

Abstract

PSYCHIC DISTANCE AS A DETERMINANT OF EUROPEAN AND CHINESE FOREIGN DIRECT INVESTMENT IN AFRICA

Foreign Direct Investment (FDI) is characterized by significant complexity, as already demonstrated in the 1960s by Hymer, who advocated for the inclusion of firm-specific factors in FDI analyses. This marked a breakthrough in understanding direct investments, since earlier studies primarily focused on aspects such as market entry costs, capital profitability, or exchange rates, while neglecting firm-, country-specific factors and the possibilities arising from internalization within foreign subsidiaries. In the 21st century, FDI models emerged that used latecomer firms, mainly from China, as reference points.

One category that plays a crucial role in FDI analyses is psychic distance, which shapes the staged internationalization process of typical firms. The analysis of 21st-century concepts, such as the ‘springboard’, ‘ambidexterity’, and simultaneous internationalization models, prompts reflection on the significance of psychic distance for the internationalization strategies of firms from China and Europe. Traditionally, analyses of FDI determinants have considered a broad set of economic, institutional, or political factors, yet psychic distance is often overlooked, despite its significance depending on the type and motives of FDI.

This doctoral dissertation aims to investigate the role of psychic distance as a determinant of FDI from European firms with a colonial history in Africa and from Chinese firms in African countries. The study covers theoretical aspects of FDI, theories and models explaining their allocation, stylized facts on direct investments, the role of psychic distance in international economics along with approaches to operationalize this concept in econometric research, the characteristics of European and Chinese FDI in Africa, the connections between European countries, China and African countries, gravity panel data models, and estimators addressing typical issues in FDI analyses.

A review of research, theories, and models explaining FDI and stylized facts allowed for the formulation of research hypotheses. The study employed panel data econometric methods, critical literature analysis, and descriptive statistical methods. The results of the empirical research enabled the formulation of the following conclusions. European and Chinese FDI in Africa are determined by different statistically significant

factors. For investments made by Western European firms with a colonial history in Africa, psychic distance and its correlates, as well as factors reflecting market-seeking and efficiency-seeking motives, play a significant role. The greater the differences between a Western European economy and an African host country in aspects that may disturb information flows to and from the foreign market (e.g., linguistic and political aspects), the lower the volume of FDI in the African economy. In the case of Chinese FDI, psychic distance is not a statistically significant determinant of FDI, which aligns with discussions on latecomer firm motives, as proposed in models such as ambidexterity and LLL. Furthermore, efficiency-seeking motives play a minor role in Chinese investments.

The dissertation provides recommendations for policymakers to support the expansion of international firms and suggests directions for further research. The study fills a gap in the literature by considering both psychic distance in FDI analysis and a comparative examination of determinants of investments from different economies or country groups in Africa.

Keywords: foreign direct investment, psychic distance, firm internationalization, panel gravity models