2 *The Sicomines agreement*

The Congolese government decided to negotiate with the Chinese for a similar deal, exchanging copper and cobalt in return for infrastructure. China is in need of natural resources and saw great potential in this deal. According to the current Congolese ambassador – who joined the delegation to Beijing to negotiate this deal – the Chinese warned the Congolese government to discuss this plan with their traditional donors first in order to avoid placing these useful relations at risk. According to the Congolese ambassador, the IMF agreed initially with the plan and the negotiations proceeded (interview with the Congolese ambassador to South Africa, 17 February 2011).

In 2007, a Chinese consortium consisting of three Chinese SOEs – a bank (Exim Bank), and two construction companies (CREC and Sinohydro) concluded a USD 9 billion agreement with the Congolese government. The Chinese investors obtained thereby the right to mine 10 million tonnes of copper and 600,000 tonnes of cobalt (Lee, 2006; Van

Reybrouck, 2010). Van Reybrouck (2010) points out that these are very large amounts, especially when compared to the 8 million tonnes of copper mined during colonial times and considering that the estimated total reserves are only 70 million tonnes. In exchange, the Chinese consortium promised to invest USD 3 billion in mining infrastructure via a Chinese-Congolese joint venture – Sicominex – with the Congolese mining company Gécamines, with Gécamines retaining a 32 per cent share in Sicominex. Besides these investments in the mining sector, the Chinese consortium promised to invest USD 6 billion in the construction of 3,400 kilometres of paved roads; 2,738 kilometres of unpaved roads; 3,215 kilometres of railway line; 5,000 houses; 145 polyclinics; 31 hospitals; 2 hydroelectric stations; two airports; and two universities (Van Reybrouck, 2010: 554). In order to deal with these large infrastructure projects in a coordinated way, the Congolese government established the Sino-Congolese Programme within ACGT. ACGT has two other programmes in addition to the Sino-Congolese Program, namely a programme for the World Bank and one for Belgium: these are the three largest funders of infrastructure in the DRC (interview with representative ACGT, 30 August 2010).

Since it takes time before mines become profitable, the Chinese government offered to lend the money first, until the joint venture starts to make a profit. In order to decrease the risk of losing money due to the possibility that the mines are less profitable than estimated, the Chinese asked the Congolese government for one guarantee, namely: ‘that the [Congolese] state, where existing fields would not keep commitments, would allow us to undertake further exploration’ (Mr Wu Zexian, former Chinese ambassador to the DRC, in Braeckman, 2009). The ambassador argues that it is a double risk for the Chinese companies: for the project on the one hand and for the exploitation of the mine on the other hand (own interview with Ambassador Wu Zexian, 28 August 2010). According to the ambassador, assessing the risks requires mining expertise that the Chinese organisations do not necessarily have. Therefore, Australians are hired to confirm the feasibility studies made by the Chinese consortium.

According to a representative of the EU delegation to the DRC, it is exactly risk management that was the major controversy in the Sicominex agreement (interview with EU representative, 30 August 2010). The EU representative argues that it is unfair competition that both the Chinese government and the Congolese government guaranteed the Chinese consortium that they would get back at least their investment from the mining (plus interest). There is an important difference in nuance between ‘allowing the Chinese consortium to undertake further exploration’ and ‘guaranteeing the Chinese companies that they will get

back at least their investment'. The Congolese organisation ACGT confirmed the wording of the Chinese ambassador (interview with ACGT representative, 30 August 2010). The Congolese government succumbed to the pressure from the EU and World Bank and deleted this guarantee from the final contract (interview with EU representative, 30 August 2010). A second point of critique by the EU is that the Congolese are not able to control the return they get from the deal, that is, that they will, in fact, get USD 3 billion in infrastructure projects from the Chinese. This criticism was, however, waived by both ACGT and UCOOP. Both ACGT and UCOOP are managed by internationally-trained civil engineers who know the value of infrastructure projects very well. ACGT acknowledges that the DRC does not have mining expertise yet and that they are not capable of estimating the value of their mines. However, they also acknowledge the expertise of the Australians and trust their advice. Questions can be raised about the objectivity of these Australian mining experts; however, the same questions could be asked about local experts.

A last point of critique, shared by the EU, World Bank and IMF is that this deal increases the level of indebtedness of the Congolese state. Despite the fact that the IMF agreed with the deal in the first instance (interview with the current Congolese ambassador to South Africa, 17 February 2011), the IMF started to call openly for the Chinese deal to be renegotiated. The IMF threatened that it would not provide the necessary endorsements to the 'Paris Club'¹² that were needed to write off the DRC's debt if the Sicominex deal was not revised (Lee, 2010). The IMF demanded that the project be capped at USD 6 billion instead of USD 9 billion and after initial defiance, the Congolese government agreed to decline the second agreed USD 3 billion for infrastructure. It is, however, questionable whether or not the negotiation of the IMF on behalf of the DRC can be called a success, as Lee (2010) argues that under the new deal China is still entitled to 10 million tonnes of copper and 600,000 tonnes of cobalt. Lee points out that the comment of these international organisations might be less altruistic than it appears at first sight and argues that western companies have stakes in the mining sector in the DRC too and feel threatened by the Chinese consortium and its agreement with the Congolese government. According to Lee, these western companies, afraid that the DRC would reallocate undeveloped portions of their reserves to the Chinese

¹² The Paris Club is an informal group of official creditors whose role is to find coordinated and sustainable solutions to the payment difficulties experienced by debtor countries. The origin of the Paris Club dates back to 1956 when Argentina agreed to meet its public creditors in Paris. Since then, the Paris Club has reached 422 agreements with 88 different debtor countries. Since 1956, the debt treated in the framework of Paris Club agreements amounts to \$ 553 billion (club de Paris, 2011).

project, therefore used their power in the IMF to obstruct the Sicomines agreement.

In summary, although the Sicomines agreement is not ideal for the DRC, it has thus far been the best alternative, according to Congolese government officials (interview with ACGT representative and interview with UCOOP representative, both on 30 August 2010). The Chinese companies are required to take risks on various levels: it is dealing with the risks in the DRC's volatile domestic politics, the vagaries of international financial litigation and the hostility of international organisations such as the EU and IMF. These are the challenges; however, the Chinese consortium expects the gains to offset these risks, otherwise they would not have engaged in this deal.

3.5 Conclusion

Sino-DRC relations have been pragmatic since the independence of the DRC and the beginning of their diplomatic relations. Congolese leaders chose between relations with the PRC or ROC according to their own convenience and strategic interest, and the Chinese government decided to support President Mobuto after supporting the opposition for years, when President Mobuto's government appeared to be well-established after being in power for more than ten years. The same pragmatic approach is visible in the recently close economic relations between the DRC and China. The Congolese government perceives the Sicomines agreement as the best solution on offer and the Chinese government is willing to support its SOEs in the DRC because of its need for natural resources, its aim to promote the internationalisation of its SOEs and because the Chinese government has huge foreign currency reserves for which it is seeking alternative investment opportunities bearing the current credit crises in the US and Europe in mind. Seen from the perspective of the Chinese consortium, the Sicomines agreement involves high risk, but also high reward. Many of CREC7's infrastructure projects in the DRC are linked to the Sicomines agreement. As explained in the introduction, in order to acquire an understanding of the motives of CREC7 to invest in the infrastructure sector in the DRC, it is therefore important to know the actors that are involved in this agreement and their roles. The next chapter will introduce CREC7 and presents the findings of the study of its motives for investing in the infrastructure sector in the DRC using a model based on the model Lee (1966) established within migration theory.

Chapter 4: CREC7'S MOTIVES FOR INVESTING IN THE DRC: A CASE STUDY

4.1 Introduction

Most empirical studies on Chinese outward FDI focus on the differences between China and other FDI source countries, as was discussed in chapter two. While emphasising the factors that are different, these studies neglect the subjectivity of the evaluation of these factors per specific investor and often also the interrelatedness of the different factors. In order to deal with the subjectivity and interrelatedness of factors that influence the motives to invest abroad, Lee's (1966) model was introduced in the last part of chapter two and slightly modified in order to make it suitable for the study of the motives for outward FDI. The current chapter is an attempt to apply this Four Factors Model in order to study the full range of factors – and their correlation – that seem to influence the motives of a particular Chinese investor – CREC7 – for investing in the infrastructure sector in the DRC.

The aim of this chapter is twofold: firstly, to better understand the main motives of CREC7 to invest in the infrastructure sector in the DRC by studying factors from all four categories of the Four Factors Model applicable to the situation of CREC7, namely: its firm-specific factors; the conditions in the country of origin as well as the country of destination; and intervening factors that influence its decision to invest in the DRC. Secondly, on a more theoretical level, the aim is to test the applicability and practical use of Lee's model within FDI theory. The data for this study was collected via document analysis, face-to-face interviews, and direct observation. Unless stated differently, all interviews referred to in this chapter were conducted in the DRC in August 2010. The chapter is structured according to the four categories of factors of the Four Factors Model and aims to facilitate a greater understanding of the Four Factors Model by treating one part of the model per section, thereby building up the model visually at the end of every section. Section one discusses the main firm-specific factors of CREC – and specifically its subsidiary, CREC7 – that might influence the choice to invest abroad. Since the evaluation of push, pull and intervening factors is subjective, this first section shapes the lenses through which the factors associated with the country of origin and of destination and the intervening factors discussed in the following sections will be analysed. Section two focuses on the push factors, in other words: which conditions in the political-economic context of China encourage CREC7 to invest

abroad? Section three discusses the pull factors – the factors associated with the country of destination, the DRC – that either attract or deter investors in general and especially CREC7. The last section, section four, discusses the intervening factors that either discourage or stimulate the choice of CREC7 to invest in the infrastructure sector in the DRC. The structure of this chapter can be illustrated as follows:

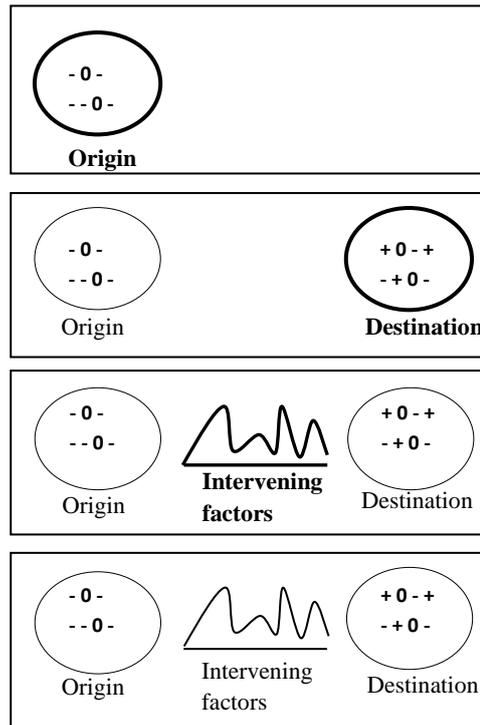
Section 1. Firm-specific factors

Section 2. Push factors

Section 3. Pull factors

Section 4. Intervening factors

Section 5. Discussion and conclusion



The main finding of this exercise is that factors from all four categories influence each other greatly. There are two important clusters of factors identified in the discussion section, namely: (1) connections with the central government, access to finance, experience and skills, market access, and intervening factors; (2) experience and skills, experience of operating in a challenging institutional environment, high level of competition in the domestic market, high demand for infrastructure in the DRC, and the relatively low level of competition in large infrastructure projects in the DRC. It must be emphasised that this study does not pretend to be inclusive. As Lee points out: ‘since we can never specify the exact set of factors which impels or prohibits migration for a given person, we can, in general, only set forth a few which seem of special importance and note the general or average reaction of a considerable group’ (1966: 50). That is precisely the attempt of this study.

4.2 Firm-specific factors

The company under study, CREC7, is a subsidiary of CREC – a Chinese state-owned company affiliated to the central government (SOECG) – is the number one railway, road and tunnel construction company in Asia and the largest international contractor in the world (ENR, 2010). This ‘super-large’ construction company is the employer of over 280,000 people (Hoffschmidt-Fetscherin, 2010). The history of CREC can be traced back to the establishment of the Construction Bureau and the Design Bureau of the Ministry of Railways in China in 1950 (CREC, 2008). Railway construction is the core business, but not the only business of CREC. CREC operates a spectrum of businesses covering: survey and design, construction and installation, manufacturing, R&D, technical consulting, capital management and international economic and trade activities (CREC, 2008). The CREC Group consists of forty-six subsidiaries including, among others: sixteen super-large construction enterprises, three large survey and design companies, three large R&D enterprises and five manufacturing enterprises. These subsidiaries consist of twenty-eight wholly-owned subsidiaries, fifteen holding subsidiaries, four branch companies and three joint-venture subsidiaries (CREC, 2008). CREC participates in many large-scale infrastructure projects overseas, especially in countries in Southeast Asia and Africa. The international construction projects are managed by China Overseas Engineering Group Co., Ltd (COVEC, 2008). According to the vice-General Manager of COVEC, Mr Zhao Xiang, COVEC was the first Chinese state-owned company to enter the international contracting market (Xiang, 2008).

This section will focus on the firm-specific factors for CREC7 – the company under study and one of the many subsidiaries of CREC – that seem to have influenced the choice to invest in the DRC. The specific factors that will be discussed (level of technology, managerial skills, international reputation/ brand recognition and firm age and size) have been collected from the study of general FDI theory; theory focused on FDI from emerging economies (price); and theory focused on Chinese outward FDI (ownership structure, experience with dysfunctional institutions, relational asset and financial resources). This section is divided into three subsections, namely: structure of the company, skills and experiences, and relational assets.

4.2.1 *Structure of the company*

As noted, CREC originated from the Construction Bureau and the Design Bureau of the Ministry of Railways in 1950, both of which had been integrated into the General Bureau of Capital Construction (CREC, 2008). Hoffschmidt-Fetscherin argues that the actual ‘birth of CREC took place in June 1989’, when the Ministry of Railways dissolved the General Bureau of Capital Construction and established China Railway Engineering Corporation Group (CRECG) (Hoffschmidt-Fetscherin 2010: 96). Although registered in March 1990, in September 2000 CRECG was officially separated from the Ministry of Railways and placed under the administration of the central government. Following the establishment of SASAC of the State Council in April 2003, CRECG was placed under the auspices of SASAC and served as a pilot enterprise developed under the new system. In January 2007, CRECG started to push forward a major reorganisation in accordance with the Central Committee and State Council’s aim to further deepen the reform of state-owned enterprises, and SASAC’s requirements to accelerate the shareholding system reform of state-owned large enterprises, and to support the overall listing of qualified enterprises. Subsequently – on 12 September 2007 – CREC was established as a joint-stock company with limited liability under Chinese law with CRECG as its shareholder (CREC, 2007). CREC is currently listed on the stock exchanges of both Shanghai (SSE: 601390) and Hong Kong (SEHK: 390) (Hoffschmidt-Fetscherin, 2010: 96).

According to CREC’s first-quarter report in 2010, the firm had RMB 3.7 billion in cash and only paid out two dividends in the last five years (Business China, 2010). Morck *et al.* argue that a possible reason for these low dividends in Chinese SOEs can be found in the ownership structure of listed firms. ‘Of all the shares outstanding, fully 65.9% are non-tradable shares. Of these, over half are owned by governments and government organs, with the remainder owned by other legal entities – mostly large state-controlled enterprises or state-managed investment funds’ (Morck *et al.*, 2010: 12). Morck *et al.* warn against an underestimation of state-related equity control, as ‘state investment funds also hold tradable shares, and cross-shareholding by SOEs are prevalent’ (2010: 13). CREC fits into this picture of SOEs with 58.3 per cent of shares having selling restrictions of which 56.1 per cent are state-owned shares (CREC, 2011). According to Morck *et al.* vested interests within the state organs see, naturally, a high dividend as undesirable ‘because they have 100% of the control if the earnings are retained but little to gain once they are distributed’ (2010: 13). The dividend per share is generally very low for Chinese SOEs. Therefore, ‘for party officials who have real control but little personal stake in their company’s long-term economic

performance, underwriting unprofitable, but politically important, projects is likely sound strategy for career advancement in both Party and State bureaucracies' (Morck *et al.*, 2010: 15). CREC has, however, increased the profit attributable to owners of the company by 410.1 per cent for 2009. The profit margin of the profit attributable to owners of the company increased from 0.6 per cent for 2008 to 2.1 per cent for 2009 (CREC, 2009). In comparison, the Dow Jones dividend yield fluctuated historically between 3.2 per cent (during market highs) and around 8.0 per cent (during typical market lows) (Finance scholar, 2005).

CREC's corporate structure was established in accordance with China's Company Law¹³, Securities Law¹⁴, the listing rules¹⁵, and other relevant regulations (Hoffschmidt-Fetscherin, 2010: 97). The business strategy and affairs of CREC are overseen by its Board of Directors that includes eight directors, of which three are executive directors (Mr Li Changjin, Mr Bai Zhongren and Mr Yao Guiqing (CREC, 2011b)), four independent non-executives (Mr He Gong, Mr Gong Huazhang, Mr Wang Taiwen and Mr Sun Patrick (CREC, 2011)), and one none-executive (Mr Han Xiuguo (CREC, 2011)).



Figure 4.1 Mr Shi Dahua
(Former chairman of CREC)

Source: CREC 2007



Figure 4.2 Mr Ji Changjin
(Current chairman of CREC)¹⁶

Source: CREC 2011a

¹³ Adopted at the fifth session of the Standing Committee of the Eighth National People's Congress on December 29, 1993 and revised three times successively in: 1999, 2004 and –for the last time– in 2005 (China Daily, 2006).

¹⁴ The law came into force on 1 July 1999 (Lo, 1999).

¹⁵ See PWC (2009) for an overview of the listing requirements as per November 2009.

¹⁶ When analysing the pictures of both the current chairman of CREC, Mr Li Changjin, and his predecessor Mr Shi Dahua on the official websites of CREC (2007; 2011a) it is the red light glowing behind the persons that attracts immediate attention (Figure 4.1 and Figure 4.2). Is it meant as a reference to the connection with the Chinese Communist Party (CCP)? Figure 4.2 has a more corporate appearance: the new chairman looks younger and 'fresher' in a blue suit with a pink and purple striped tie instead of the black suit combined with a red tie of his predecessor. Mr Ji Changjin is leaning towards the spectator with his head slightly bent. Does this imply that the new leader of CREC is more approachable than his predecessor? It is a guess, however, that the picture communicates change and the use of the same chair in both pictures suggests that this is a conscious choice of the firm.

Mr Li Changjin is 52 years old and joined the firm in 1982 (CREC, 2011a). Besides being the chairman for CREC, Mr Li is also Secretary to the Communist Party Committee, revealing his connection with the CCP. Chen *et al.* (2009) point out that – in contrast with SOELGs – SOECGs are subject to strict supervision and monitoring from a number of departments under the central government. Chen *et al.* furthermore state that the chairmen of SOECGs are carefully chosen for their ability and many of them eventually become vice-ministers of the state. ‘It is important that these chairmen do well in their jobs so that they do not jeopardize their move up the state hierarchy’ (Chen *et al.*, 2009: 174).

The intertwined relationship between CREC and CRECG becomes apparent in the double role of CREC’s chairman. Mr Li is namely also the chairman, general manager and deputy secretary of the Communist Party committee of CRECG. Decision making is highly centralised in CREC. This is illustrated by the fact that Mr Li decides – together with other leading members of the company and the general manager of CREC for the DRC – whether or not subsidiaries of CREC will invest in certain projects in the DRC (interview with project manager CREC7, 29 August 2010).

CREC7 has been active in the DRC since June 2008 and has a current total of 450 employees in Kinshasa alone of which fifty-nine are Chinese nationals (interview with project manager CREC7, 29 August 2010). Other subsidiaries of CREC currently active in the DRC are CREC8 and CREC9¹⁷. Figure 4.3 provides an overview of the complex relationship between CREC, CREC7 and COVEC. The general manager of CREC in the DRC is Mr Liu Jinglu. Mr Liu Jinglu communicates directly with President Kabila (COVEC, 2010). CREC7 consists of two branch companies and eight share-holding companies, with a total working staff of more than 12,000 people (CREC7, 2005). CREC7 tenders for both domestic and international construction projects and has completed many projects in a number of other African countries, including Guinea, Tanzania, Zambia, Senegal, Mozambique, Mali and the DRC (interview with project manager CREC7, 29 August 2010).

¹⁷ CREC8 and CREC9 are subsidiaries of CREC, similar to CREC7. CREC8 is conducting similar road projects in the DRC to CREC7. CREC9, apart from conducting road infrastructure projects, is also involved in the mining infrastructure projects of the Sicomines agreement.

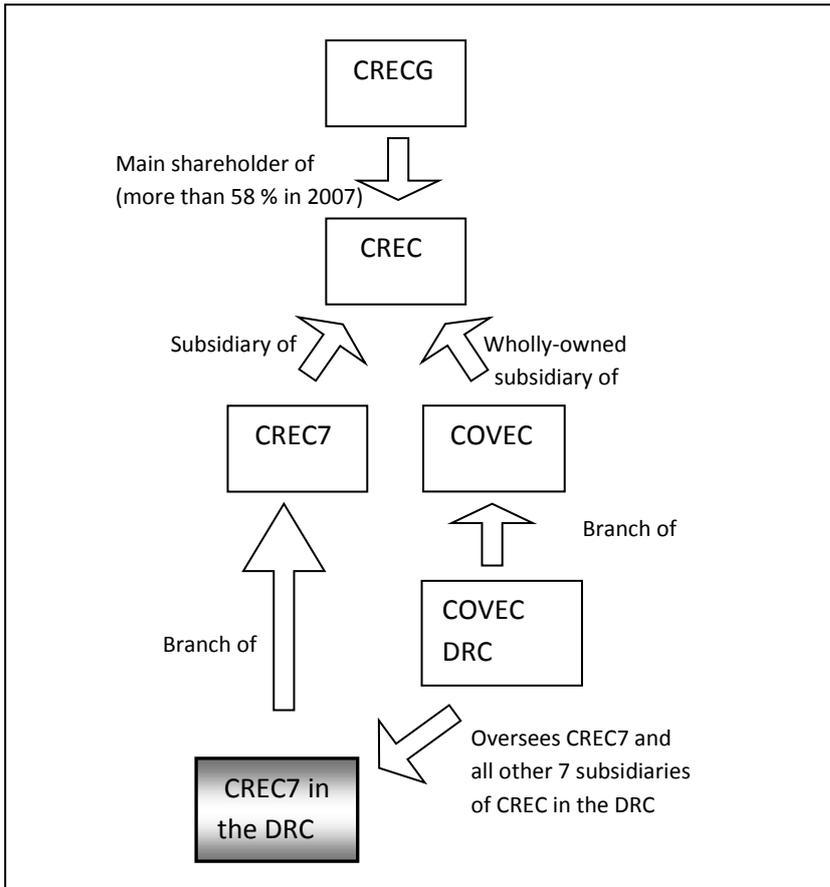


Figure 4.3 CRECG: subsidiaries, branches and formal relations

Source: Compiled by author using data from CREC (2008), CREC7 (2005) and COVEC (2008).

Although CREC7 is involved in other kinds of construction projects elsewhere, it focuses currently only on the construction of roads in the DRC since this is deemed to be the largest task at the moment (interview project manager CREC7, 29 August 2010). CREC7 has in total seven road construction projects in the DRC of which three are in Kinshasa and four in Lubumbashi:

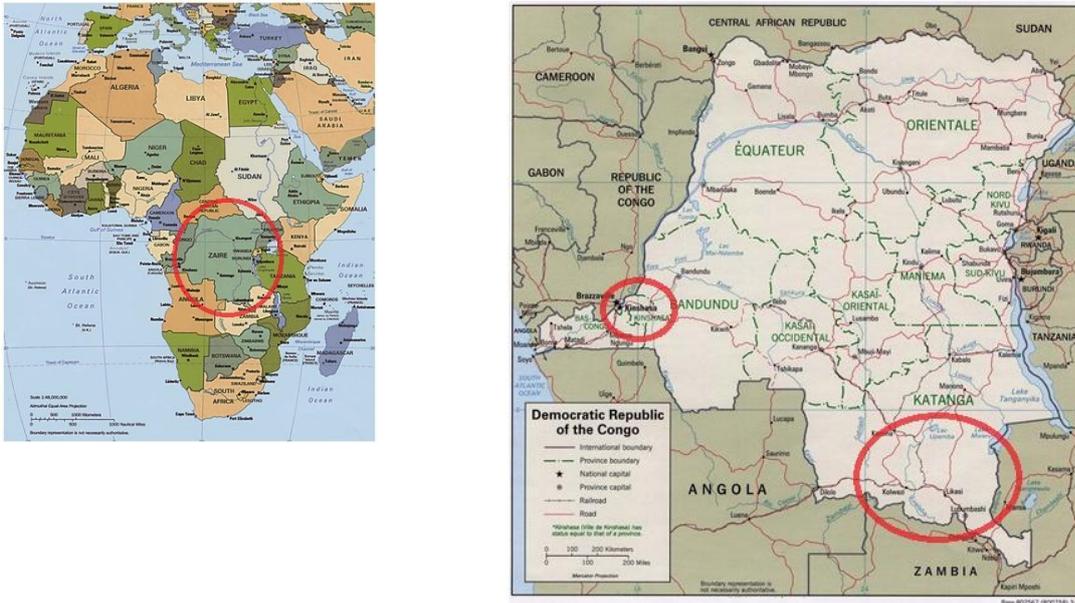


Figure 4.4 Map of the DRC with the projects of CREC7 marked

Source: University of Texas library 2011

Chen *et al.* (2009) differentiate between four types of ownership of Chinese firms, namely: state asset-management bureaus (SAMBs), SOECGs, SOELGs and PIs. Chen *et al.* argue that both SOECGs and SOELGs operate as profit-making entities. According to project managers of CREC7 in the DRC, the firm does indeed act like a private company and profit maximisation is the main goal. As discussed in chapter three, there are basically three ways in which CREC7 receives money for its work in the DRC, namely: from the World Bank or the African Development Bank (AfDB) via international tenders, from a Congolese provincial government, or the Chinese government via the Export-Import Bank of China (China Exim Bank). The managers of CREC7 in the DRC state that they do not really care where the money comes from, as long as they get it on time.

The specific history and structure of CREC7 has created some specific advantages for operating abroad. Some of these will be discussed in the two remaining sections, however, the full scope of the advantages will only become clear when taking into consideration the push and pull factors as well, since all of the factors are interrelated.

4.2.2 *Skills and experiences*

When a representative of UCOOP was asked in an interview about the difference between Chinese and other foreign contractors, he immediately answered: price! According to him the prices of the Chinese contractors are so low because their profit margin is much lower than many other contractors (interview with UCOOP representative, 30 August 2010). According to Child & Rodrigues (2005) the cost effectiveness of Chinese firms is fostered by the high level of competition in China, a point that will be further discussed in section 4.2. Both the Chinese contractors and the Congolese institutions were frank and open about the construction costs of the road projects in which Chinese firms are involved. A representative of ACGT mentioned another important characteristic of Chinese contractors that sets them apart from the competition, namely that ‘the Chinese’ are very quick. Child & Rodrigues (2005) refer to Zhang (in Child & Rodrigues, 2005) when they point out that besides cost advantage, in order to compete in other higher value-adding markets, differentiation and brand advantages are also required.

CREC is making good progress in establishing itself as a well-known brand name. As mentioned before, CREC is currently the largest contractor in the world and ranks 133 in the Fortune 500 list. ‘Over the last 30 years, the building of infrastructure—roads, ports, railways, power plants, and buildings of all kinds—in mainland China has been massive’ (McKinnon, 2010: 2) and CREC has been able to build up an astonishing portfolio. It has participated in the construction of all major railway lines in China involving a total length of more than 50,000 kilometres. CREC is also the dominant leader in building highly complex ultra-long railway bridges. In addition, CREC constructs signalling and communication systems for railway use and has constructed several major railway stations including the Beijing Railway Station, Nanjing Railway Station and Lhasa Railway Station (CREC, 2007). McKinnon (2010) argues that

The consequent ‘learning by doing’ by Chinese construction and engineering firms has influenced China’s comparative advantage in world trade. The human capital acquired by Chinese engineers and skilled workers within largely state-owned construction enterprises is so immense that these engineering skills are now used with high payoffs in foreign countries (McKinnon, 2010: 2).

CREC has undertaken the construction of and provided construction-related services for more than 230 overseas projects including railway, expressway, highway, bridge, tunnel, building

construction, dredging, airport and municipal work projects in more than fifty-five countries and regions since the 1970s (CREC, 2007).

4.2.3 *Relational asset*

Although they compete when bidding for the same international work, CREC and Sinohydro and their subsidiaries in the DRC cooperate under the flag of the Sicomines agreement in other projects. Two leaders of CREC, who visited the projects in Congo in January this year, pointed out the importance for ‘all subsidiaries [to] unite as one’ (COVEC, 2011). The Chinese ambassador to the DRC, who is highly involved in CREC’s projects that are funded by Exim Bank, takes care of the smooth cooperation between these Chinese companies. During a field trip to CREC’s construction projects on 12 May 2011 by the Chinese ambassador, accompanied by political counsellor Ms Yang Dongjv and economic counsellor Mr Wei Shengzai – Mr Liu Jinglu – general manager of CREC in the DRC – referred as follows to the role of the Chinese embassy and economic counsellor’s office:

Under the leadership of the Embassy and Economical [*sic*] and Commercial Counselor's [*sic*] Office, with the CREC and COVEC working as commanders and coordinators, project management branch of infrastructural construction has made due contribution for the friendly cooperation between China and Congo, Mr Liu said. It will try [its] best to coordinate and manage the infrastructural construction market in Congo for CREC in line with the requirements and demand of the Embassy and Economical [*sic*] and Commercial Counselor's [*sic*] Office (COVEC, 2011).

One of the main roles of the Chinese ambassador is to choose projects from a list provided by ACGT with the infrastructure projects that have priority for the DRC and to propose them to MOFCOM (interview with ACGT representative and the then Chinese ambassador to the DRC, Ambassador Wu Zexian, 30 August and 28 August 2010). According to the representative of ACGT, the Sicomines agreement is an agreement between the Congolese government and Chinese companies instead of a government to government agreement. However, the Chinese government appears to be heavily involved in the agreement since all three Chinese companies involved are SOEs, and both the Chinese embassy in the DRC and MOFCOM have a decisive role in choosing the infrastructure projects and allocating them to the Chinese companies involved. The experience in large infrastructure projects and the close relationships with the central government have given CREC some advantages for operating

abroad. However, as mentioned before, the full scope of the advantages of CREC will only become clear when taking into consideration the push and pull factors as well, since all factors are interrelated.

4.3 Push factors that encourage CREC7 to invest in the DRC

Child & Rodrigues (2005) argue that ‘China’s emerging capitalism has its own special institutional and cultural characteristics’ (2005: 382). This section discusses the characteristics of the Chinese context that influence the decision of the leaders of CREC to invest in the DRC. The particular focus will be on the political economic factors. This section is subdivided into three subsections in accordance with the factors commonly mentioned in general FDI theory as well as theory focused on Chinese outward FDI, namely: macroeconomic factors, institutional factors and direct government support. Each subsection ends with a positive, neutral or negative evaluation of the respective factor. In line with Lee’s (1966) model, (+) represents the factors that hold investors within the area or attract investors to it, and (–) represents the factors that tend to repel them (Lee, 1966: 50). In other words, the more (–)s in the source country, the more CREC is ‘pushed’ to invest abroad.

4.3.1 Macroeconomic factors

China is the world’s fastest growing major economy with a GDP growth of 10.3 per cent for 2010 (CIA Factbook, 2011a). China recently surpassed Japan and became the second largest economy in the world, after the United States (BBC Online, 2011). Bloomberg news (2010) calculates that China’s economy became ninety times bigger than at the time when Deng Xiaoping – the then leader of China – introduced free-market reforms in the late 1970s. The tremendous growth is affecting the infrastructure sector in China as, for example, the market for cars experiences a massive boom in China. According to a Bloomberg news report there were 18.06 million cars sold in China in 2010 and experts expect a further increase of 10 to 15 per cent in 2011 (Bloomberg news, 2011). Many new roads have had to be constructed in order to deal with the traffic congestion.

Large Chinese infrastructure contractors such as CREC have benefited heavily from China’s economic boom, as explained earlier. However, the market for large infrastructure projects in China is showing signs of saturation. A quarterly report on the Chinese economy from the World Bank (2011) states, for example, that ‘the rapid expansion of infrastructure

investment in recent years reduces the room for it to further drive investment growth' (2011: 10). China currently houses five of the top ten, and four of the top five, largest contractors in the world (KHL Group, 2011). These large state-owned Chinese contractors have been able to grow so fast because of a combination of support from the Chinese government and the huge demand for new or improved infrastructure networks in China. However, with a saturation of the domestic market, these companies face harsh competition within China. In order to be able to grow further, Chinese contractors are therefore looking for new markets abroad (interview with project manager CREC7, 29 August 2010). 'In some industries at least, rising capacity and intensifying domestic price competition are cutting profit margins, and Chinese managers see FDI as a way to upgrade technology and augment earnings' (Morck *et al.*, 2010: 2).

4.3.2 Institutional factors

Chapter two discussed the arguments of Child & Rodrigues (2005), Buckley *et al.* (2007), Kolstad & Wiig (2010) and Ramasamy *et al.* (2010) about the perceived differences in the motives for Chinese outward FDI with the motives of investors from Europe and the US. As explained in chapter two, the study of emerging FDI source countries caused a shift in focus towards the conditions of the country of origin. Boisot, for example, argues that 'many Chinese firms will not be moving abroad to exploit a competitive advantage that was developed in the domestic market, but to avoid a number of competitive disadvantages incurred by operating exclusively in the domestic market' (2004: 388). He lists the following disadvantageous domestic conditions: regional protectionism, limited access to capital, lack of developed intellectual property rights, under-provision of training and education, poor local infrastructure and fragmented regional markets (Child & Rodrigues, 2005). Child & Rodrigues add the following factors: fierce competition from international brands, government interference, and the continuing complexity and uncertainty in the way the Chinese legal system operates. Buckley *et al.* (2007) and Kolstad & Wiig (2010) argue that contrary to expectations, these tough conditions do not 'push' Chinese investors to invest abroad but rather form a special advantage for Chinese investors who are operating in Africa. In other words, these 'competitive disadvantages' can be turned into advantages when operating in a foreign market with similar institutional constraints. CREC7 is still operating nationally as well; the institutional conditions in China do therefore not seem to be a main push factor for CREC7. However, as mentioned, experience acquired while operating in the

domestic institutional environment could provide an advantage for CREC7 when operating in the DRC.

Capital market imperfections

Buckley *et al.* (2007) and Morck *et al.* (2007) argue that capital market imperfections in China may make capital available below market rates which might work as an incentive for Chinese investors to invest abroad. High savings rates, an abundance of foreign reserves and the way these reserves are managed by Chinese banks are said to make money (too) easily available for Chinese SOEs (Morck *et al.*, 2010). Morck *et al.* state that '[s]avings pay for investment, and China's savings rate is persistently and remarkably high' (2010: 9). Morck *et al.* furthermore argue that '[w]ith over a trillion dollars in foreign reserves and increasing economic clout, China can send flagship companies abroad to acquire technologies, brands, resources, and better access to international markets' (2010: 2). The main argument is that the ease with which these Chinese SOEs acquire finances is making them less conscious about the risks they take and therefore Chinese firms have the tendency to invest more often in high risk countries than other investors. China's capital markets are dominated by banks, especially the 'Big Four' state-controlled banks – the Bank of China (BOC), Industrial and Commercial Bank of China (ICBC), China Construction Bank (CCB), and Agricultural Bank of China (ABC) – together responsible for about three-quarters of all commercial loans and just over half of total banking assets as at the end of 2005. Most of the loans go to the state sector, often due to the preferential policies set by the local government and the bank's lack of competency in evaluating risks. Critics from outside (such as Morck *et al.*, 2005) warn that this policy of deflecting capital from more efficient private firms from China may compromise both continued economic growth and political stability and many Chinese scholars, practitioners and policy makers call for caution and patience. Despite the warnings for potential negative effects of these preferential policies, the policy is stimulating CREC7's outward investments.

4.3.3 *Direct government support*

Zhiyuan argues that '[t]o ensure fair competition, every country requires imported goods to be subject to the same tax rate as its domestically-produced counterparts. Therefore, regardless of whether export goods have been taxed by the exporting country, the importing country will still tax them' (2003: 339). In order to avoid double taxation on export goods and to enhance a country's competitiveness in foreign markets, governments of the country of

origin rebate export tax (Zhiyuan, 2003). Chen & Yam point out that ‘China has increased rebates several times since global demand weakened due to the economic crisis, threatening to cripple many of its export-dependent manufacturers and heavy industry sectors such as metals producers and petrochemicals’ (2009: internet source). Whether or not this serves as a push factor for CREC7 in the case of its investment in the DRC depends on whether or not there are exports involved. Since the managers of CREC7 in the DRC all stated that they source their materials locally or regionally, the rebate of export tax is not an important factor for CREC7. Following a similar rationale, the same counts for possible foreign exchange assistance from the Chinese government.

In 1999, the Chinese government introduced the Go Global strategy - or ‘Go Out Policy’. The Go Global strategy is the banner of a series of policies encouraging outward investment by Chinese companies in order to promote: (1) resource exploration projects to mitigate the domestic shortage of natural resources, (2) projects that encourage the export of domestic technologies, products, equipment, and labour, (3) overseas research and development centres to utilise internationally advanced technologies, managerial skills and professional contacts, and (4) mergers and acquisitions that could enhance the international competitiveness of Chinese enterprises, accelerating their entry into foreign markets (Luo, *et al.*, 2009: 9). As a national policy, it was elevated in importance when it was adopted as part of the tenth Five Year Plan (2001-2005) and officially confirmed at the CCP 16th Congress in 2002 (Gu & Reed, 2010; Van Wijk, 2009). It is a significant strategy because most nations focus on attracting FDI and are rather passive about outward FDI. China is actively promoting both inward and outward foreign investment.

Cheng & Ma (2007) argue that the decision of the Chinese government to encourage its national firms to ‘Go Global’ is partly influenced by the perceived need to secure key natural resources and technologies through ownership, and partly by the increasing abundant foreign reserves. The Go Global strategy is in fact a process and since its introduction in 1999 it is evolving step by step towards loosening control of the central government on outward FDI. In the beginning, outward FDI required approval by MOFCOM and foreign currency approval from SAFE (Gu & Reed, 2010). In 2002, however, SAFE authorisation was decentralised from the central agency for projects of USD 1 million or less to selected local authorities. According to Baijin & Pamlin (2007), MOFCOM and SAFE introduced in 2003 a programme that allowed overseas investments of less than USD 3 million to be approved at the provincial government level rather than through the lengthy and complicated process of applying to Beijing. As a result of facilitating investment abroad, in the first eleven months of

2003, Chinese companies invested 92 per cent more in offshore acquisitions and mergers than in the same period in 2002 (Baijin and Pamlin, 2007). The investment quota was completely abolished in June 2006. Since October 2004, only large state-owned enterprises need to apply for authorisation to MOFCOM, for all other Chinese investors the authorisation has been decentralised to local commercial administrations (Gu & Reed, 2010). In 2005, the local limit was increased to USD 10 million and the overall investment quota was expanded to USD 5 billion (Gu & Reed, 2010). The Sicomines agreement, in which CREC7 is involved, is often cited as an example of the Go Global strategy of the Chinese government, because it combines resource exploration projects, export of domestic technologies, products, equipment, and labour, and branding of Chinese MNEs.

This section discussed the main push factors mentioned in general FDI theory and theory focused on Chinese outward FDI in the context of China as an FDI source country. This exercise of evaluating the political economic factors in the Chinese context and how they influence the decision of CREC to invest abroad produced four (-)s and two (0)s. The combination of an increasing level of competition, stimulating policies and conditions to invest abroad – for SOEs especially – in China leads to an overall evaluation of the Chinese investment context as negative. A negative evaluation means that the context of the home country of CREC is either highly repelling CREC or stimulating CREC to invest abroad. This can be illustrated as follows, using the framework developed by Lee (1966):

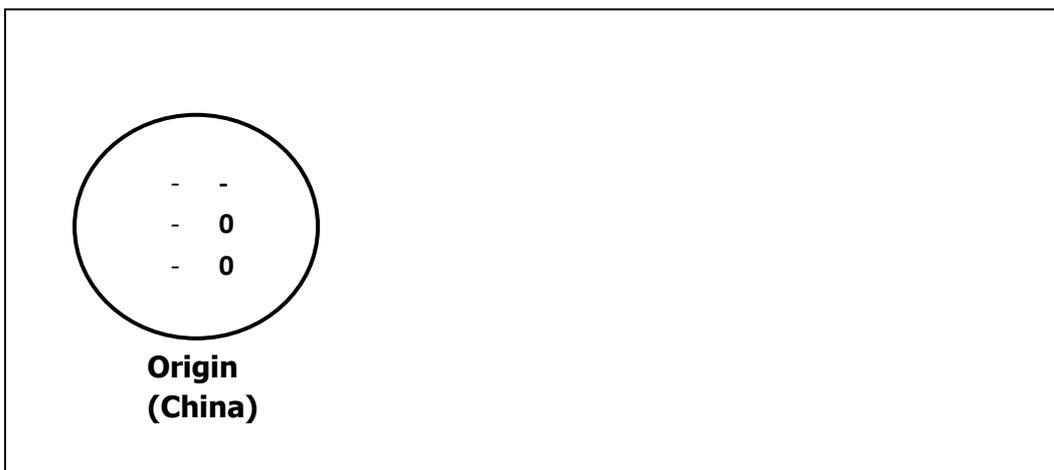


Figure 4.5 Push factors influencing CREC7's investments in the DRC

Source: Composed by the author

4.4 Pull factors that attract or deter investments to the DRC

This section discusses the main pull factors as mentioned in general FDI theory and the theory specialised in Chinese outward FDI divided into four subgroups, namely: (1) macroeconomic factors; (2) institutional factors; (3) natural resources; and (4) policy factors. Pull factors are the factors that are associated with the country of destination, in this case the DRC. The specific situation in the DRC will be discussed by factor, after which an analysis of the collected data will be made to assess whether the factor is perceived to be positive (+), negative (-), or neutral (0) from the perspective of CREC7. In other words, an assessment is made whether the factor is a potential determinant or deterrent for FDI from CREC7.

4.4.1 Macroeconomic factors

In this case, macroeconomic factors refer to the factors that are pertinent to the broad economy of the DRC and that affect the population at large rather than a few selected individuals. In the literature, market size is mentioned as an important determinant for Chinese outward FDI (Buckley *et al.*, 2007; Kolstad & Wiig, 2010). Market size is most commonly measured as GDP. GDP itself is used as a measurement for the absolute market size, GDP per capita as a measurement for the relative market size, and the annual percentage increase in growth as a measurement for market growth. At the moment, the GDP for the DRC is around USD 23.1 billion, ranking 119 in the world (CIA World Factbook, 2011). With a population of 67.8 million the GDP per capita in the DRC is about 340, ranking 227 in the world (World Bank, 2011d; CIA World Factbook, 2011). Between 2003 and 2008 the GDP of the DRC grew by an average of 6.4 per cent per year (World Bank 2010; CIA Factbook 2011). In 2009, in the aftermath of the global financial crisis, the GDP growth of the DRC fell sharply from 6.2 per cent to 2.8 per cent. See Figure 4.6 (World Bank, 2010)

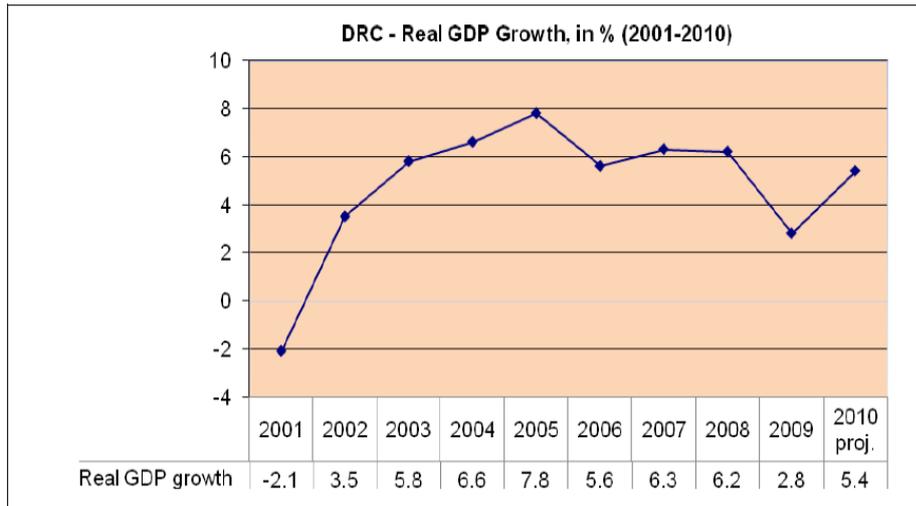


Figure 4.6 DRC Real GDP Growth in % (2001-2010)

Source: World Bank 2010

However, the GDP grew, beyond expectations, again by 7.2 per cent in 2010 ‘as a result of a recovering mining sector and the development of huge infrastructure projects launched in 2008’ (World Bank, 2011b; World Bank, 2010: 4). The Chinese investments in the infrastructure and mining sector and the increasing Chinese demand for copper have contributed to the recovery of the DRC’s GDP growth and therefore Chinese investors created or enhanced in a sense – via a complex construction – their own market. The GDP per capita is not a highly important factor for CREC7 since its clients are the national or provincial Congolese government, the Chinese government or international donors rather than the Congolese consumers. As pointed out in chapter three, war-torn DRC is in desperate need of infrastructure and the DRC is therefore a large market for CREC7.

Financing constraints

Since the DRC is still recovering from a long period of war, it does not yet have the capacity to exploit its natural resources and is limited in its ability to borrow money internationally. It is mainly the presence of international donors, the Chinese government and the Sicomines agreement that make the financing of infrastructure development in the DRC possible. As discussed in chapter three, there currently exist four ways in which infrastructural projects in the DRC can be allocated to CREC7 (interview with the Chinese ambassador to the DRC, 28 August 2010). The first option is via international tenders for projects donated by international donors such as the World Bank or the AfDB. In tenders for projects funded by international donors, CREC7 competes with other Chinese contractors. A good illustration is

the second stage of the resurfacing and widening of the main road in Kinshasa, the *Boulevard du 30 Juin* funded jointly by the World Bank and AfDB. CREC7 had to bid for this project together with other local, Chinese and other foreign companies such as: ‘SAFRICAS, AFRITEX, MALTA-FOREST, EGM, SAFRIMEX, and SGI’ (interview with project manager CREC7, 29 August 2010). The money for projects funded by the World Bank and the AfDB is usually transferred to either the Congolese government or the Central Bank of the DRC before it gets to CREC7 or any other Chinese contractor in the DRC (interviews with project manager CREC7 and representative UCOOP, 29 and 30 August 2010). Chinese contractors in the DRC who were interviewed complained about the slow functioning of the financing system for these projects: many had not yet received the deposit for their projects and the projects were almost complete (interviews Chinese contractors, August 2010). A manager from Sinohydro wryly remarked that at the start of the project he had regarded it as a good business deal, however, considering all the money he had put into the project himself in order to keep it running, it had started to become more like a development project (interview with project manager from Sinohydro, 28 August 2010).

A second option – which is preferred by many of the Chinese contractors because of the much more efficient financing structure – is when the project is a gift from the Chinese government to the Congolese government and the Chinese government pays the Chinese contractor directly via Exim Bank. Examples of such gifts by the Chinese government to the DRC are: 1.3 kilometres of the first stage of the *Boulevard du 30 Juin*, and *L’Hôpital du Cinquantenaire*. Although these gifts are considered to be development aid from China, for the Chinese contractor these projects are just business (interviews with Chinese contractors, August 2010). The third option, toll, is the most entrepreneurial one and according to the then Chinese ambassador to the DRC there were only two such projects run by Chinese contractors in the DRC at the time of the interview. The fourth and last option is that the project is part of the Sicomines agreement in which natural resources from the DRC are exchanged for infrastructure – chapter three discusses this agreement in detail. If an infrastructural development project is part of the Sicomines agreement, the Chinese contractor receives the money from the Exim bank or the Chinese Development Bank (CDB) (for large projects). Financing constraints are therefore relative to the financing structure of the specific project. Some payment routes work very well and others are less efficient. From the perspective of CREC7 this factor is therefore neutral to negative, because it is a constant worry for many of the contractors interviewed.

Cost of labour

Brautigam (2011) argues against the popular claim that Chinese companies bring in all their own workers for construction work in Africa. It is, however, true that Chinese companies started to work in the DRC with a majority of Chinese workers. The main reason for this is that many young Congolese workers are not certified due to the fact that they did not receive any education during the war (interview with representative of ACGT, 30 August 2010). It is important to remember that Chinese contractors are investing in the DRC first and foremost to make a profit. Their choice to use either local workers (and materials) or Chinese is therefore based on a relative quality/ price calculation. Chinese contractors initially brought Chinese workers to the DRC because they had negative expectations of the Congolese workforce and with little experience of working abroad, Chinese workers were a known quantity (interviews with Chinese contractors, August 2010). However, once there, the Chinese managers found that the Congolese workers are clever, learn quickly and can work hard (*ibid.*). Moreover, the Congolese workers were cheaper than the workers they brought from China. The Congolese only needed some training in order to use the equipment. Many Chinese contractors in the DRC made this calculation and decided to train the Congolese workers and phase out the more expensive Chinese workers. The ‘training’ that the Chinese contractors refer to involves: watching and copying Chinese workers, passing on skills to new employees by other employees and proper training of one month for drivers of large trucks and users of big machines (*ibid.*).

The phasing out of Chinese workers seems to be far advanced since the ratio of Chinese workers to Congolese workers at all sites visited is on average 1:5. The Chinese fill most of the managerial positions. Only one to three Congolese managers were working for the various Chinese contractors interviewed in the DRC. It is in the interest of the Chinese contractors to train the Congolese workers because it saves them money in the long run. A representative of ACGT mentioned that

At the moment, the Chinese help with the construction of a school for skilled workers. When the school is finished, the programme will start with a 1:1 ratio of Chinese and Congolese teachers during the first year, the second year it will be a 1:3 ratio, the third 1:4 ratio, et cetera until all Chinese teachers are phased out and the school is run by Congolese solely (interview with ACGT representative, 30 August 2010).

A manager from Sinohydro mentioned, however, that the lack of Congolese skilled workers and the high demand for them is driving up their price and this might lead to a future situation in which it is cheaper to bring in Chinese workers again. This statement shows once again that the main driver for Chinese contractors to train Congolese workers is to make a profit and is not altruism or long-term planning by a SOE. The availability and cost of labour in the DRC is not one of the factors that attracts Chinese investors to the infrastructure sector since they need to put effort into training the Congolese workers, however, it is also not a deterrent, because they have found a way to deal with it. Therefore this factor is perceived to be neutral for CREC7.

Cost of materials

The same rationale is used for sourcing local materials: when it is relatively cheaper (price/quality) to use local materials or import materials from neighbouring countries, Chinese contractors will not import materials from China. For the following four road projects visited in the DRC, the reconstruction of the road from Lubumbashi to Kasenga (Zambian border) (N1); the reconstruction of the road from Nsele to Lufimi; the *Boulevard du 30 Juin*; and the *Boulevard Triomphal*, materials are mainly provided locally. When specifications for example, cement, bitumen, and steel could not be met locally, they were supplemented with supplies from the region (South Africa, Zambia or Kenya) or – if absolutely necessary – from China or Germany (interviews with Chinese contractors, August 2010). Many materials can be sourced locally or regionally, however, some important materials such as cement, bitumen and steel, still have to be sourced elsewhere. The overall evaluation for CREC7 of this factor is therefore neutral.

Inflation and exchange rates

According to a World Bank report (2010) the inflationary pressures in the DRC are expected to decline by 15 per cent in 2010. However, because of the way the infrastructure projects by Chinese contractors in the DRC are financed, inflation does not pose a real risk to Chinese contractors. Loss because of exchange rates, in contrast, does pose a risk for Chinese contractors in case they purchase materials locally or regionally and also in the case of projects funded by the World Bank and AfDB. Duanyong (2011) states that ‘[i]n recent years, with the appreciation of the renminbi and the depreciation trend of foreign currencies, especially the dollar, the overseas FDI of Chinese enterprises have faced more and more serious exchange risks’ (2011: 11). The exchange rate was pointed out by a manager of

CREC7 as one of the three pertinent risks for CREC7's investments in the DRC. Inflation is therefore not a deterring factor, but uncertainty concerning the exchange rate is.

Presence of other foreign investors

The presence of other foreign investors is becoming a significant locational advantage according to Dunning (1998). It is perceived to have a positive impact, because of the possibility of 'investment stalk' and a signalling effect to other foreign firms less familiar with that country [...], and as an agglomerative magnet by which firms benefit from being part of a geographical network or cluster of related activities and specialised support services (1998: 51). However, Chinese investors perceive the presence of other foreign investors less positively due to the fact that an important push factor is the high level of competition in their home country. According to a manager from CREC7 in the DRC

There are a lot of construction companies in China, so every company is confronting great competition pressure. Under this situation, many stronger companies have to develop overseas markets to maintain their operation and development. DRC is a country who just came out from civil war, here are many infrastructures need to be reconstructed. It provides great opportunities for foreign companies. At the same time DRC expressed its welcome attitude to foreign companies. I think it is the main reason why we are here (interview with manager of CREC7, 29 August 2010).

4.4.2 Institutional factors

Blonigen states that the quality of institutions is likely to be an important determinant of FDI activity, because: 1) a poor quality of institutions increases the cost of doing business, 2) poor legal protection of assets increases the chance of expropriation of a firm's assets, and 3) poor institutions lead to poor infrastructure (i.e. public goods) (Blonigen 2005: 14). This section is structured according these three important roles of institutions for outward FDI, namely: institutional facilities, reliability of the legal system and quality of infrastructure.

In general, well-functioning host country institutions are associated with reduced risks and costs of doing business and therefore expected to attract FDI (Blonigen, 2005). However, Kolstad & Wiig (2010) argue that Chinese investors, in contrast, are attracted to countries with poor institutions. The main arguments that they put forward for this theory are that: Chinese investors have experience in operating in an opaque institutional environment; Chinese firms are less stringently regulated; and that the extensive personal or ethnic

networks may substitute formal institutions. Kolstad & Wiig (2010) argue that Chinese companies have a competitive advantage in weak institutional environments, supporting Habib & Zurawicki's theory that greater absolute differences in corruption have a negative impact on bilateral FDI.

However, in contrast to Kolstad & Wiig's (2010) assumption, the relatively inexperienced Congolese government is perceived as a high risk by Chinese contractors in the DRC (interviews with Chinese contractors, August 2010). Chinese contractors in the DRC complain, in fact, about bureaucracy and one manager who previously worked in Zambia said with some nostalgia that the Zambian government is much more 'sufficient' than the Congolese government. The solution of the EU – tired of the lack of planning and the lack of '*entretien*' – is to work as little as possible with the Congolese government and instead to do as much as possible themselves (interview with representative EU delegation, 30 August 2010). Chinese contractors, in contrast, work closely with the Congolese government. As explained in chapter three, the China Programme within ACGT was established exactly for the purpose of dealing with big infrastructure projects managed by Chinese contractors. 'The *Pogramme Sino-Congolaise* is controlling all the projects. They have nominated some people to supervise on the site. Some will be there daily' (interview with project manager, CREC7, 29 August 2010). Furthermore, Chinese contractors perform feasibility studies and social and environmental scans which they send to ACGT who collects all the data and distributes it to all specialised ministries (interview with manager CREC7 and with ACGT representative, 29 and 30 August 2010). Then, 'the Congolese government appoints a local company who decides about how the money needs to be spent' (interview with project manager CREC7, 29 August 2010). The Congolese government is closely involved in the Sicomines agreement and unless a project is a gift from the Chinese government, the Chinese contractors have to deal with the slow and still inefficient Congolese bureaucracy.

Legal system

According to the then Chinese ambassador to the DRC, all Chinese companies operating abroad are instructed to respect the laws of the country in which they are operating. According to the Sicomines agreement, contractually, a choice can be made to follow either Congolese or Chinese law (interview with ACGT representative, 30 August 2010). A representative of ACGT remarked that if they had the expertise, the Congolese 'could make use of this space' (interview with ACGT representative, 30 August 2010). In his comment

lies the assumption that nowadays the Congolese draw the short straw, at least where there is a difference in the law. A manager from CREC7 complained that some Congolese laws and regulations are ‘not very normative’. The relative unreliability of the legal system of the DRC is, however, not as damaging for CREC7 as it is potentially for its mother company, CREC, that is investing heavily in the mining sector from which it expects to get the first return only in 2014 (Lee, 2010). This situation is exacerbated by the upcoming presidential elections in the DRC in November 2011. The negative comment from Jean-Lucien Mbusa (of the opposition party called the Movement for the Liberalisation of the Congo (MLC)) that the deal ‘forces us to sell off our national heritage to the detriment of several generations’ makes the Sicomines agreement part of the election campaign (in Farmer & Talbot, 2008).

Infrastructure

Blonigen (2005) argues that poor institutions lead to poor infrastructure. The poor state of the infrastructure in the DRC has however much more to blame than poor institutions alone. The DRC recently emerged from a civil war and there is a desperate need for the reconstruction of its infrastructure. In the specific case of CREC7, the poor state of the infrastructure in the DRC attracts the company to invest in the DRC rather than deters it from investing.

4.4.3 Natural resources

This section discusses the availability and quality of natural resources in the DRC and its role in CREC’s decision to invest in the DRC. The value of untapped resources in the DRC has been estimated to be USD 24 trillion (Morgan, 2009; World Trade Centre (WTC), 2011). No one, and especially not the Congolese government, however, knows exactly what riches the earth is currently hiding from human sight in the DRC (interview with ACGT representative, 30 August 2010). Coltan is the country’s most profitable export product at the moment, although the DRC only produces 1 per cent of the world’s coltan while possessing an estimated 80 per cent of the world’s coltan ore reserves (Morgan, 2009). Other natural resources that the DRC produces significant quantities of are: diamonds, gold, cassiterite, copper, cobalt, oil, tin, zinc, gold and uranium (Morgan, 2009).

Although the main pull factor for CREC7 is the market for large infrastructure projects, natural resources do play an important indirect role (interview with project manager CREC7, 29 August 2010). Many of the infrastructure projects in which CREC7 is involved are financed via the Sicomines agreement. It is an open question whether the Chinese government would give roads and hospitals to the Congolese government if it were not for

the huge reserves of natural resources. The importance of this state support for CREC7 is clear, because although CREC7 could still bid in international tenders for projects from the World Bank and the AfDB, the number of projects funded by these banks is limited and CREC7 would have significantly less work in the DRC.

4.4.4 *Policy factors*

According to the American Bureau of Economic, Energy and Business Affairs (2009), ‘Congolese investment regulations, codified in the Investment Code, do not discriminate against foreign investors, except in some specific cases dealing with labour and related taxes’ (2009, internet source). As explained before in chapter three, ACGT has special programmes to manage infrastructure investments from the biggest funders, namely: China, Belgium and the World Bank. However, this does not mean that the Congolese government has preferential policies toward Chinese investors, emphasises an ACGT representative. Despite protectionist regulations for the retail sector in the DRC since 1990, investments in the infrastructure are highly encouraged by the Congolese government (Bureau of Economic, Energy and Business Affairs, 2009).

The Bureau of Economic, Energy and Business Affairs (2009) accuses the Congolese government for being arbitrary, non-transparent and corrupt in granting permits and licenses in the mining and telecommunication sectors. However, the variety of companies and countries that are currently operating in the infrastructure sector in the DRC shows that the infrastructure projects in the DRC are not automatically allocated to Chinese contractors (UCOOP as well as ACGT representatives showed a similar map of the road and rail projects that are currently being constructed in the DRC, with the names of the contractors).

4.4.5 *Conclusion*

Lee (1966) argued that there is always an element of ignorance or mystery about the area of destination and that therefore neither the researcher nor the persons who are directly affected can fully understand the factors that hold and attract or repel people. Arguably, this argument counts for FDI flows as well. This section attempted to reveal the factors that seem of special importance for the case of CREC7. If we place the above analysis into the push and pull model that Lee (1966) developed within migration theory, it appears as follows:

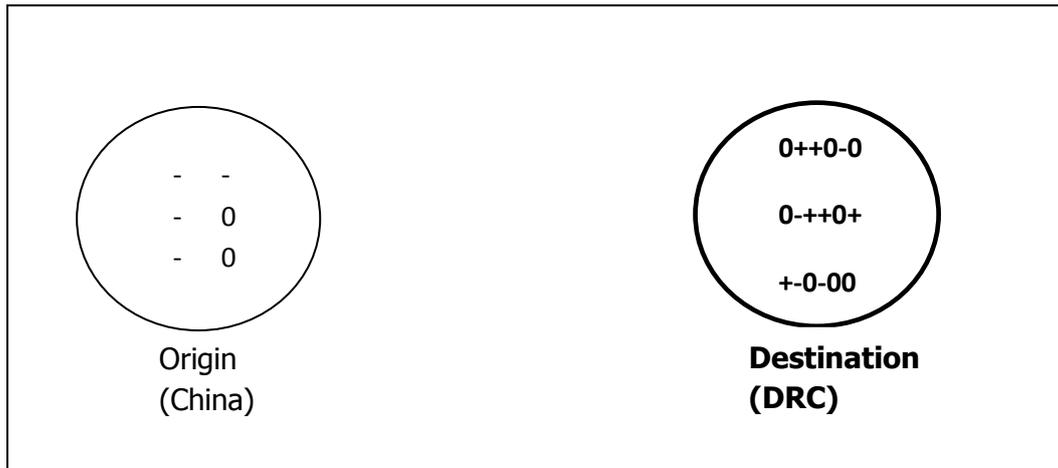


Figure 4.7 Pull factors influencing CREC7's investments in the DRC

Source: Composed by author

From this visual representation it is clear that the DRC looks like an attractive investment destination for CREC7. However, in order to explain fully the investment flows, we need to take into account possible intervening factors. These will be discussed in the next section.

4.5 Intervening factors

Lee (1966) argues that 'between every two points there stands a set of intervening factors which may be slight in some instances and insurmountable in others' (1966: 51). The insurmountability of these factors is relative according to Lee and depends on 'the impedimenta with which the [investor] is encumbered' (1966: 51). Distance is the most commonly studied intervening obstacle in migration theory and also an important determinant for FDI. The two other intervening factors discussed in this section are: intervening opportunities and the critique from the IMF towards the Sicomines agreement. Intervening factors are important to take into account, because even when the conditions in the country of origin are highly unfavourable for the investor under study and the conditions in the country of destination highly favourable, intervening factors can increase the costs of outward FDI and therefore obstruct the potential FDI flow.

4.5.1 *Distance*

The distance between Beijing, the capital of China – and Kinshasa, the capital of the DRC – is 11,259.43 kilometres¹⁸. As mentioned before, Chinese contractors use local suppliers as far as possible. However, when necessary, they have to import materials from the region or from China. The findings of this study do not reveal how the Chinese get the materials they need at the project sites in the DRC, however, according to a representative of UCOOP the Chinese are quite efficient in getting their machines and materials to the sites, even when the sites are relatively difficult to reach. In order to illustrate the efficiency of the Chinese contractors he gives two examples of other foreign contractors who were less successful: the first example is a road project contracted out to a Lebanese company. The Lebanese company had many problems, especially with getting the materials to the project site. Because UCOOP had had a good experience with Sinohydro, who constructed the first 410 kilometres of the same road, they asked Sinohydro to take over from the Lebanese company, which they did, finishing the project without any further delay. UCOOP also had a long story about an Italian company who demanded that the Congolese government develop a railway to enable them to transport the necessary materials to the project site. The Congolese government refused and after a long struggle the Italian company quit the job and presented a bill to UCOOP. The reaction of the director of UCOOP was to present a contra-bill to the Italian company containing a calculation of what the company had cost the Congolese government by not delivering. Upon which the Italian company declared itself bankrupt (interview with UCOOP representative, 30 August 2010). Compared to the Lebanese and Italian companies, geographical distance does not seem to be a deterrent for Chinese contractors. It is, however, also not a pull factor. Distance is therefore a neutral factor.

4.5.2 *Intervening opportunities*

Locational decisions for outward FDI differ from those for migration in the sense that one person can only migrate to one country at a time and when intervening opportunities appear, he or she is forced to make a choice. While an investor can – in the case of an intervening opportunity – choose for example to split the money and invest in both countries, as CREC is doing. The African continent is a substantial market for large infrastructure projects since many countries are in need of the development or improvement of their infrastructure

¹⁸ Using an online distance calculator available at:
[http://distancecalculator.globefeed.com/World_Distance_Result.asp?fromplace=Beijing \(Beijing,China\)&toplace=Kinshasa \(Kinshasa,Congo \(Kinshasa\)\)&fromlat=39.9288889&tolat=-4.3297222&fromlng=116.3883333&tolng=15.315](http://distancecalculator.globefeed.com/World_Distance_Result.asp?fromplace=Beijing%20(Beijing,China)&toplace=Kinshasa%20(Kinshasa,Congo%20(Kinshasa))&fromlat=39.9288889&tolat=-4.3297222&fromlng=116.3883333&tolng=15.315)

networks. CREC7 is currently involved in six African countries: the DRC, Ethiopia, Mozambique, Senegal, Tanzania and Zambia. Furthermore, its mother company, CREC, has realised more than 1000 medium-sized to mega-projects in thirty-five African countries (Congying, 2010). Decisions to invest abroad are made at the highest level by the chairman of the board, the general manager and other leading members of CREC (interview with project manager CREC7, 29 August 2010). The involvement of CREC in so many African countries shows that the decision to invest in the DRC was not so much an ‘either-or’ decision and therefore not an intervening obstacle.

4.5.3 *Critique IMF*

The Congolese ambassador to South Africa – who was a member of the Congolese delegation to China to negotiate the Sicomines agreement – states that the Chinese warned the Congolese government to be careful not to lose its traditional donors because of the Sicomines agreement and urged the Congolese to consult the IMF first (interview with Congolese ambassador to South Africa, 17 February 2011). The Congolese ambassador to South Africa furthermore argues that the first reaction of the IMF was positive when the Congolese government introduced the Sicomines agreement. However, when the negotiations had begun, the IMF started working to obstruct the deal (Lee 2009). The IMF openly called for the deal to be renegotiated. ‘The stated reason is that the IMF is concerned that the Chinese deal increases government indebtedness at the same time that the Congo is executing an agreement to write down its external debt on concessionary terms’ (Lee 2009). In an attempt to block the deal, the IMF threatened to withhold debt relief unless the Chinese deal was renegotiated. The then Chinese ambassador to the DRC, Mr Wu Zexian, referred to the IMF’s demands as ‘blackmail’ (interview with the then Chinese ambassador to the DRC, Ambassador Wu Zexian, 28 August 2010). However, while the IMF was in deliberation about the debt relief for the DRC, the Chinese investors involved in the Sicomines agreement did not hold back and started the construction work as planned. The fact that the Congolese ambassador says that the Chinese urged the Congolese delegation to consult the IMF before starting the negotiations with the Chinese implies that an important part of the discussion took place behind the scenes and it is therefore difficult to determine whether or not the critique of the IMF has been regarded as a serious obstacle by the Chinese investors or not.

In summary, there exist intervening factors for CREC’s investments in the infrastructure sector of the DRC, however, these are not ‘unbridgeable’, especially not for the

‘dominant leader in building highly complex ultra-long railway bridges [*sic*]’ in China (CREC, 2011). These intervening factors are therefore illustrated as follows:

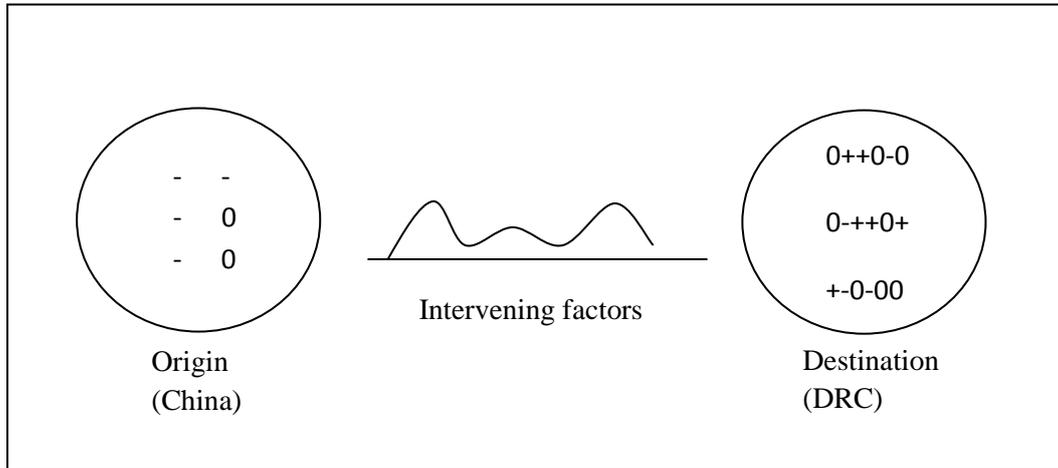


Figure 4.8 Factors influencing CREC7’s investments in the DRC

Source: Composed by author

4.6 Discussion and conclusion

As explained in the introduction of this chapter, the structure of this chapter serves to discuss the Four Factors Model step by step in order to better understand the working of the model. Following this structure, it has become clear that firm-specific factors influence the push factors, which influence the pull factors and that the intervening factors play an important role as well in the final decision to invest abroad. The interrelatedness between the different factors is, however, much more complex and in order to demonstrate the complex relationship between the main factors that influence the motives of CREC to invest in the infrastructure sector of the DRC, this section focuses on the linkages between these main factors.

When discussing the structure of the company, it becomes apparent that the board of directors of CREC is strongly connected to the central government. The close relationship with the government results in relatively easy access to finance in the form of loans from Exim Bank, the allocation of national infrastructure projects thereby enhancing the company’s expertise and experience, and the allocation of projects in the DRC via the Chinese embassy there. Access to finance in the host country appears therefore not to be an

important determinant for CREC. In connection with the intervening factors mentioned in this chapter, the relationship with the Chinese central government does not openly support CREC in overcoming these intervening factors; however, as suggested in section 4.5.3, the Chinese government might have negotiated with the IMF in support of the Chinese consortium behind the scenes.

The following cluster of factors also influence each other: the experience of CREC7 in carrying out large infrastructure projects; the experience of operating in a challenging institutional environment; the high level of competition in the domestic market; the high demand for infrastructure in the DRC; and the relatively low level of competition in large infrastructure projects in the DRC. A project manager of CREC7 in the DRC stated that it is a combination of these factors that is the main reason that CREC7 is operating in the DRC (interview project manager CREC7, 29 August 2010). This same manager, however, also emphasised that the decision to invest abroad is made by the board of directors and other leading members of the organisation. Since these leaders of CREC currently also occupy leading positions in the CCP, and since the chairman of CREC is expected to become a vice-minister of the state eventually, it can be expected that other factors important to the central government – such as an abundance of natural resources for example – do influence the motivation of CREC7 investment in the DRC as well.

This chapter served to gain a better understanding of the main motives of CREC7 to invest in the infrastructure sector in the DRC by studying the main firm-specific push, pull, and intervening factors that influence its decision to invest in the DRC, and their interrelationship. The main purpose of this exercise was to show the subjectivity of, and interrelatedness between, firm-specific push and pull factors and the role of intervening factors. It is important to note that the motivation to invest abroad stems from a calculation – both conscious and subconscious – of the perception of push, pull, firm-specific, and intervening factors. The word ‘perception’ needs to be emphasised because the ideal situation for the investor in which he or she has all the information at his or her disposal does not exist. Lee (1966) argues that ‘it is not so much the actual factors at origin and destination as the perception of these factors which results in migration’ (1966: 51). Since ‘the factors that hold and attract or repel people are precisely understood neither by the social scientist nor the persons directly affected’ (Lee 1966: 50) it is important to acknowledge that using Lee’s model does not support our finding the *true* motives for outward FDI, but it does give us better insight into the main motives for a specific investor, from a specific country of origin in a specific time and place.

Chapter 5: CONCLUSION

5.1 Introduction

The purpose of this final chapter is to summarise and bring together the different aspects and findings of this thesis. Section 5.2 therefore briefly recapitulates the context of the study and the purpose, aims and research questions of this study. Section 5.3 is an evaluation of the research study in general with a main focus on the discussion of the findings of the study. The next section, section 5.4, discusses the theoretical implications and indicates possible areas for future research on the topic. This chapter ends with policy implications of this study for African leaders in section 5.5.

5.2 Context of the study

The increasing amount of Chinese FDI to Africa is significant to African policy makers, because incoming FDI is perceived to be beneficial for the economic development of the host country – provided that these ‘FDI inflows are well managed and are used for investments that will encourage [further] growth’ (Bezuidenhout, 2009: 314). In order for African policy makers to make full use of the potential of incoming FDI, it is important to maximise the control over it without jeopardizing potential investments. In other words, a balance needs to be struck between on the one hand attracting FDI by deregulating, and on the other hand, controlling FDI by enforcing strict laws and regulations. In order to judge what regulations and laws can be tightened without losing (potential) investors, it is important to understand the motives of foreign investors. The aim of this study is to contribute to a better understanding of the motives of Chinese investors in particular.

As discussed in chapter two, scholars who are studying Chinese FDI flows to Africa – and the motives behind these FDI flows – focus primarily on what makes Chinese investors different from investors from other countries of origin. These studies have yielded interesting findings, however, as pointed out, the danger of focusing on what makes investors different from each other is that the most pertinent factors that influence the motives for a particular investor and the interconnection between these factors might be overlooked. Many FDI scholars studying Chinese outward FDI have recommended that FDI theory be adjusted in order to suit the study of Chinese outward FDI (see for example Buckley *et al.*, 2007; Ramasamy *et*

al., 2010). However, none of these scholars provides a tangible proposal for such an adjustment. In an attempt to contribute to this discussion, this thesis introduces a model to FDI theory developed in migration theory – namely the model from Lee (1966) that describes four categories of factors that influence the motive to migrate. The author has made some changes in the wording of the factors in order to make it suitable for the study of the motives behind FDI flows (the migration of capital) and refers to this slightly adjusted model as the Four Factors Model. The applicability of this model to FDI theory is then tested by applying it to the case of a Chinese road construction company in the DRC – namely, CREC7. The primary research question was formulated as:

What are the main factors that influence the motives for the infrastructural investments of CREC7 in the DRC and how can the Four Factors Model facilitate the study of the motives of foreign investors?

In order to answer this question, it is divided into four sub-questions, namely:

1. What are the main firm-specific factors of CREC7 and how do they influence CREC7's motives to invest in the DRC?
2. What are the main push factors of China and how do they influence CREC7's motives to invest in the DRC?
3. What are the main pull factors of the DRC and how do they influence CREC7's motives to invest in the DRC?
4. What are the main intervening factors and how do they influence CREC7's motives to invest in the DRC?

It was noted that using the Four Factors Model will not support a search for the *true* motives for outward FDI, but it is expected that Lee's model will give us better insight into the main motives of CREC7 for investing in the infrastructure sector in the DRC at the time of the study.

5.3 Summary of main findings

Lee's (1966) model indeed appeared to be useful for extracting the main factors that influence the motives of CREC7 for investing in the infrastructure sector in the DRC and the interrelatedness of these factors. The collected data from the desktop research and the fieldwork showed how conditions in the country of origin, conditions in the country of destination, firm-specific factors, and intervening factors influence each other in a highly complex way. In order to illustrate this complexity, the factors that influence each other most actively are grouped together in clusters. The two clusters of factors that are of specific importance for CREC7's decision to invest in the DRC, are (1) connections with the central government, access to finance, experience and skills, market access, and intervening factors; (2) experience and skills, experience of operating in a challenging institutional environment, high level of competition in the domestic market, high demand for infrastructure in the DRC, and the relatively low level of competition in large infrastructure projects in the DRC. These are the main sets of factors that impel CREC7 to invest in the infrastructure sector in the DRC.

The findings therefore show that indeed, as suggested by Buckley *et al.* (2007), Kolstad & Wiig (2010) and Ramasamy *et al.* (2010), CREC7's connections with the Chinese government do influence its motives to invest abroad. As discussed in chapter four, the close relationship with the government – and the active support of the government via the Go Global strategy – result in: relatively easy access to finance in the form of loans from Exim Bank; the allocation of national infrastructure projects thereby enhancing the company's expertise and experience; and the allocation of projects in the DRC via the Chinese embassy there. In terms of the intervening factors mentioned in this study, the relationship with the Chinese central government does not openly support CREC7 in overcoming these intervening factors; however, as suggested in section 4.5.3, the Chinese government might have negotiated with the IMF for the Chinese consortium behind the scenes and therefore addressed this intervening factor. However, the findings of this study show that a good relationship with the Chinese government is only one factor within this complex structure of factors that influences the motives of CREC7 to invest in the DRC. Other factors, such as the level of competition, seem to strongly influence the motives of CREC7 as well. Furthermore, Kolstad & Wiig's (2009) contention that 'Chinese investment is more attracted to a country with natural resources, the worse the institutional environment of that country' and that therefore 'Chinese FDI is conducted to exploit countries with poor institutions and large

natural resources' (Kolstad & Wiig, 2010: 8) is not supported by the findings of this study, because the factors that attract Chinese overseas investment are more various and their correlations are more complex. The findings therefore confirm the necessity of a holistic approach when studying the motives of foreign investors. The Four Factors Model is useful for dealing with the compound nature of the push, pull and intervening factors. Since the study is based on a single-case study, no further generalisations can be made other than that the factors that influence the motives of Chinese investors for investing in Africa are more numerous than previously believed, that these factors are interconnected, and that the appreciation of these factors is subjective and relates to the specific investor and time. The next section discusses the broader implications of this study ending with suggestions for future research.

5.4 Theoretical implications and suggestions for future research

Lee's (1966) model appeared to be useful for extracting the main factors that influence the motives of a particular investment for a particular investor and for identifying clusters of factors that influence each other. Because the Four Factors Model uses broad categories of factors that apply to all foreign investors, this model can be applied to the study of the motives of foreign investors from both developed and developing countries, thereby contributing to make general FDI theory more inclusive. Future studies could focus on organising multiple-case studies in which, for example, other Chinese investors in the infrastructure in Africa will be included; or other Chinese investors that are active in one particular country – depending on the purpose of the study. A multiple-case study design could contribute to detecting trends in, for example, the main factors that influence Chinese investors to invest in the infrastructure sector in Africa – or Chinese investors in one particular country – and how these factors influence the motives of these Chinese investors.

It would also be interesting to carry out a comparative investigation into the factors that influence the motives to invest in a particular country of two or more investors from different countries of origin. These studies could point out whether the investors are pushed and attracted by similar or different factors and how their firm-specific and possible intervening factors influence the way they rate the various push and pull factors. The main advantage of this model is that it can be used for the study of any investor in any country of destination. This could enhance the consistency of the study of FDI flows and the factors that

influence these flows and could therefore support better comparative studies in the future.

As noted in chapter two, the study of FDI does not have a central place in IPE theory yet. Eden (1991) argues that IPE scholars should pay more attention to the MNE – one of the main actors in FDI – because currently the focus is on states and markets and she argues that ‘the market is a structure, not an actor, and hence a poor counterpoint to the state’ (1991b: 197). The Four Factors Model could therefore contribute to a shift in the focus of IPE theory towards the study of interactions between states and MNEs within IPE.

5.5 Outlook for African policy makers

As noted in the introduction of this thesis, incoming FDI has been perceived to contribute positively to economic growth within the host country, provided that the incoming FDI is well managed and that there is a strategy for using the profits in such a way that it benefits the local people now and in the future. The latter is especially important in terms of the use of profit made through FDI in non-renewable natural resource industries. As noted, in order to attract FDI, governments have been focusing on creating an investor-friendly environment, guided by neo-liberal thinking. However, in order to manage incoming FDI in such a way that it does not harm the host country’s economic, social or environmental context in the short and in the long term it is necessary to implement and enforce laws and regulations. In order for African policy makers to realise the full potential of FDI, it is important to maximise control over it without jeopardizing relationships with potential investors. It was argued in the first chapter of this thesis that in order to determine which regulations and laws can be tightened without risking the loss of (potential) investors, it is important for policy makers of FDI host countries to understand the motives of foreign investors. Lee’s model appeared to be useful in identifying the main factors – and the main clusters of factors – that influence the motives of foreign investors. The findings of this study can assist in supporting African policy makers to manage incoming FDI without jeopardising the foreign investment from which they benefit most. Firstly, the African leaders need to identify the investors from whose investment they benefit most. After that, the main factors – and the main clusters of factors – that influence the decision of these investors to invest in the respective FDI host country can be identified. When applying the Four Factors Model, the impact of weak enforcement of the law, for example, on the decision to invest in the respective host country, can be studied. A well-informed decision on the effect of strengthening labour laws, for example, on the willingness of the particular investor to keep investing in the respective host

country, can be made. In other words, comprehensive research on the factors that influence the motives of foreign investors can help African leaders to achieve a balance between attracting FDI by deregulating, and controlling FDI by enforcing strict laws and regulations, thereby harnessing the full potential of incoming FDI. The purpose of the Four Factor Model is to assist government officials with assessing the motives of foreign investors in order to make better-informed choices about the potential effect of strengthening law and regulations concerning labour issues and the protection of the environmental for example on the country's attractiveness towards foreign investors. The model does not offer a complete strategy for managing incoming FDI in such a way that it does not harm the host country's economic, social or environmental context in the short and in the long term. Further research -preferably longitudinal research- is necessary to learn more about the actual impacts of FDI to a host country, the desired kinds and levels of skills and technology transfer and other important aspects of managing FDI.

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ADDENDA

Addendum 1: Interview questions prepared for ACGT

1. What is the mandate of ACGT?
2. When and why was it installed?
3. What are the tasks and goals of ACGT?
4. What does the *Programme Sino-Congolaise* involve?
5. Which Chinese actors are involved in this cooperation?
6. How are the Chinese infrastructure projects financed?
7. Who decides which infrastructure projects will be constructed?
8. How are the infrastructure projects allocated?
9. How is the cooperation with the Chinese contractors?
10. How does this cooperation differ from cooperation with other foreign partners?
11. How is the work of all the different foreign partners in the DRC coordinated?
12. Are the Chinese obliged to do social and environmental assessments?
13. Do all Chinese contractors do these assessments?
14. How are these assessments conducted?
15. What happens with the results?
16. According to which law do the Chinese contractors operate in the DRC?
17. Who is responsible for the maintenance of the projects?

Addendum 2: Interview questions prepared for the EU delegation to the DRC

1. What could you tell us about the Chinese contractors that are active in the DRC at the moment?
2. How do you perceive the opportunities and challenges for the DRC of these Chinese investments in infrastructure projects in the DRC?
3. Who is responsible for the maintenance?
4. What do you think about the Sicomines agreement?
5. How do you perceive the opportunities and challenges for the Chinese construction companies in the DRC?
6. What are the differences between projects funded by the EU and by the Chinese government?
7. Does the EU cooperate with Chinese contractors in some projects?
8. How could international cooperation in the infrastructure in the DRC be better coordinated?

Addendum 3: Interview questions prepared for Chinese contractors in the DRC

I. Details of the company

Name:

Form of ownership:

Total number of employees in the DRC:

Total number of Chinese employees in the DRC:

Since when is your company operating in the DRC?

Number of projects in the DRC:

Position in the company:

Since when are you working in the DRC?

II. Project details

Name:

Short description:

Current stage:

Source of funding:

III. General questions about operating in the DRC

1. In what other projects in the DRC has your company been active, is active at the moment and is planning to be active in, in the near future?
2. How are the projects allocated?
3. How do you get paid for the projects?
4. Does your company conduct social and environmental impact assessments? How?
5. Which laws are applied to: Chinese or Congolese?
6. How are the social and environmental standards of the project controlled for?
7. Who is responsible for the maintenance of the projects?
8. How many workers are employed by your company in the DRC?
9. How many of these workers are Chinese? Why?
10. Do you provide training for the Congolese workers? If yes, what kind of?
11. How do you communicate with the Congolese workers?
12. How much do the workers get paid?

13. How many days do they get off from work per year?
14. Where are the materials sourced from?

IV. Motivations for investing in the DRC

1. Who, from in- and outside your company if applicable, are involved in the decision making regarding investing abroad?
2. Who was involved in the decision to start the first project of your company in the DRC?
3. Why is your company operating in the DRC?
4. What were the expectations of your company before going to the DRC of operating in the DRC regarding:
 - Profit making
 - Competition
 - Laws and regulations
 - Safety
 - Local work force
5. Why did you personally decide to go to the DRC?
6. What were your personal expectations before going to the DRC of operating in the DRC regarding:
 - Profit making
 - Competition
 - Laws and regulations
 - Safety
 - Local work force
 - Career step
7. Does the reality meet your expectations and why?
8. Did your company exercise a form of risk assessment before investing in the DRC? If yes, who made the assessment?
9. Which topics are included in the assessment?

Policy system	
Ethnic and language issues	
Religious issues	
Terrorism	
Political effectiveness	
Political stability	
Military involvement in politics	
Armed conflicts	
Social unrest	
Institutional environment	
Degree of economic liberalisation	
Quality of the bureaucracy	
Economic planning issues	
Quality and nature of labour force	
Exchange rate policy	
Fiscal policy	
Exchange rate policy	
Management of internal and external debt	
Foreign ownership stake	
Per capita income	
Competitiveness	
Literacy rate	
Attitude towards foreign business people	
Quality of life	
Telephone communication and ICT	
Crime	
Infrastructure	
Climate	
Natural disasters	

10. What risks are perceived as most pertinent by your company?
11. What measurements are taken by your company to mitigate risks?
12. Does your company get support from the Congolese Government to mitigate risks?
13. Does your company get support from the Chinese Government to mitigate risks?

Addendum 4: Interview questions prepared for the Congolese ambassador to South Africa

1. How are the Sino-Congolese relations?
2. How do you perceive China's development cooperation with the DRC?
3. How did the Sicominex agreement develop and what does it entail?
4. Which Chinese and Congolese actors are involved in this deal?
5. How does the DRC benefit from this deal?
6. According to which law do the Chinese contractors operate in the DRC?
7. What are the opportunities and challenges for the DRC of the Chinese investments in the DRC?
8. What are the opportunities and challenges for Chinese companies operating in the DRC?

Addendum 5: Interview questions prepared for the Chinese ambassador to DRC

1. How many Chinese contractors are active in the DRC at the moment?
2. In what kind of projects are they involved?
3. How are these projects financed?
4. Why are Chinese contractors interested in investing in the DRC?
5. Is the Chinese embassy actively involved in attracting Chinese investors to the country?
6. What does the Sicomines agreement entail?
7. Which Chinese parties are involved in it?
8. What is the role of the Chinese embassy in this agreement?
9. How are the Chinese infrastructure projects financed?
10. Who decides which infrastructure projects will be constructed?
11. How are the infrastructure projects allocated?
12. How is the cooperation between these Chinese contractors and the Congolese government?
13. Who is responsible for the maintenance?
14. According to which law do the Chinese contractors operate in the DRC?
15. What are the challenges for Chinese companies operating in the DRC?

Addendum 6: Interview questions prepared for UCOOP

1. What is the mandate of UCOOP?
2. When and why was it installed?
3. What are the tasks and goals of UCOOP?
4. How does UCOOP cooperate with Chinese contractors in the DRC?
5. How are the Chinese infrastructure projects financed?
6. Who decides which infrastructure projects will be constructed?
7. How are the infrastructure projects allocated?
8. How is the cooperation with the Chinese contractors?
9. How does this cooperation differ from cooperation with other foreign partners?
10. How is the work of all the different foreign partners in the DRC coordinated?
11. Are the Chinese obliged to do social and environmental assessments?
12. Do all Chinese contractors do these assessments?
13. How are these assessments conducted?
14. What happens with the results?
15. According to which law do the Chinese contractors operate in the DRC?
16. Who is responsible for the maintenance of the projects?

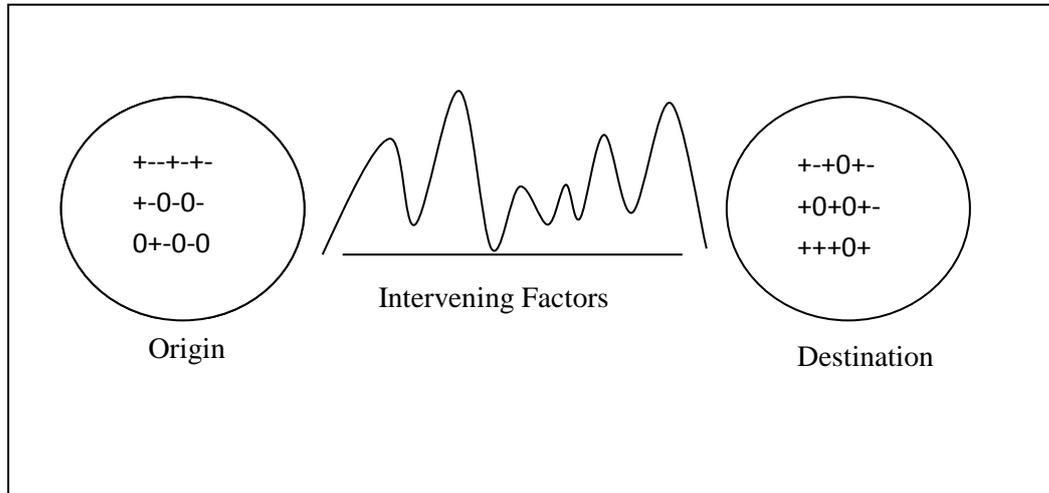
Addendum 7: Topic list for direct observations

Visiting the actual project sites of the Chinese construction companies in the DRC offered the opportunity to observe the interaction between the Chinese and Congolese managers and workers. The following topics stood central during these observations:

- Number of Chinese workers compared to Congolese workers
- Number of Chinese managers compared to Congolese managers.
- Task differentiation between Chinese and Congolese workers.
- Language(s) used to communicate between Chinese and Congolese.
- The way of communicating to each other.
- Examples of direct cooperation.
- The way of talking about the Chinese if they were not around.
- The way of talking about the Congolese if they were not around.
- Differences in clothing.
- Differences in accommodation.
- Differences in food.
- The reaction of Congolese residents to Chinese.

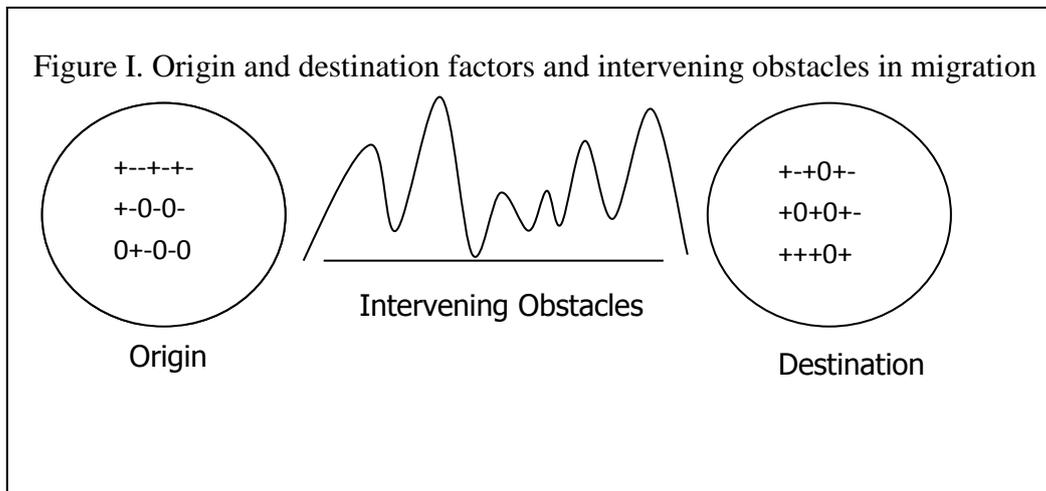
FIGURES

Figure 1.1: Four Factors Model



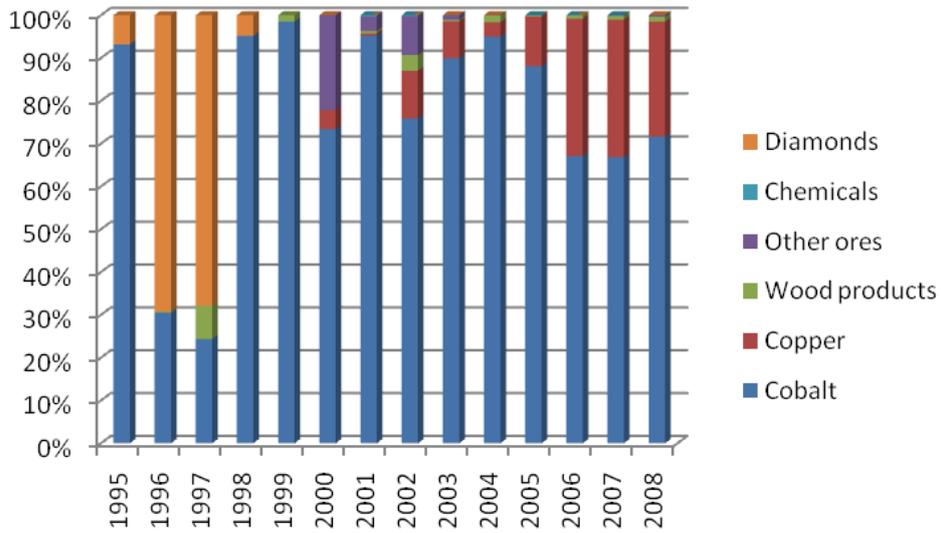
Source: Composed by author based on Lee's (1966) model

Figure 2.1: Origin and destination factors and intervening obstacles in migration



Source: Lee (1966:50)

Figure 3.1: Composition of the DRC's top-20 exports (HS4 level) to China 1995-2008



Source: Jansson 2009

Figure 4.1: Mr Shi Dahua, (Former chairman of CREC)



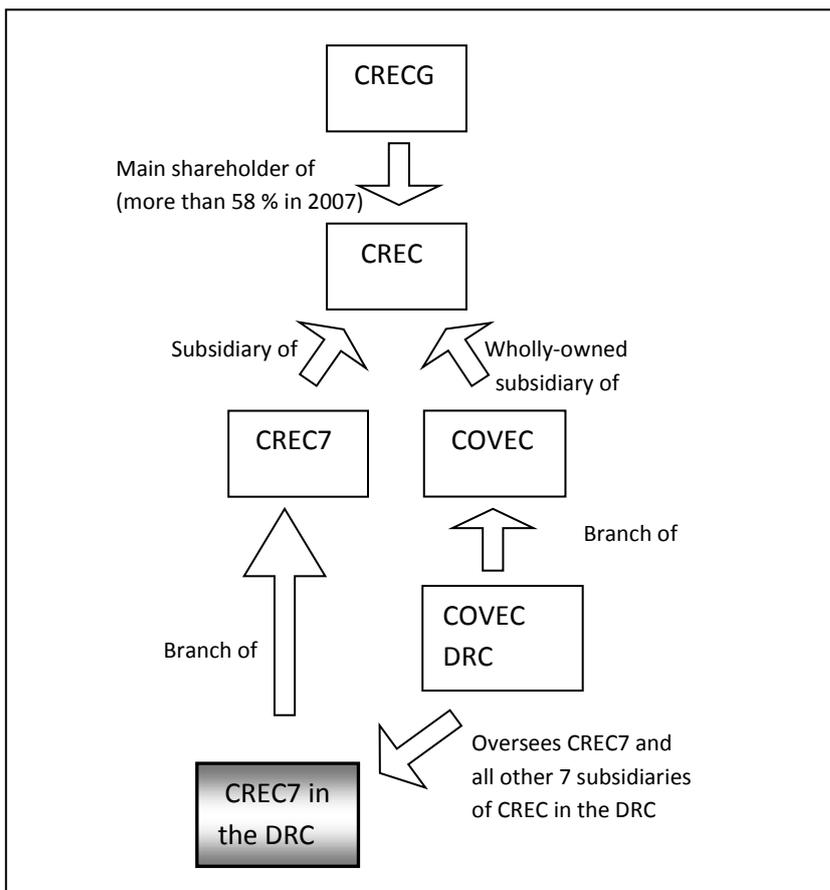
Source: CREC 2007

Figure 4.2: Mr Ji Changjin, (Current chairman of CREC)



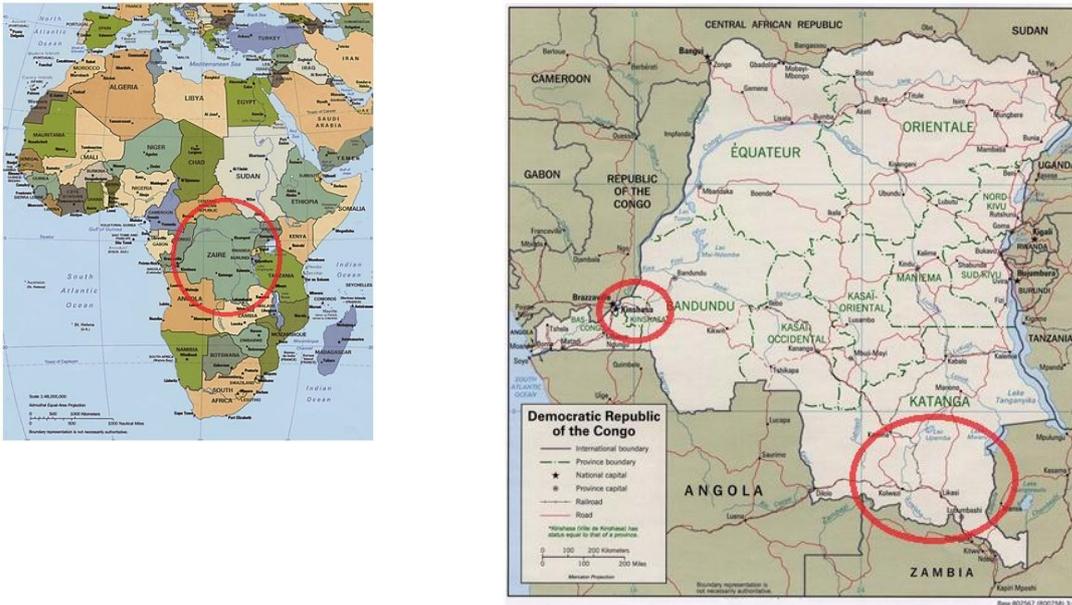
Source: CREC 2011a

Figure 4.3: CRECG: subsidiaries, branches and formal relations



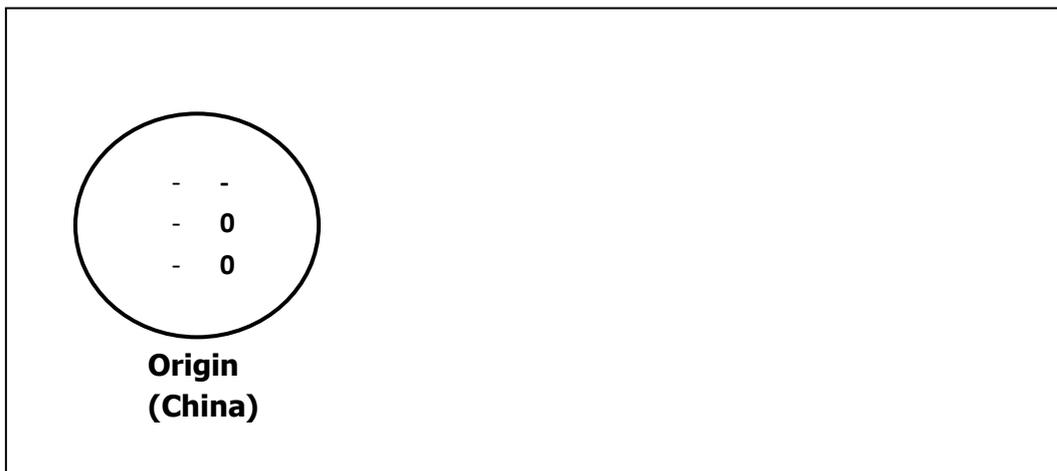
Source: Compiled by author using data from CREC (2008), CREC7 (2005) and COVEC (2008).

Figure 4.4: Map of the DRC with the projects of CREC7 marked



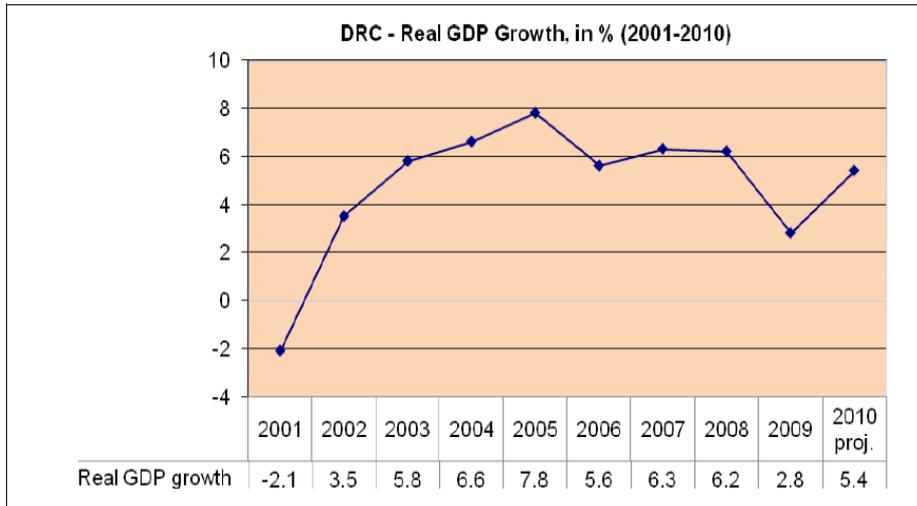
Source: University of Texas library 2011

Figure 4.5: Push factors influencing CREC7's investments in the DRC



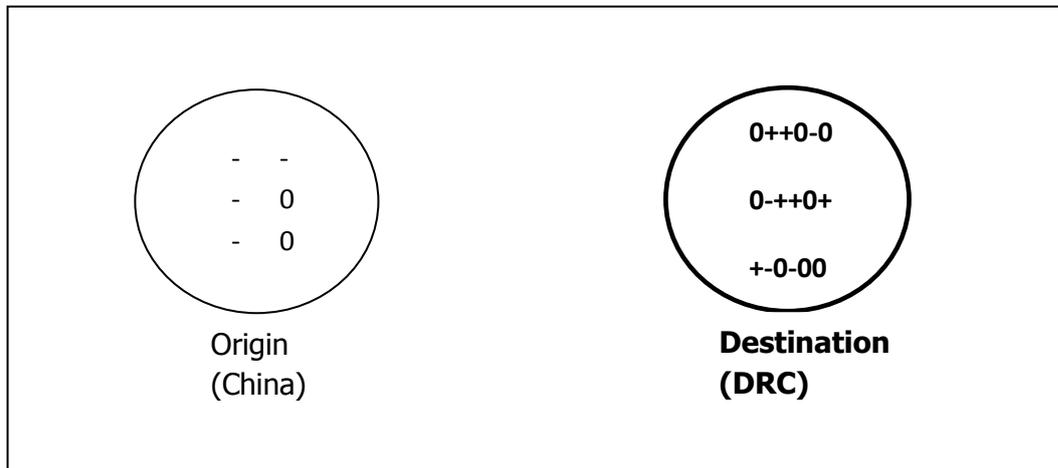
Source: Composed by the author

Figure 4.6: DRC Real GDP Growth in % (2001-2010)



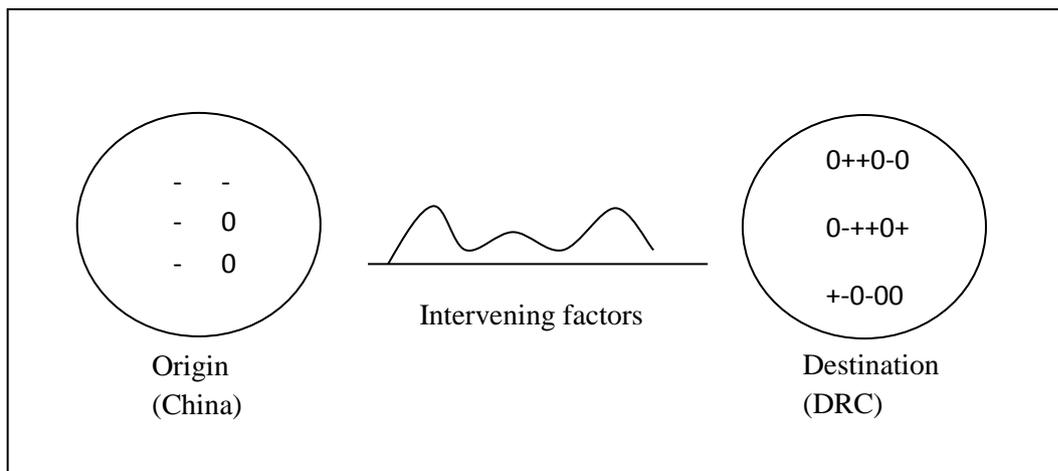
Source: World Bank 2010

Figure 4.7: Pull factors influencing CREC7's investments in the DRC



Source: Composed by author

Figure 4.8: Factors influencing CREC7's investments in the DRC



Source: Composed by author

TABLES

Table 3.1: Volume of FDI inflow per region, 2000-2009

Year Region	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
US	313997	159478	74501	53141	135850	104809	237136	265957	324560	129883
EU	698224	383962	309531	259503	213881	502235	586815	923810	536917	361949
Asia	148736	114040	218525	117180	271113	215769	283113	336922	372738	301367
Gulf States	331	1894	2734	6134	14145	21318	38080	46911	60060	50851
South America	57056	37851	28209	22936	37139	44248	43837	71562	91670	54754
Africa	9829	19995	16074	20418	21726	38197	55382	63092	72178	58563
World	1401466	825280	628114	565739	732397	985796	1459133	2099973	1770873	1117189
Africa's% of Global FDI inflow	0.70%	2.42%	2.56%	3.61%	2.97%	3.87%	3.80%	3.00%	4.08%	5.24%

Source: Produced by the author using statistics from UNCTAD (2010)

Table 3.2: Volume of Chinese outward FDI per region, from 2003-2009

Year Region	2003	2004	2005	2006	2007	2008	2009
Asia	1505.03	3013.99	4484.17	7663.25	16593.15	43547.5	40407.59
* ¹⁹	324.34*	359.02*	1056.13*	689.81*	2813.54*	4263.88*	4350.64*
Africa	74.81	317.43	391.68	519.86	1574.31	5490.55	1438.87
Europe	145.03	157.21	395.49	597.71	1540.43	875.79	3352.72
** ²⁰					1536.24**	833.66**	1082.23**
Latin America	1038.15	1762.72	6466.16	8468.74	4902.41	3677.25	7327.9
*** ²¹	21.86***	91.07***	77.33***	97.91***	424.68***	48.91***	349.55***
North America	57.75	126.49	320.84	258.05	1125.71	364.21	1521.93
Oceania	33.88	120.15	202.83	126.36	770.08	1951.87	2479.98

Source: Produced by the author using statistics from MOFCOM 2009

¹⁹ Excluding Chinese FDI flows towards Hong Kong, Macau and Taiwan.²⁰ Excluding Chinese FDI flows to major tax haven, Luxembourg.²¹ Excluding Chinese FDI flows to the Cayman Islands and the British Virgin Islands.

Table 3.3: Volumes of Chinese FDI to selected African countries, from 2003-2009

Year	2003	2004	2005	2006	2007	2008	2009
Country							
Algeria	2.47	11.21	84.87	98.93	145.92	42.25	228.76
Benin	2.09	13.77	1.31	0.00	6.32	14.56	0.09
DRC	0.06	11.91	5.07	36.73	57.27	23.99	227.16
Egypt	2.1	5.72	13.31	8.85	24.98	14.57	133.86
Gabon	-	5.6	2.08	5.53	3.31	32.05	11.88
Guinea	1.2	14.44	16.34	0.75	13.2	8.32	26.98
Madagascar	0.68	13.64	0.14	1.17	13.24	61.16	42.56
Mauritius	10.27	0.44	2.04	16.59	15.58	34.44	14.12
Nigeria	24.4	45.52	53.3	67.79	390.35	162.56	171.86
South Africa	8.86	17.81	47.47	40.74	454.41	4807.86	41.59
Sudan	-	146.70	91.13	50.79	65.4	-63.14	19.3
Zambia	5.53	2.23	10.09	87.44	119.34	213.97	111.8

Source: Produced by the author using statistics from MOFCOM 2009

Table 3.4: State visits from the DRC to China from 1972

Key persons	Date
President Mobutu	1973, 1974, 1980, 1982, and 1994
Nguza Karl-I-Bond, Minister of Foreign Affairs and International Cooperation	1973
Kassongo Mukumgi, Speaker of the National Assembly	1984
Wa Dondo Kengo, First Member in charge of the State Affairs	1986
President Laurent Kabila	1997
Machako Mamba, Congolese Minister of Health visited China	2000
Leonard She Okitundu, Minister of Foreign affairs and International Cooperation headed a delegation	2000 (first Ministerial Meeting of the Forum for China-Africa Cooperation held in Beijing)
Leonard She Okitundu, Congolese Minister of Foreign Affairs and International Cooperation	2001
President Joseph Kabila	2002, 2008, 2010

Source: Produced by the author using Chinese Foreign Ministry 2006, Jansson 2009, People's Daily Online 2010

Table 3.5: State visits from China to the DRC from 1972

Key persons	Date
Huang Hua, Minister of Foreign Affairs	1978
Li Xiannian, Vice-premier of the State Council	1979
Zhao Ziyang, Premier of the State Council	1983
Tian Jiyun, Vice-premier of the State Council	1984
Rong Yiren, Vice-chairman of the NPC	1985
Zhang Jinfu, Member of the State Council	1986
Li Tieying, Member of the State Council and Director-General of the National Education Commission	1989
Qian Qichen, Vice-premier and Minister of Foreign Affairs	1995
Yang Wenchang, Vice-minister of the Ministry of Foreign Affairs	2001
Tang Jiaxuan, Minister of Foreign Affairs	2003
Deputy Foreign Minister Zhai Jun	2009
State Councillor Dai Bingguo	2010
Vice Premier Hui Liangyu	2011

Source: Produced by the author using Chinese Foreign Ministry 2006, Jansson 2009, China-UN 2010, Congo Planet 2011

Table 3.6: Key bilateral agreements signed since 1960

Date	Agreement
1972	Joint communiqué on the normalisation of relations between the People's Republic of China and the Republic of Zaire
1973	Trade agreement
1980	Agreement on cultural cooperation
1988	Trade agreement
1989	Agreement for cooperation in higher education and scientific research
1997	Agreement on mutual protection and encouragement of investment
2005	Agreement on China-DRC economic and technological cooperation

Source: Produced by the author using Jansson 2009

Table 3.7: China's economic development projects in the DRC

Year	Project name	Extra information
1970s	N'Djili, Chinese farm established with help of an agricultural institute in Hebei province	Provides training for Congolese workers
1975-1979	National Assembly	Worth USD 42 million (at the time)
1970s	Sugar factory	Destroyed
1994	Martyr's Stadium	80,000 seats
2006	N'Djili, the Sino-Congolese Friendship Hospital	Chinese medical team
2008	Mineral water factory	USD 60 million

Source: Produced by the author using Chinese Foreign Ministry 2006, Jansson 2009