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# Exploring African Host Countries' Agency to Strengthen Local FDI Regulations: The Case of Chinese Investments in the Infrastructure Sector of the DRC

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# Exploring African Host Countries' Agency to Strengthen Local FDI Regulations: The Case of Chinese Investments in the Infrastructure Sector of the DRC

Sanne van der Lugt†

Studies on China-Africa relations often criticize Chinese firms for violating human rights and neglecting their responsibility to protect the environment. Some authors have even accused “the Chinese” of neo-colonialism. More recent studies emphasize the responsibility of the host governments to protect the environment and the rights of local workers. What, however, can African host country governments actually do to realize the potentials of Chinese foreign direct investment (FDI) while managing the environmental and social impacts? The main argument of this Article is that thorough knowledge regarding the motives of foreign investors gives host countries better insight into their capacity to strengthen their FDI regulation. Current FDI theory does not sufficiently explain the motives behind Chinese outward direct investment (ODI) and focuses too much on the factors associated with the host country (pull factors) and the foreign firm. More recent attempts to explain the motives behind Chinese and other emerging market ODI focus merely on the factors associated with the home country (push factors). This Article introduces a framework from the field of migration studies in an attempt to integrate push, pull, intervening, and firm-specific factors into one comprehensive framework. The case of the investments of a specific Chinese construction company in the Democratic Republic of the Congo (DRC) is used to develop further the idea of a comprehensive framework that includes push, pull, intervening, and firm-specific factors.

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## Introduction

Since the Chinese government introduced the Go Global strategy in 1999, many Chinese companies have started to explore foreign markets for investment opportunities. The outward direct investment (ODI) flows from China really started to take off from 2003 onwards—when private companies were also allowed to invest abroad—and increased from USD 2.9 billion in 2003 to USD 101 billion in 2013.<sup>1</sup> This astonishing increase in Chinese ODI over the past decade has attracted much scholarly attention, especially from Western scholars interested in Chinese ODI flows to the African continent. The sudden rise of China in Africa took Western politicians by surprise, because Africa has been taken for granted as the backyard of Europe since colonial times and the playground of the West following the end of the Cold War. The presence of thirty-five African Heads of State at the Forum on China-Africa Cooperation (FOCAC) Summit and Third Ministerial Conference held in Beijing in 2006 suddenly made Western politicians aware of growing Chinese influence on the continent.<sup>2</sup>

Since this summit in 2006, Western-based scholars, think-tanks, and NGOs have scrutinized Chinese economic activities on the African continent even more closely.<sup>3</sup> The focus has been mainly on human rights violations and environmental degradation caused by Chinese economic activities on the continent—neglecting the fact that Western-based multina-

1. UNCTADSTAT, U.N. CONF. ON TRADE & DEV., <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=96740> (last visited Apr. 8, 2016).

2. See *Forum on China-Africa Cooperation*, FOCAC (July 18, 2012), <http://www.focac.org/eng/dwjbzjjhys/t952503.htm>.

3. See, e.g., Stephen Brown & Chandra Lekha Sriram, *China's Role in Human Rights Abuses in Africa: Clarifying Issues in Culpability*, in CHINA INTO AFRICA: TRADE, AID, AND INFLUENCE 250, 251–54 (Robert I. Rotberg ed., 2008); Stephanie Rupp, *Africa and China, Engaging Postcolonial Interdependencies*, in CHINA INTO AFRICA: TRADE, AID, AND INFLUENCE 65, 65 (Robert I. Rotberg ed., 2008); INT'L UNION FOR THE CONSERVATION OF NATURE, SCOPING STUDY OF THE CHINA-AFRICA TIMBER TRADING CHAIN (2009), [http://cmsdata.iucn.org/downloads/china\\_africa\\_trading\\_web.pdf](http://cmsdata.iucn.org/downloads/china_africa_trading_web.pdf); JOHANNA JANSSON ET AL., CHINESE COMPANIES IN THE EXTRACTIVE INDUSTRIES OF GABON & THE DRC: PERCEPTIONS OF TRANSPARENCY (2009), [http://www.ccs.org.za/wpcontent/uploads/2009/11/Chinese\\_Companies\\_in\\_the\\_Extractive\\_Industries\\_of\\_Gabonand\\_the\\_DRC\\_CCS\\_report\\_August\\_2009.pdf](http://www.ccs.org.za/wpcontent/uploads/2009/11/Chinese_Companies_in_the_Extractive_Industries_of_Gabonand_the_DRC_CCS_report_August_2009.pdf); JOHANNA JANSSON, PATTERNS OF CHINESE INVESTMENT, AID AND TRADE IN CENTRAL AFRICA (CAMEROON, THE DRC AND GABON) (2009), <http://www.ccs.org.za/wp-content/uploads/2009/11/CCS-Central-Africa-Briefing-Paper-August-2009.pdf>.

tionals often act in a similar way.<sup>4</sup> More recent studies emphasize the responsibility of the host governments to protect the environment and the rights of local workers.<sup>5</sup> What can host country governments do, however, to realize the potentials of incoming Chinese FDI while avoiding potential negative social and environmental impacts? The main argument in this Article is that one means is through a clear understanding of the motives that underpin these Chinese investors. A clearer understanding of the motives behind Chinese investments could help policy makers of FDI host countries determine which regulations and laws can be tightened without risking the loss of investors or potential investors.

The current challenge is that mainstream international business (IB) theory does not adequately explain the motives of Chinese investors. This theory has been built largely on the study of Western firms by Western researchers, and the contextual factors of the home countries—namely, the United Kingdom and the United States—could have been regarded as familiar and quite similar.<sup>6</sup> As a consequence, mainstream IB theory neglects push factors (factors associated with the home country) and focuses mainly on ownership advantages, internalization advantages, and pull factors (factors associated with the host country) in order to explain the international location choice of investors.<sup>7</sup>

Molding the explanations of the motives behind Chinese ODI so that it fits general FDI theory is not contributing to a better understanding of the real motives behind Chinese ODI. Instead of merely questioning the applicability of general FDI theory to the study of Chinese ODI, it would be more useful to establish a comprehensive framework that serves to study the motives behind FDI from any country of origin. The argument in this Article is that home country (push), host country (pull), firm-specific, and intervening factors influence each other and together determine the location choice for investment. Push and pull factors are currently mentioned in FDI studies but do not refer to a specific theory.<sup>8</sup> Without embedding push and pull factors in a theory, however, push and pull factors are rather “floating around” in FDI studies instead of offering a scheme. This Article

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4. See, e.g., Brown & Sriram, *supra* note 3.

5. See, e.g., MICHAEL W. HANSEN, FROM ENCLAVE TO LINKAGE ECONOMIES? A REVIEW OF THE LITERATURE ON LINKAGES BETWEEN EXTRACTIVE MULTINATIONAL CORPORATIONS AND LOCAL INDUSTRY IN AFRICA (2014), <https://www.ciaonet.org/attachments/24537/uploads>; MIKE MORRIS ET AL., COMMODITIES AND LINKAGES: MEETING THE POLICY CHALLENGE (2011), [http://oro.open.ac.uk/30049/1/MMCP\\_Paper\\_14.pdf](http://oro.open.ac.uk/30049/1/MMCP_Paper_14.pdf).

6. See, e.g., John H. Dunning, *Trade, Location of Economic Activity and the MNE: A Search for an Eclectic Approach*, in THE INTERNATIONAL ALLOCATION OF ECONOMIC ACTIVITY 395, 399 (Bertil Ohlin et al. eds., 1977).

7. See *id.*

8. See, e.g., SHAOMING CHENG & ROGER R. STOUGH, THE PATTERN AND MAGNITUDE OF CHINA'S OUTWARD FDI IN ASIA (2007), <http://test.icrier.org/pdf/Shao ming%20Cheng%20and%20Roger%20R%20Stough.doc.>; Deepak Sethi et al., *Seeking Greener Pastures: A Theoretical and Empirical Investigation into the Changing Trend of Foreign Direct Investment Flows in Response to Institutional and Strategic Factors*, 11 INT'L BUS. REV. 685 (2002); Brenda Sternquist, *International Expansion of US Retailers*, 25 INT'L J. RETAIL & DISTRIB. MGMT. 262 (1997).

introduces a push-pull framework developed by Everett S. Lee in migration theory that seems to be extremely relevant for FDI theory.<sup>9</sup> The main research question that is answered in this Article is: What is the implication of applying the push-pull framework from migration theory in FDI theory for our understanding of the potential for host country governments to strengthen their FDI regulation? It is argued that by referring explicitly to push and pull factors and placing those in a framework 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.

## I. Literature Review

There are two questions that have been, and are still, central to FDI theory: why do firms invest abroad, and why do they invest in a particular economy? The common starting point of most FDI theory is that investors pursue profit maximization.<sup>10</sup> 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.

The first focus was on ownership advantages, which address the question of why some firms invest abroad but others do not. Hymer suggested that a successful multinational has some firm-specific advantages which allow it to overcome the costs of operating in a foreign country.<sup>11</sup> Yet, ownership advantages per se are not adequate to explain why FDI takes place. Establishing parts of a business in a foreign country involves risks and, therefore, there must be an explanation for why investors establish their businesses in a foreign country instead of licensing or selling to a foreign firm and trading with them. During his study of the firm, Coase developed the idea of transaction costs.<sup>12</sup> Brown and Hogendorn summarize 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.”<sup>13</sup> In other words, a firm will invest in a new or existing production line of a product instead of purchasing the product from another company when it is relatively cheaper to invest than to purchase. Buckley and Casson built further on the Coasian nature of the firm and developed the internalization theory in order to analyze the

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9. See Everett S. Lee, *A Theory of Migration*, 3 DEMOGRAPHY 47 (1966).

10. See generally Guy V.G. Stevens, *The Determinants of Investment*, in ECONOMIC ANALYSIS AND THE MULTINATIONAL ENTERPRISE 47 (John H. Dunning ed., 1974).

11. See STEPHEN HERBERT HYMER, THE INTERNATIONAL OPERATIONS OF NATIONAL FIRMS: A STUDY OF DIRECT FOREIGN INVESTMENT 41-42 (1976).

12. See R.H. Coase, *The Nature of the Firm*, 4 ECONOMICA 386, 392-94 (1937).

13. See WILSON B. BROWN & JAN S. HOGENDORN, INTERNATIONAL ECONOMICS: THEORY AND CONTEXT 632 (1994).

behavior of the multinational enterprise (MNE) and the motives for outward FDI.<sup>14</sup>

Dunning argues that although ownership-specific and internalization 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 (or location-specific advantages); otherwise the foreign market could be served exclusively by exports.<sup>15</sup> Dunning integrated a variety of strands of thinking about the necessary conditions for a firm to invest abroad into the ownership, location, and internalization (OLI) framework.<sup>16</sup> This framework identifies ownership, location, and internalization advantages and is currently the most widely used framework among FDI scholars.<sup>17</sup> Examples of location-specific advantages (or pull-factors) are favorable government policy; availability, quality, and costs of labor; energy, materials, components, and semi-finished goods; and good infrastructure.<sup>18</sup> In other words, the location-specific advantages in the OLI framework refer to the factors that attract investors to a certain host country.<sup>19</sup> Because, however, the location-specific advantages only refer to factors associated with the host country, the OLI framework neglects the importance of the factors associated with the home country.<sup>20</sup>

The rise of emerging economies and the consequent diversification of FDI flows led to a focus on the influence of the conditions in the home countries on the location choice of FDI.<sup>21</sup> This focus led to a realization that push factors that had been neglected thus far should be included in IB theory.<sup>22</sup> Too much emphasis, however, on push factors and an exaggeration of the role of the Chinese government led to simplistic conclusions.

14. See PETER J. BUCKLEY & MARK CASSON, *THE FUTURE OF THE MULTINATIONAL ENTERPRISE* (1976).

15. See Dunning, *supra* note 6, at 399.

16. See *id.*

17. KJETIL BJORVATN ET AL., *ON THE ROAD TO SAMARKAND: GLOBALISATION AND THE SWEDISH ECONOMY* 21-22 (2008). See also Shannon L. Blanton & Robert G. Blanton, *Human Rights and Foreign Direct Investment: A Two-Stage Analysis*, 45 *BUS. & SOC'Y* 464, 465 (2006); Marco Sanfilippo, *Chinese FDI to Africa: What is the Nexus with Foreign Economic Cooperation?*, 22 *AFR. DEV. REV.* 599, 599 (2010); M. Berk Talay et al., *Shareholder Value Creation in International Joint Ventures: The Case of the US Automotive Industry*, 4 *STRATEGIC MGMT. REV.* 1, 3 (2010).

18. JOHN H. DUNNING, *INTERNATIONAL PRODUCTION AND THE MULTINATIONAL ENTERPRISE* 81 (12th ed. 2013).

19. See Talay, *supra* note 17, at 5.

20. See *id.* (discussing the various factors that influence the OLI framework, all of which focus on the advantages of the host country).

21. See, e.g., Peter J. Buckley et al., *The Determinants of Chinese Outward Foreign Direct Investment*, 38 *J. INT'L BUS. STUD.* 499, 500 (2007); John Child & Suzana B. Rodrigues, *The Internationalization of Chinese Firms: A Case for Theoretical Extension?*, 1 *MGMT. & ORG. REV.* 381, 392 (2005); Ivar Kolstad & Arne Wiig, *What Determines Chinese Outward FDI?*, 47 *J. WORLD BUS.* 26, 29 (2012); Tajul A. Masron & Amirul Shah M. Shahbudin, *'Push Factors' of Outward FDI: Evidence from Malaysia and Thailand*, 5 *J. BUS. & POL'Y RES.* 54, 58 (2010); Bala Ramasamy et al., *China's Outward Foreign Direct Investment: Location Choice and Firm Ownership*, 47 *J. WORLD BUS.* 17, 20 (2012).

22. See, e.g., Ramasamy, *supra* note 21, at 20.

Buckley et al. argue, for example, that Chinese firms invest in high-risk countries because of easy access to finance and other support from the Chinese government.<sup>23</sup> Morck et al. explain that some competitive “disadvantages” of Chinese firms listed by Child and Rodrigues are actually advantages when investing in certain Asian and African countries.<sup>24</sup> Further, they state that Chinese firms’ expertise in managing complex markets actually makes them more capable than their Western counterparts “of dealing with burdensome regulations and navigating around the opaque political constraints.”<sup>25</sup> While these arguments might explain how Chinese firms are able to invest in such high risk countries, they do not explain why they choose to invest in them.

When focusing on the differences between investors, the most pertinent factors that influence a particular investor might be overlooked. Recent empirical studies on Chinese ODI fail to show the complex relationship between factors associated with the home country (push factors), factors associated with the host country (pull factors), and firm-specific factors.<sup>26</sup> Furthermore, these studies often neglect the subjectivity of the evaluation of the conditions in both the home and host country per individual investor.<sup>27</sup> What remains missing in the existing IB theory on the determinants of ODI is the integration of both the push and pull factors with the firm-specific factors (not just advantages) in an elaborate framework that explains the interaction between these different factors.

Such an elaborate framework does exist within migration theory. The push-pull theory can be traced back to the pioneering work of Ravenstein in 1885, who tried to establish laws of migration after Farr remarked that migration “appeared to [occur] without any definite law.”<sup>28</sup> Lee built further on Ravenstein’s work and established what is now being referred to as the “push-pull theory.”<sup>29</sup> Lee’s framework consists of four categories of factors that influence migration flows: 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.<sup>30</sup> Lee demonstrates the first three factors schematically as follows:

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23. See Buckley, *supra* note 21, at 501.

24. See Child & Rodrigues, *supra* note 21, at 388; Randall Morck et al., *Perspectives on China’s Outward Foreign Direct Investment*, 39 J. INT’L BUS. STUD. 337, 345-46 (2008).

25. See Morck, *supra* note 24, at 346.

26. See, e.g., *id.* (examining the push, pull, and firm-specific factors but not the relationship between them).

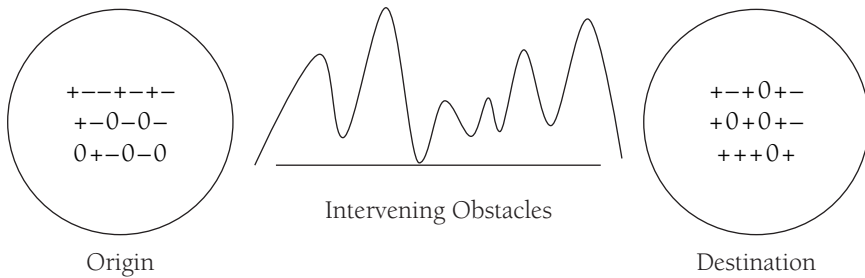
27. See, e.g., *id.*

28. See E.G. Ravenstein, *The Laws of Migration*, 48 J. STAT. SOC’Y LONDON 167, 167 (1885) (quoting Dr. William Farr).

29. See Lee, *supra* note 9.

30. *Id.* at 50.

**Figure 1. Origin and destination factors and intervening obstacles in migration<sup>31</sup>**



The personal factors do not appear in this framework and should be seen as the factors that influence the perception of the other factors—in other words, as a pair of glasses through which the other factors are evaluated.<sup>32</sup> 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.”<sup>33</sup>

It is of course clear that capital is not the same as a person. Capital does not make decisions; decision-makers in firms make decisions. The decision making process within a large firm to invest abroad is more complex than the decision making process of a person—or even a large family—to migrate. One may argue, however, that an investor’s decision to invest abroad is 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. In addition, the structure of the decision-making within the firm and its firm-specific advantages and disadvantages can be taken into account in a similar way as the personal factors are taken into account in Lee’s framework: namely, as a pair of glasses through which the other factors are evaluated. Therefore, this study uses Lee’s framework as a basis for analyzing the motives behind Chinese investments in the infrastructure sector in the Democratic Republic of the Congo (DRC). Before discussing the case, the following section will explain the methods of this study.

## II. Method

This study is a case study that falls within the qualitative research paradigm because the goal is to describe and understand the factors that influence a Chinese contractor’s motives for investing in the infrastructure sector in the DRC. In line with the epistemology of the qualitative research paradigm,<sup>34</sup> the investors’ perception of the push, pull, and intervening

31. *Id.*

32. *Id.* at 51.

33. *Id.* at 50.

34. See Gareth Morgan & Linda Smircich, *The Case for Qualitative Research*, 5 *ACAD. MGMT. REV.* 491, 497-98 (1980).



factors is regarded as subjective and depends upon their firm-specific factors and the time frame of the investment. Currently, most studies on the motives behind Chinese ODI flows to Africa are based upon statistical correlation.<sup>35</sup> According to Hodkinson and Hodkinson, however, the depth and complexity of case study data can better illuminate the ways in which such correlated factors influence each other.<sup>36</sup>

#### A. Unit of Analysis

The main unit of analysis is China Railway Seventh Group Co. Ltd. (CREC7), a subsidiary of China Railway Group Co. Ltd. (CREC)—the second largest civil construction company in China and the second largest international contractor in the world.<sup>37</sup> As a subsidiary of CREC, CREC7 builds on a history of contracting large infrastructure projects in China since 1950, and as a state-owned enterprise it enjoys strong connections with the Chinese Communist Party (CCP).<sup>38</sup> At the time of the interviews in 2010, CREC7 was involved in six African countries: the DRC, Ethiopia, Mozambique, Senegal, Tanzania, and Zambia.<sup>39</sup> Furthermore, its mother company, CREC, has realized more than a thousand projects in thirty-five African countries.<sup>40</sup> 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.<sup>41</sup> It is important to note the small proportion of Chinese nationals because it is often assumed that Chinese contractors bring in most of their staff from China and rarely create local jobs.<sup>42</sup>

The DRC was the second largest recipient of Chinese FDI in Africa in 2010, after South Africa.<sup>43</sup> Located in the heart of Africa, this country 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 possesses many much-desired natural resources (such as gold, diamonds, copper, cobalt, and timber).<sup>44</sup> The

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35. See, e.g., Buckley, *supra* note 21, at 499; Kolstad & Wiig, *supra* note 21; Ramasamy et al., *Consumer Support for Corporate Social Responsibility (CSR): The Role of Religion and Values*, 91 J. BUS. ETHICS 61 (2010).

36. See Phil Hodkinson & Heather Hodkinson, *The Strengths and Limitations of Case Study Research* (U. of Leeds, Working Paper for Learning & Skills Dev. Agency Conference, 2001).

37. *China Railway Group Limited*, CRIENGLISH.COM (Oct. 14, 2010), <http://english.cri.cn/7146/2010/10/14/2041s599390.htm>.

38. Sanne van der Lugt, *CREC7's Infrastructural Investment in the DRC: An In-Depth Study of the Motives for Chinese Outward FDI 29* (Dec. 2011) (unpublished M.A. thesis, University of Stellenbosch) (on file with the University of Stellenbosch).

39. *Id.* at 90.

40. *Id.*

41. *Id.* at 29.

42. See *id.*

43. See MINISTRY OF COM. OF THE PEOPLE'S REP. OF CHINA, 2010 STATISTICAL BULLETIN OF CHINA'S OUTWARD FOREIGN DIRECT INVESTMENT 83-84 (2010).

44. See *The World Factbook: The Democratic Republic of the Congo*, U.S. CENT. INTELLIGENCE AGENCY, <https://www.cia.gov/library/publications/the-world-factbook/geos/cg.html> (last updated Oct. 28, 2015).

Congolese government is actively trying to attract FDI.<sup>45</sup> Chinese companies play a leading role in the investment in and construction of infrastructure in the DRC, a highly important sector to the development of the country.

## B. Sources of Information

The data for this study has been collected from three different sources of evidence, namely face-to-face interviews, direct observations, and documentation. The interviews and observations were conducted by the author in the DRC in 2010 as part of a China-DAC Study Group project. The aim of this project was to examine the efficiency, impact, and sustainability of Chinese participation in infrastructure development in Africa.<sup>46</sup> For this China-DAC project, semi-structured face-to-face interviews were conducted with the then-Chinese ambassador 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; a Chinese project manager of CREC8; and two Chinese project managers of Sinohydro. The interviews lasted for approximately one to one-and-a-half hours and provided interesting insights into the motives behind the investments in the DRC. The current Article is based on the passages of the interviews that speak to the topic, and have been extracted and analyzed separately for a Master's thesis on the motives of Chinese FDI.<sup>47</sup> All interviews were held either in the office of the interviewee or at the project site. Conducting the interviews in the field offered the opportunity for direct observation. The observations were made in Kinshasa (the capital of the DRC), the project sites of CREC7's infrastructure projects in Kinshasa, and the offices of the managers interviewed during the course of the field visits.

## III. The Case of CREC7 in the Democratic Republic of the Congo

This Part presents the case of CREC7 in the DRC. The aim is to identify the range of factors—and their correlation—that seem to influence the motives of this particular Chinese investor for investing in the DRC's infrastructure sector by using four different levels of analysis: the individual, firm, national, and supranational levels. Lee argues that the personal factors in his push-pull framework should be seen as a lens through which the other factors are evaluated.<sup>48</sup> Arguably, this also applies for investors because no two companies from the same home country evaluate the pull factors of a specific host country exactly the same way. Therefore, this

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45. See *id.*

46. Hans E. Petersen & Sanne van der Lugt, Chinese Participation in African Infrastructure Development: The case of the Democratic Republic of the Congo and Zambia, prepared for the China-DAC Study Group Event "Infrastructure: The Foundation for Growth and Poverty Reduction" held in Beijing, Sept. 19-20, 2010, [http://www.ccs.org.za/wp-content/uploads/2011/05/Petersen\\_Lugt\\_ENG.pdf](http://www.ccs.org.za/wp-content/uploads/2011/05/Petersen_Lugt_ENG.pdf).

47. See van der Lugt, *supra* note 38, at 29.

48. See Lee, *supra* note 9, at 51.

analysis starts from the individual and firm levels. To understand the main motives of CREC7 to invest in the DRC, it is necessary to have a thorough understanding of the firm and its decision-makers in order to understand fully their subjective evaluation of the push, pull, and intervening factors.

#### A. Individual Level

The business strategy and affairs of CREC are overseen by its seven-member Board of Directors: two are executive directors (Li Changjin and Yao Guiqing),<sup>49</sup> four are independent non-executives (He Gong, Gong Huazhang, Wang Taiwen, and Xin Dinghua),<sup>50</sup> and one is a non-executive (Han Guoxiu).<sup>51</sup>

Li Changjin joined the firm in 1982 and is currently the chairman of CREC.<sup>52</sup> Decision making is highly centralized in CREC: the chairman decides—together with other leading members of the company and the general manager of CREC for the DRC—whether subsidiaries of CREC will invest in certain projects in the DRC.<sup>53</sup> Besides being the chairman, Li is also Secretary to the Communist Party Committee, revealing his connection with the CCP.<sup>54</sup> Chen, Firth, and Xu state that the chairmen of state-owned companies affiliated to the central Government (SOECGs) are “carefully chosen for their ability and many of them eventually become Vice Ministers of the state.<sup>55</sup> It is important that these chairmen do well in their jobs so that they do not jeopardize their move up the state hierarchy.”<sup>56</sup> These personal motives undoubtedly affected the way Li and other leading members of the company perceived the push, pull, and intervening factors related to investing in the DRC.

#### B. Firm Level

The firm-specific factors comprise the decision making structures in the firm and the firm-specific advantages and disadvantages that shape the lens through which the decision makers within CREC7 perceive the other factors and their interrelationships. CREC7 is a subsidiary of CREC: a Chinese state-owned company affiliated with the central government.<sup>57</sup> Since the registration of precursor Railway Engineering Group Co. Ltd. (CRECG)

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49. *China Railway Group Ltd: People*, REUTERS (Nov. 13, 2015), <http://www.reuters.com/finance/stocks/companyOfficers?symbol=0390.HK#2kZcEHV609qXmPUB.97>.

50. *Id.*

51. *China Railway Group Ltd., Directors*, CRECG (Jan. 2016), <http://www.crecg.com/en/tabid/194/Default.aspx>.

52. *Mr. Li Changjin: The Chairman of China Railway Group Limited*, ASIA BRAND, <http://old.asiabrand.cn/en/expe/1336.html> (last visited Apr. 8, 2016).

53. See van der Lugt, *supra* note 38, at 90.

54. See Announcement, China Railway Group Ltd., Appointment of Directors, Supervisors and Senior Management (Jan. 27, 2011), <http://www.crecg.com/Portals/1/fujian/ANNOUNCEMENT%20APPOINTMENT%20OF%20DIRECTORS,%20SUPERVISORS%20AND%20SENIOR%20MANAGEMENT.pdf>.

55. Gongmen Chen et al., *Does the Type of Ownership Control Matter? Evidence from China's Listed Companies*, 33 J. BANKING & FIN. 171, 174 (2009).

56. *Id.*

57. Van der Lugt, *supra* note 38, at 3.

in 1990, the company has undergone major reforms and its structure increasingly resembles that of a private company.<sup>58</sup> Decisions to invest abroad, however, are made at the highest level by the chairman of the board, the general manager, and other leading members of CREC.<sup>59</sup> CREC7 in the DRC has strong ties with the central government in Beijing through both the Sicomines agreement<sup>60</sup> and the chairman of CREC, Li Changjin, who is also Secretary to the Communist Party Committee, as mentioned above. The embassy provides both support and interference due to strong ties with the central government.<sup>61</sup> The close relationship with the government results in relatively easy access to finance in the form of loans from the Chinese Export-Import 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.<sup>62</sup> Because of the embassy's involvement, political and economic aims are probably intertwined.

CREC is currently the second largest contractor in the world and ranks seventy-ninth on the Fortune 500 list.<sup>63</sup> CREC has undertaken the construction of and provided construction-related services for more than 4,000 projects at home and abroad including railway, expressway, highway, bridge, tunnel, building construction, dredging, airport, and municipal work projects; and has been active in more than sixty countries and regions since the 1970s.<sup>64</sup> Although CREC7 is involved in other kinds of construction projects elsewhere, it focused only on the construction of roads in the DRC because this was deemed to be the largest task at that moment.<sup>65</sup>

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58. See generally *Corporate Introduction*, CREC, <http://www.crecg.com/en/tabid/176/Default.aspx> (last visited Apr. 8, 2016).

59. Van der Lugt, *supra* note 38, at 90.

60. In 2007, a Chinese consortium consisting of three Chinese SOEs—a bank (Exim Bank) and two construction companies (CREC and Sinohydro)—concluded a USD nine billion agreement with the Congolese government. The Chinese investors obtained thereby the right to mine ten million tons of copper and 600,000 tons of cobalt. DAVID VAN REYBROUCK, *CONGO: THE EPIC HISTORY OF A PEOPLE* 528–29 (2014); Peter Lee, *China's Copper Deal Back in the Melt*, ASIA TIMES ONLINE (June 12, 2009), [http://www.atimes.com/atimes/China\\_Business/KF12Cb02.html](http://www.atimes.com/atimes/China_Business/KF12Cb02.html). In exchange, the Chinese consortium promised to invest USD three billion in mining infrastructure via a Chinese-Congolese joint venture (Sicomines) with the Congolese mining company Gécamines, with Gécamines retaining a thirty-two percent share in Sicomines. REYBROUCK, *supra*, at 529. Besides these investments in the mining sector, the Chinese consortium promised to invest USD six billion in the construction of 3,400 kilometers of paved roads; 2,738 kilometers of unpaved roads; 3,215 kilometers of railway line; 5,000 houses; 145 polyclinics; thirty-one hospitals; two hydroelectric stations; two airports; and two universities. REYBROUCK, *supra*, at 529. In order to deal with these large infrastructure projects in a coordinated way, the Congolese government established the Sino-Congolese Programme within ACGT.

61. See van der Lugt, *supra* note 38, at 72.

62. *Id.* at 72.

63. *Global 500–2015*, FORTUNE, <http://fortune.com/global500/> (last visited Apr. 8, 2016).

64. See generally *Overseas Projects*, CRECG, <http://www.crecg.com/en/tabid/237/Default.aspx> (last visited Apr. 8, 2016).

65. Van der Lugt, *supra* note 38, at 16.

Experience in large infrastructure projects and close relationships with the central government have given CREC7 some advantages for operating abroad. The full scope of the advantages of CREC7, however, will only become clear when taking into consideration the push and pull factors as well.

### C. National Level

This section discusses both the factors associated with the home country, China (push factors), and the factors associated with the host country, the DRC (pull factors); and how these factors are evaluated from the perspective of the decision makers within CREC7 and CREC.

The push factors are in this study defined as the factors that make it favorable (+ sign) or unfavorable (- sign) to invest in the home country. This section discusses the factors commonly mentioned in general FDI theory, as well as theory focused on Chinese outward FDI: macroeconomic factors (market size, competition, and costs of labor and materials) and institutional factors (quality of bureaucracy and rule of law, political stability, and corruption). China is the world's fastest growing major economy with a GDP growth of 7.3 percent for 2014.<sup>66</sup> CREC has benefited heavily from China's economic boom. The market for large infrastructure projects in China, however, is showing signs of saturation. China currently houses four of the top five largest contractors in the world.<sup>67</sup> With a saturation of the domestic market, these companies face harsh competition within China. Chinese infrastructure contractors are looking for new markets abroad—with price and speed as important competitive advantages—inherited from the extreme competitive environment in China. Table 1 sums up the main push factors that seem to influence CREC7's decision to invest abroad.

**Table 1. Push factors influencing CREC7's investments in the DRC<sup>68</sup>**

| Push Factors | Impact on CREC7                                     | Evaluation Through Lens of CREC7 |
|--------------|---|----------------------------------|
| Market size  | Market is showing signs of saturation <sup>69</sup> | Negative                         |

66. Central Intelligence Agency, *China*, THE WORLD FACTBOOK (2015), <https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html>.

67. Michael Fahy, *The Top 25 Contractors in the World 2014*, CONSTRUCTION WEEK ONLINE (Dec. 30, 2014), <http://www.constructionweekonline.com/article-31980-the-top-25-contractors-in-the-world-2014/>.

68. *World Bank Office Beijing: Quarterly Update*, WORLD BANK (Apr. 2011), [http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2011/04/29/000356161\\_20110429003758/Rendered/PDF/614000Replacem1Quarterly1April12011.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2011/04/29/000356161_20110429003758/Rendered/PDF/614000Replacem1Quarterly1April12011.pdf). See Julie Chao, *A Surprise: China's Energy Consumption Will Stabilize*, BERKELEY LAB (Apr. 27, 2011), <http://newscenter.lbl.gov/2011/04/27/china-energy-consumption-will-stabilize/>.

69. *China Labour Bulletin: Wages and Employment*, CLB (Aug. 4, 2015), <http://www.clb.org.hk/en/content/wages-china>.

| Push Factors                       | Impact on CREC7  | Evaluation Through Lens of CREC7             |
|------------------------------------|--|--|
| Cost of labor + availability       | Standards of living are rising in China and therewith the demands for higher wages; <sup>70</sup> construction is one of the least attractive options for young workers in China <sup>71</sup> | Negative                                     |
| Cost of materials                  | Steel and concrete are available at low costs due to low demand <sup>72</sup>  | Positive                                     |
| Presence of competitors            | China currently houses four of the top five largest contractors in the world <sup>73</sup>   | Negative                                     |
| Corruption                         | Relationships ( <i>guanxi</i> ) play an important role in obtaining projects <sup>74</sup>   | Neutral                                      |
| Quality of bureaucracy/rule of law | Continuing complexity and uncertainty in the way the Chinese legal system operates <sup>75</sup>   | Negative                                     |
| Political stability                | Stable <sup>76</sup>   | Positive                                     |
| Go Global Strategy                 | Encourages SOEs like CREC to invest abroad (and to include resource extraction activities)   | Negative (stimulating CREC to invest abroad) |
| Total                              |  | 2x'+ 1x'0' 5x'-'                             |

Pull factors are the factors in a host country that attract or deter foreign investors to invest in that particular country. Recent empirical studies on the determinants of Chinese ODI mainly focus on and test the importance of the following pull factors for Chinese ODI: market size (host country GDP), natural resources, cost of labor, technological know-how, inflation, exchange rate, and risks (corruption, rule of law, quality of bureaucracy, political stability, and socio-economic conditions) welcoming to Chinese ODI—or, in other words, support from the host country govern-

70. *China Labour Bulletin: China's Ageing Construction Workers and the Urgent Need for an Industry Overhaul*, CLB (Mar. 30, 2015), <http://www.clb.org.hk/en/content/china%C3%A2%E2%AC%E2%84%A2s-ageing-construction-workers-and-urgent-need-industry-overhaul>.

71. Huileng Tan, *Goldman Sees More Pain for Iron Ore*, CNBC (Dec. 17, 2015), <http://www.cnbc.com/2015/12/17/goldman-expects-iron-ore-prices-to-fall-further.html>.

72. See Central Intelligence Agency, *supra* note 66.

73. Qian Cheng & Wanyi Tang, *How Business Guanxi Affects a Firm's Performance: A Study on Chinese Small and Medium Sized Construction Companies* 21 (May 25, 2012) (unpublished M.A. thesis, Uppsala University) (on file with Uppsala University).

74. See Child & Rodrigues, *supra* note 21, at 388; Pinsent Masons, *Doing Business in China: Part 1, Overview*, OUT-LAW (Jan. 2015), <http://www.out-law.com/en/topics/projects--construction/community-infrastructure1/doing-business-in-china-part-1--overview/>.

75. *Worldwide Governance Indicators*, WORLD BANK (2015), <http://info.worldbank.org/governance/wgi/index.aspx#reports>.

76. See van der Lugt, *supra* note 38, at 73-77.

ment.<sup>77</sup> Table 2 displays these most commonly mentioned pull factors and the evaluation of these factors through the lenses of CREC7. Based on the data gathered during the interviews, two other pull factors were added, namely “cost of materials” and “presence of competitors.”<sup>78</sup>

**Table 2. Pull factors influencing CREC7’s investments in the DRC<sup>79</sup>**

| Pull Factors                       | Impact on CREC7   | Evaluation Through Lens of CREC7 |
|------------------------------------|---|----------------------------------|
| Market size                        | War-torn DRC is in desperate need of infrastructure <sup>80</sup>   | Positive                         |
| Natural resources                  | Play an important indirect role via the Sicomines agreement and its mother company CREC <sup>81</sup>                                   | Positive                         |
| Cost of labor                      | Cheap(er) labor will only become a pull factor when local workers are adequately trained <sup>82</sup>                                  | Neutral                          |
| Cost of materials                  | Local materials are cheaper, but for some projects materials need to be imported <sup>83</sup>  | Neutral                          |
| Technological know-how             | Local workers need to be trained <sup>84</sup>  | Negative                         |
| Inflation                          | No real risk <sup>85</sup>  | Neutral                          |
| Presence of competitors            | Low level of competition <sup>86</sup>  | Positive                         |
| Corruption                         | High risks and costs <sup>87</sup>  | Negative                         |
| Quality of bureaucracy/rule of law | Not a large effect on CREC7 (in contrast to CREC) because of relatively quick returns (as opposed to the mining industry) <sup>88</sup> | Neutral                          |

77. See, e.g., Buckley, *supra* note 21; Kolstad & Wiig, *supra* note 21; Yin-Wong Cheung & Xingwang Qian, *The Empirics of China’s Outward Direct Investment* (CESifo, Working Paper Series No. 2621, 2009), [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1392186](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1392186).

78. See van der Lugt, *supra* note 38, at 82-83.

79. *Id.* at 58-60.

80. See Johanna Jansson, *The Sicomines Agreement: Change and Continuity in the Democratic Republic of Congo’s International Relations 7* (S. Afr. Inst. Int’l Aff. Occasional Paper No. 97, Oct. 2011).

81. See van der Lugt, *supra* note 38, at 81-82.

82. *Id.* at 82.

83. *Id.* at 81.

84. *Id.* at 82-83.

85. *Id.* at 87.

86. *Id.* at 83-84.

87. *Id.* at 84.

88. *Id.* at 84-85.

| Pull Factors                     | Impact on CREC7   | Evaluation Through Lens of CREC7 |
|----------------------------------|---|----------------------------------|
| Political stability              | Not a large effect on CREC7 (in contrast to CREC) because of relatively quick returns (as opposed to the mining industry); similar to the effect of the "rule of law," but not mentioned in Van der Lugt (2011) <sup>89</sup> | Neutral                          |
| Infrastructure                   | Bad conditions mean opportunities <sup>90</sup>   | Positive                         |
| Welcoming to Chinese investments | Special program for managing Chinese infrastructure investments encourages FDI in the infrastructure sector   | Positive                         |
| Total                            |   | 5x'+ 5x'0' 2x'-'                 |

Western firms perceive the presence of other foreign investors a significant locational advantage (as an "agglomerative magnet").<sup>91</sup> It is an important push factor, however, that Chinese investors seem to perceive the presence of other foreign investors less positively due to the high level of competition in their home country.<sup>92</sup>

Furthermore, the findings of this study show that, in contrast to Kolstad and Wiig's assumption, the relatively inexperienced Congolese government is perceived as high risk by Chinese contractors in the DRC.<sup>93</sup> In fact, Chinese contractors in the DRC complain about the inefficient bureaucracy in the DRC, and one manager who previously worked in Zambia referred with some nostalgia to the Zambian government as much more "efficient" than the Congolese government. The European Union—tired of the lack of planning and the lack of *entretien*—resolved to work as little as possible with the Congolese government and instead do as much as possible themselves.<sup>94</sup> Chinese contractors, in contrast, work closely with the Congolese government. The China Program within ACGT was established exactly for the purpose of dealing with big infrastructure projects managed by Chinese contractors.<sup>95</sup> ACGT has two other programs in addition to the Sino-Congolese Program—namely a program for the World Bank and one for Belgium; these are the three largest funders of infrastructure in the DRC.<sup>96</sup> The Congolese government is also closely involved in the Sicomines agreement, and unless a project is a gift from the Chinese gov-

89. *Id.* at 85.

90. *See id.* at 78-87.

91. *See* John H. Dunning, *Location and the Multinational Enterprise: A Neglected Factor?*, 40 J. INT'L BUS. STUD. 5, 9 (2009).

92. Van der Lugt, *supra* note 38, at 84.

93. *Id.* at 85.

94. *Id.*

95. *Id.*

96. *Id.* at 87.



ernment, the Chinese contractors have to deal with the slow and still inefficient Congolese bureaucracy.

#### D. Intervening Factors on Both a National and Supranational Level

Regarding migration theory framework, 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.”<sup>97</sup> In other words, the decision for someone to migrate does not only depend on his or her subjective evaluation of the respective push and pull factors, but also on other factors that can impede the move. Examples of intervening factors are cultural distance, geographical distance, and an ocean or a mountain which could impede the transportation to the country of destination.<sup>98</sup> The “insurmountability” of these factors is relative according to Lee and depends on “the impediments with which the [investor] is encumbered.”<sup>99</sup> Similar to a migrant’s situation, there are also intervening factors that might impede or support foreign direct investment.

The intervening factors commonly mentioned in the literature on Chinese ODI—although not referred to as such—are geographical distance, cultural distance, institutional distance, home-country support, and agglomeration effect.<sup>100</sup> Table 3 sums up these intervening factors and the evaluation of these factors through the lenses of CREC7. Home-country support is split between deliberate support from the Chinese government with the Go Global strategy, and indirect support via the capital market imperfections in China. The Sicomines agreement, in which CREC7 is involved in the DRC, is often cited as an example of the Go Global strategy of the Chinese government.<sup>101</sup> Support from the Chinese government, however, is more indirect than often assumed. First of all, the Sicomines agreement is a Congolese initiative: a Congolese delegation approached the Chinese government with the suggestion for a similar resources-for-infrastructure deal to the one China has with Angola. The Sicomines agreement is an agreement between the Congolese government and Chinese companies instead of a government-to-government agreement. Both the Chinese embassy in the DRC, however, and the Chinese Ministry of Commerce have a decisive role in choosing infrastructure projects and allocating them to the Chinese companies involved. Besides the Sicomines agreement, the Chinese government provides projects in the DRC for CREC7 and other Chinese contractors by offering gifts to the Congolese government. The Chinese Government has made gifts to the DRC, such as 5.3 kilometers of

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97. Lee, *supra* note 9, at 51.

98. *See id.*

99. *Id.*

100. *See* Buckley, *supra* note 21, at 499; Child & Rodrigues, *supra* note 21, at 381, 385; John Child & Svetla Marinova, *The Role of Contextual Combinations in the Globalization of Chinese Firms*, 10 *MGMT. & ORG. REV.* 347, 347 (2014); Kolstad & Wiig, *supra* note 21, at 26–27; Morck, *supra* note 24, at 337.

101. *See, e.g.*, Kent Hughes Butts & Brent Bankus, *China’s Pursuit of Africa’s Natural Resources*, 1 *COLLINS CTR. STUDY* 1, 5 (2009); *A Ravenous Dragon*, *THE ECONOMIST* (Mar. 13, 2008), <http://www.economist.com/node/10795714>.

the first stage of the Boulevard du 30 Juin and the Hôpital du Cinquanteaire. Besides the Go Global strategy, it is argued that Chinese firms are supported indirectly by the government due to high savings rates, an abundance of foreign reserves, and the way these reserves are managed by Chinese banks that make money (too) easily available for Chinese SOEs.<sup>102</sup> Additionally, intervention from the international community is added to the table. The International Monetary Fund (IMF) criticized the major minerals-for-infrastructure Sicomines deal and put pressure on the Chinese companies until the latter cancelled three billion dollars of the initial nine billion dollar deal.<sup>103</sup>

**Table 3. Intervening factors influencing CREC7's investments in the DRC<sup>104</sup>**

| Intervening Factors                          | Impact on CREC7   | Effect on Decision of CREC7 |
|--|---|-----------------------------|
| Geographical distance                        | Extra costs for importing some, but not all, materials <sup>105</sup>   | Negative - medium           |
| Cultural distance (liability of foreignness) | Higher risk and costs because of foreign language, culture, lack of network, etc. Partly solved, however, by strong Chinese network and increasing experience in DRC                                      | Negative - medium           |
| Institutional distance                       | Bureaucracy and corruption in the DRC is perceived to be much worse than in China <sup>106</sup>  | Negative - strong           |
| Exchange rate                                | 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 <sup>107</sup>   | Negative - strong           |
| Go Global strategy                           | Promotes outward FDI either directly <sup>108</sup> or indirectly <sup>109</sup>  | Positive - strong           |
| Capital market imperfections                 | There is quick and much money available from the Chinese Export-Import Bank; Chinese contractors, however, reported that they cannot rely on the Bank and take most of the risk themselves <sup>110</sup> | Neutral                     |

102. See Buckley, *supra* note 21, at 514.

103. Van der Lugt, *supra* note 38, at 62.

104. *Id.* at 82.

105. *Id.* at 84.

106. *Id.* at 82-83.

107. See, e.g., Butts & Bankus, *supra* note 101; *A Ravenous Dragon*, *supra* note 101.

108. See Jansson, *supra* note 80, at 7.

109. Van der Lugt, *supra* note 38, at 79-80.

110. *Id.* at 82-89.

| Intervening Factors                           | Impact on CREC7  | Effect on Decision of CREC7 |
|---|--|-----------------------------|
| Diplomatic relations                          | Relations between China and the DRC are strong and the Chinese government offers infrastructure projects to the Congolese government as gifts which are constructed by Chinese firms | Positive - strong           |
| Intervention from the international community | Three billion loan for infrastructure projects was cancelled under pressure from the IMF   | Unknown                     |
| Total   |  | 4x'-' 2x'+ ' 2x'0'          |

In the case of CREC7's decision to invest in the DRC, the geographical and cultural distance between China and the DRC are affecting CREC7's operations in the DRC; they do not, however, seem to be very important determinants for China's choice to invest in the DRC due to CREC7's network in the DRC and the wider region. In other words, these intervening factors are not "unbridgeable," especially not for the "dominant leader in building highly complex ultra-long railway bridge [sic]" in China.<sup>111</sup> The complaints about the inefficient bureaucracy and level of corruption in the DRC, as mentioned above, show that these Chinese managers do not perceive the institutional environment in the DRC as very similar to the Chinese institutional environment.

It is difficult to determine whether the (potential) critique of the IMF has been regarded as a serious obstacle by Chinese investors. During the interview, a Congolese ambassador—who was a member of the Congolese delegation to China that initiated and negotiated the Sicomines agreement—stated that the Chinese government warned the Congolese government to be careful not to lose its traditional donors because of the Sicomines agreement.<sup>112</sup> The Congolese ambassador said that the Chinese government urged their Congolese counterparts to consult the IMF before starting the negotiations, which implies that an important part of the discussion took place behind the scenes. At least, it can be assumed that it was an anticipated obstacle.

#### IV. Discussion

When looking at the structure of the company, it becomes apparent that the board of directors of CREC is strongly connected to the central government. The strong connection with the Chinese government, the experience of CREC7 to carry out large infrastructure projects, and the experience of operating in a challenging institutional environment seem to

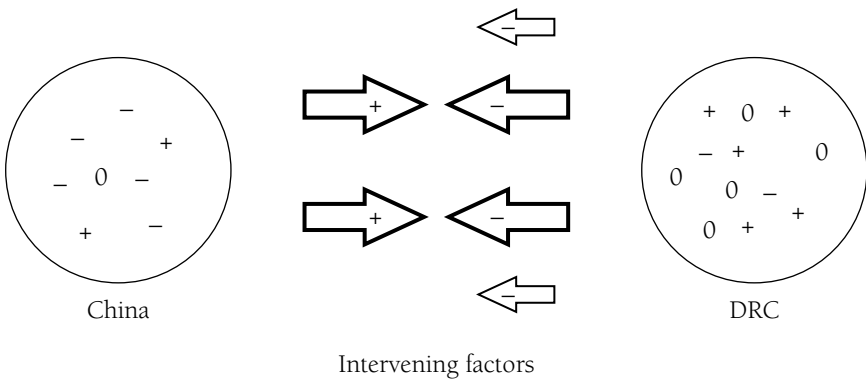
111. *Railway*, CREC, <http://www.crecg.com/en/tabid/234/Default.aspx> (last visited Nov. 8, 2015).

112. Van der Lugt, *supra* note 38, at 62.

be the most pertinent firm-specific factors that shape the lenses through which CREC7 evaluates the push, pull, and intervening factors involved in the decision to invest in the DRC.

When the above findings are combined and illustrated like the push-pull framework of Lee, the DRC looks like a country with both challenges and opportunities for CREC7 (see Figure 2).<sup>113</sup>

**Figure 2. Illustration of push, pull, and intervening factors in CREC7's decision to invest in the DRC<sup>114</sup>**



The exercise of evaluating the political economic factors in the Chinese context and how they influence the decision of CREC to invest abroad resulted in five negative, one neutral, and two positive evaluations. These are illustrated as '+', '0', and '-' signs in the circle that refer to China in Figure 2. The combination of a saturating market and a high level of competition with a weak rule of law makes China less favorable for further investment. Figure 2 also shows that the DRC is a challenging but promising environment for CREC7, with more factors that attract CREC7 (five) than factors that deter CREC7 (two). The lack of skilled workers, the weak rule of law, and—linked to that—corruption, are the most constraining factors for CREC7's investments in the DRC.

It is the interrelatedness between the main push, pull, intervening, and firm-specific factors, however, that reinforces some of the pull factors for CREC7 in the DRC. CREC7's main incentives to invest abroad are the saturating market and increasing competition at home. It is therein supported by the Chinese government, which is promoting Chinese outward investment via the Go Global Strategy. The DRC as a host country has certain advantages and disadvantages for CREC7. The advantages are closely linked to the disadvantages at home, namely the huge demand for infrastructure and low level of competition in the DRC.<sup>115</sup> The main disadvan-

113. See Lee, *supra* note 9, at 51-52.

114. See generally *id.* (providing a template for illustrating push, pull, and intervening factors).

115. See *supra* Table 2.

tages—namely corruption, quality of bureaucracy, and the exchange rate between China and the DRC—are somewhat compensated by the support CREC7 receives from both the Congolese and Chinese governments, and linked to the ownership structure of CREC7.<sup>116</sup>

## Conclusion

Growing emphasis is placed on the responsibility the host country government has to realize the potentials of incoming Chinese FDI while avoiding negative social and environmental impacts. This Article's main argument is that one can draw conclusions about the potential for host country governments to strengthen their FDI regulation based on thorough knowledge about the motives of (potential) foreign investors to invest in the respective country. Various scholars have demonstrated that general FDI theory is not sufficient for the study of the motives for investment by Chinese MNEs. One of the reasons for this lack of applicability of mainstream IB theory to explain the motives for Chinese ODI is a strong emphasis on the pull factors for investment in mainstream IB theory, as argued in this Article. Instead of merely questioning the applicability of mainstream IB theory to the study of Chinese ODI, it would be more useful for scholars to establish a comprehensive framework that serves to study the motives for ODI from any country of origin. This Article introduces a model from migration theory into IB theory as an inspiration for developing such a framework. Lee's push-pull framework has been applied to the case of a specific Chinese investor (CREC7) in the infrastructure sector in the DRC in order to study the potential of this model to help identify the range of factors—and their correlation—that influences the motives of a specific foreign investor.

The collected data from the desktop research and the fieldwork showed how conditions in China, conditions in the DRC, 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 can be grouped together in clusters. The cluster of factors that are of specific importance for CREC7's decision to invest in the DRC are (1) connections with the central Chinese Government, access to finance, experience and skills, and market access; and (2) experience and skills, 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 seem to be the main sets of factors that impel CREC7 to invest in the infrastructure sector in the DRC. These findings are in line with the suggestion by Buckley et al., Kolstad and Wiig, and Ramasamy et al. that connections with the Chinese government do encourage Chinese investments abroad. As discussed, 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 Export-Import Bank. The allocation of national infrastruc-

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116. See *supra* Table 1, Table 2, Table 3.

ture projects thereby enhances the company's expertise and experience, and the allocation of projects in the DRC via the Chinese embassy there.

The findings of this study, however, also 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 influence strongly the motives of CREC7 as well. Furthermore, Kolstad and Wiig's 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," 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.<sup>117</sup> The findings therefore confirm the necessity of a holistic approach when studying the motives of Chinese and other foreign investors.

In the discussions on the motives of Chinese ODI, one can almost forget the role of the FDI host countries. For these countries, the social and environmental impacts of economic activities by foreign investors are real, and they face the difficulty of striking a balance between attracting high volumes of foreign investment to help stimulate economic growth, and ameliorating possible harmful outcomes to the environment and society. Navigating between pressing domestic concerns, steering incoming FDI to meet developmental needs, and avoiding disinvestment can be challenging. 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.

### **Addendum: Limitations**

This study also identified some pertinent challenges that require future research. For example, this study showed that the evaluation of the push, pull, and intervening factors is subjective and depends on the firm-specific factors and also the individual characteristics of the decision-makers of a firm. In order to get a better understanding of the individual motives of the decision-makers, it is not sufficient to collect background information on these persons. Instead, one needs to interview the actual decision-makers in the headquarters of the firm. The opinion of Chinese investors themselves is still lacking in current research on Chinese ODI.

Another factor that should be taken into account is the history of the firm, and its experiences and lessons learned in the host country. The evaluation of the push, pull, and intervening factors is a snapshot and changes over time due to both internal and external changes. Internally, the firm gains knowledge and experiences and is likely to adapt its investment strategies accordingly. Externally, the policies towards outward FDI

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117. See Kolstad & Wiig, *supra* note 21, at 27, 33.

in the home country and inward FDI in the host country are likely to change over time and affect the decision of the firm to stay and invest more or leave. These changes and their potential effects also need to be taken into account in a new, comprehensive framework that explains the motives behind ODI. Therefore, there is a need for more qualitative (case study) research in order to get a better insight into these dynamics, not only for Chinese investors, but for foreign investors in general. In other words, it is necessary to develop further this new framework on FDI and to make it more dynamic.