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Résumé de l'article

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Psychic Distance and FDI: The Case of China

by

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This paper seeks to investigate whether and to what extent psychic distance (PD) is considered by scholars as specific determinant of inbound and outbound foreign direct investments (FDI) in China. The key finding of the study is that PD as a determinant influencing FDI seems to be under-investigated. The paper also aims to systematize the limited and fragmented literature about non-tangible perceptions of "distance" between home and host economies and contributes in raising awareness on the concept of PD. It provides useful insights and practical implications for various interest groups such as international business scholars (a more comprehensive review and systematization of the concept of PD), managers (awareness raising on PD, opportunities and challenges in the IB scenario, setting up and strengthening long-term cooperation between Europe and China), and policy makers (investment flows between Europe and China, key barriers which affect companies and require action politically and institutionally to ensure that opportunities are fully exploited by companies).

1. Introduction

There is considerable literature on foreign direct investment (FDI) in China. However, the issue of psychic distance (PD) as a determinant of FDI has been poorly addressed (Wei and Alon, 2010; Cheng and Kwan, 2000; Zhang, 2000). This study proposes a systematic review of the literature about whether and to what extent PD affects FDI, with respect to China-Europe and Europe-China bilateral relationships. Key questions to be answered are the following: is PD a key FDI determinant, especially in China/Asian context? Does it affect the decision making and the internationalization processes of firms? Is PD being considered in models assessing FDI? Are there specific studies in the international business literature which investigate PD as one of the determinants of FDI in China?

1.1 Perception and interpretation of the new environment

First of all, a general introduction to PD in the field of IB is necessary. On the basis of the definition adopted by Johanson and Vahlne (1977 and 2009) and others (e.g., Dow and Karunaratna, 2006), PD can be considered as the perception of similarities and differences between home and host countries. The concept of PD is strictly related to cultural distance (Child et al. 2009).

When local firms decide to go international it gets more complex in terms of economic, cultural and political dimensions than in the home country, not to mention the presence of the uncertainty factor. The literature supports the importance of the cultural and the political dimensions along with the economic one (Markusen, 1995). However, such an environment may not adequately fit in the theories explaining the behavior of multinational enterprises (MNEs), international or global firms and FDI (Hosseini (2005). Theories that have emerged after Hymer's study (Hymer, 1976)[1] focus on economic and tangible features. But these theories would be incomplete if cultural and political dimensions would not be considered.

Hosseini (2005) goes beyond traditional FDI theory to emphasize the importance of behavioural economics. He suggests to utilize the behaviorally based model developed by Heiner (1985) in explaining FDI decisions since the reality of international environment faced by managers – economic, cultural and political – seems to reflect the behavioural economics theories. Accordingly, MNEs are seen as complex organizations and their decision makers as boundedly rational real human beings. Each of them posseses different capacities to interpret information relevant to the FDI decision process (Hosseini, 2005). What he argues is strongly related to the PD perceptions as it covers such topics as subjective interpretation of the environment, similarities and differences.

1.2 Relevance of the topic and gaps in the extant literature

The internationalization process (Johanson and Vahlne, 1977; 2009) presupposes to develop a deep understanding of the cultural environment in the respective host country and this point seems to be underestimated by FDI research and practice (Hosseini, 2005). Lenartowicz and Roth (1999) suggest that IB scholars generally recognize that culture is an important construct and that the field is in need of additional understanding about culture and its effects. For example, Dunning (1980; 2001; 2009.) argues that firms which are best able to identify and reconcile (cultural) difference, or even exploit them to their gain, are likely to acquire a noticeable competitive advantage in the marketplace.

The perceptions of distance could be practically translated into additional costs: the greater the corporate headquarters and subsidiaries differ in their cultural characteristics, the more difficult it becomes to effectively supervise the various units. Drawing from earlier work by Kogut and Singh (1988), some scholars depict the headquarter-subsidiary relationship as "agency" (Roth and O'Donnell, 1996). Thus, it can be derived that the cost of this agency increases because they have to face cultural distance (Gomez-Mejia and Polick, 1997).

Perceptions of "distances" are captured by the concept of PD, which embraces more than the distance perceptions related to culture, but also to other levels and areas such as, geographical distance, language, level of education, level of economic development, level of technological development, political system, legal system, regulations, accepted business practices and business ethics (Child et al., 2009). This literature review embraces Child et al.'s (2009) definition of PD. Accordingly, PD is defined as the existing perceived distance between home and host country's characteristics (Child et al., 2009). The concepts of PD and of cultural distance should be kept separated, although they are both "non-economic" or "intangible" factors.

To sum up, existing research on FDI determinants tends to focus on economic or standard factors, such as market size and trade openness (Chakrabarti, 2001; Hong, et al. 2001; Hong, 2007; Zheng, 2011).

[1] Hymer's study is about the criticism of the neoclassical application of the portfolio flows theory. He transported the theory of foreign direct investment out of the neoclassical international theories of trade and finance and into industrial organization, the study of market imperfections.

Ma et al. (2008) use the concept of openness as the sum of exports and imports divided by GDP and not in terms of acceptance of foreign values, behavior, or rules. The majority of the articles reviewed in this paper contains a low number of references to PD as a factor influencing FDI (Xiaojuan, et al. 2004; Ma, et al. 2008).

First of all, this work aims at filling the gap in the IB literature by investigating if non-economic factors, specifically PD, are considered by scholars as an FDI determinant. Secondly, this paper investigates how many studies on PD are related to the Chinese marketplace. First, an approach based on the interaction between non-economic factors (e.g. differences in religion, language or cultural distance and PD) and economic factors are a matter of concern to investors in their location choice decisions. Secondly, FDI is widely viewed as beneficial for host country's economic development since it is a vehicle for carrying finance and transferring advanced intangible assets - knowledge, technical and management skills.[2] Furthermore, a low level of PD enables companies to carry out a correct and responsible management of their international activities and they can benefit from it in the long run.

For FDI-seeking policymakers an in-depth understanding of the underlying drivers of FDI helps design of policies to improve the country's future performance, especially the intangible FDI determinants. For example, most studies on FDI recognize the role of language as a component of cultural, psychic and administrative distance (Dow and Karunaratna, 2006). Subsequently, factors affecting the location of FDI - both economic and non-economic - can provide guidance to policymakers in identifying not only the obstacles that some regions must overcome to attract FDI (Coughlin and Segev 2000; Zhang, 2001b), but also opportunities and knowledge to exploit (Dunning, 2000). FDI may depend on other FDI in proximate countries (Li, et al. 2008). Such spatial interdependence may be complementary to non-spatial determinants, which in turn go hand in hand with non-economic or non-tangible factors. These drivers seem to have been ignored by the mainstream literature on the determinants of FDI, with only few studies dealing with such topics as PD or psychologically close investors and markets (Wei and Alon, 2010; Chen and Chen, 1998).

1.3 China: current trends in the worldwide business scenario

From an almost isolated economy in 1979, China has become the largest recipient of FDI in the developing world, and globally, the second after United States for many years (Coughlin and Segev, 2000; Zhang, 2001a). Most importantly, China has recently begun to invert the trend of its investment flows, gaining place in the global scenario being a source of outbound FDI (Spigarelli, 2009; 2010). According to the United Nation conference on trade and development (2013), China ranked first in the developing and transition economies and second in the world with inflows at an estimated US$127 billion – including both financial and non-financial sectors (UNCTAD, 2013). In the Association of Southeast Asian Nations (ASEAN) FDI growth slowed down, yet prospects for this region continue to be promising since more FDI arrives from China and Japan in a wide range of sectors, including infrastructure, finance and manufacturing. China is one of the countries which largely drove inflows to rise in 2013 following a surge in FDI. It is particularly responsible for the rise in cross-border merger and acquisition sales in

[2] However, according to some scholars FDI may crowd out local companies and have negative effects on economic development (Vintila, 2010).

2013, mainly driven by deals in East and South-East Asia. FDI flows could have risen further in 2014 and 2015 to US$1.8 trillion (UNCTAD, 2013).

This paper is structured as follows. Section 2 provides a theoretical background including the FDI theory milestones and the most applied frameworks focused on distance perceptions and Some remarks on the most recent trends regarding institutional theory are also included. In section 3, the articles selection and classification methodologies are explained. Section 4 provides the analysis of the main findings and Section 5 their discussions. Section 6 concludes the paper with remarks on avenues for future research, policy implications and limitations of the present study.

2. Theoretical Background

Contributions in the literature focusing on FDI determinants could be divided into two major research streams: the micro perspective includes such contributions as transaction cost theory, internationalization theory and the eclectic paradigm, and the macro perspective contributions like orthodox trade theory, Kemp-MacDougall theory and product life cycle theory, and Heckscher-Ohlin-Samuelson paradigm (Samuelson, 1948). The microeconomic viewpoint tries to explain the motivations for investment across boundaries. Moreover, it examines the consequences for investors, for the country of origin and for the host country rather than investment flows and stock. From a macroeconomic point of view, FDI is considered a particular form of capital flows across borders, which is found in the balance of payments and have such variables as capital flows and stocks, revenues obtained from investments (Vintila, 2010). Regarding the macro perspective, on the one hand, FDI effects are often seen as generators of employment, high productivity, competitiveness, and technology spillovers. Especially for the least developed countries, FDI is synonym of exports, access to international markets and international currencies. On the other hand, FDI may have a negative impact on economic development. The positive or negative effects potentially depend on the nature of the sector in which the investment takes place (Vintila, 2010).

The main contributions to FDI theory can be highlighted as follows (Hosseini, 2005; Vintila, 2010; Bartels et al. 2014): production life cycle theory, theory of exchange rate on imperfect capital markets, the internationalization theory, the eclectic paradigm as summarized in Table 1.

As showed in tab. 1, since every new evidence developed over the years has added some new elements and criticisms to the previous contributions, we cannot identify a generally accepted theory. However, Dunning's OLI (1980) remains the dominant operational framework within IB to understand FDI motivations and location choices (Bartels et al. 2014). Of course, the original model was further developed over the years.[3]

[3] Its evolution from 1958 to 2000 is illustrated in detail by Ferreira et al. (2011).

Table 1. Milestones in FDI Theory

Author	Year	Theoretical model	Model application
Vernon	1966	Production Life Cycle Theory	The four stages of production life cycle – innovation, growth, maturity and decline – explained certain types of FDI made by US companies in Western Europe between 1950–1970 in the manufacturing industry.
Cushman	1985	Theory of Exchange Rates on Imperfect Capital Markets	Analysis of the foreign exchange risk from the perspective of international trade. The author analyzed the influence of uncertainty as a factor of FDI. Real exchange rate increases stimulated U.S. FDI, while a foreign currency appreciation has reduced American FDI.
Buckley & Casson[4]	1976	The internationalization theory	Demonstration that transnational companies grow and are motivated to achieve FDI by organizing their internal activities so as to develop specific advantages, which can then be exploited.
Dunning	1980	The eclectic paradigm (OLI)	OLI eclectic paradigm (ownership, location and internationalization advantages) shows that OLI parameters are different from company to company and depend on context and reflect the economic, political, social characteristics of the host country.

2.1 PD, internationalization and FDI

Empirical literature indicates that exchange rates, market size, government policies and incentives, political risk, cost of labor, labor skills, trade openness and export orientation policy, and infrastructure are the key determinants of FDI (Zhang, 2001a, 2001b; Fung, et al. 2005; Chantasasawat, et al. 2010). However, two of the most applicable theories that are considered in this work provide details in the internationalization process, such as the Uppsala model (Johanson and Vahlne, 1977; 2009) and Dunning's eclectic paradigm (Dunning, 1980, etc.). In particular, the eclectic paradigm includes details regarding inbound and outbound FDI determinants.

These two theoretical frameworks have a common feature which is relevant to this study: the presence of the PD construct. PD appears firstly in the 1950s when Beckerman (1956) and later Linnemann (1966) started to examine the concept, paving the way to and raising interest in the fields of IB and international management. Beckerman demonstrates that PD influences trade patterns. He refers to economic distance in terms of transport costs and suggests that PD is meaningful in the form of gaining knowledge of foreign markets through personal contacts. Some scholars define PD as geography or transport costs (Linnemann, 1966; Leamer, 1974), while others (Gruber and Vernon, 1979) argue that the

[4] The internationalization theory was initially launched by Coase (1937) in a national context and by Hymer (1976) in an international context. After its elaboration by Buckley and Casson (1976) the theory was further developed by Hennart (1982) and Casson (1983).

concept should not be identified with transport costs alone. Instead, it should incorporate knowledge about sources and markets.

The appreciation of PD as a determinant of FDI, for example in Dunning's eclectic paradigm (Dunning, 1980) is preceded by a dominance of internationalization theory attributing to PD a fundamental role in the four-stage internationalization process developed by the Uppsala school (Johanson and Vahlne, 1977). In order to adjust to the changes in the firm and in its environment, internationalization consists in a series of incremental steps. PD is the main determinant in this model and it is defined as the sum of factors preventing the flow of information from and to the market (Johanson and Vahlne, 1977). This definition entails such differences between home and host country as language, education, business practices, culture, and development. The original Uppsala model of internationalization elaborated in the 1970s is later revised by the same authors, Johanson and Vahlne (2009) due to the changes in the IB scenario and dynamics. In their updated model they emphasize the relevance of the network that a firm is able to set up in its national and international environment. In this new version they attribute a crucial role to the company networks, consistently with the fundamentals of international entrepreneurship, based on the recognition of business opportunities by international entrepreneurs and the network approach (McDougall and Oviatt, 2005).

The definition of PD by Johanson and Vahlne (1977) includes the psychic and the cultural aspect. Hofstede (1980) and later Kogut and Singh (1988) elaborate a classification of cultural distances in terms of cross-country distance that is used as a measurement scale to capture national differences (Hennart and Larimo, 1998). However, PD studies are about the existing perceived differences between home and host country, and individual perceptions of differences come into issue (Child et al., 2009). While studies about cultural differences are mainly conducted at country level and do not look at what individuals perceive, they mainly look "outside" of the individual. The construct of cultural distance is generally analyzed at three main levels: country, firm and individual (Hofstede, 1980; Forsgren, 2002; Cheng, 2006; Jiang, 2006; Brewer, 2011; Ambos and Håkanson, 2013). The country level focuses on the values and behaviour of the society as a whole; the firm level is based on certain business practices; and the individual level concerns the individuals' perceptions of distance. Nevertheless, Hofstede's and Kogut and Singh's (1988) composite indices do not capture the complexity of differences between the home and host country. Specifically, they neglect the role of societal institutions in disseminating and arbitrating cultural and social cues (Xu and Shenkar, 2002). According to Shenkar (2001), the cultural distance indices do not apply to FDI as they fail to yield consistent empirical evidence and include some hidden assumptions which are named "illusions", such as the illusions of homogeneity and symmetry. The illusion of homogeneity concept takes for granted the fact that there is no difference of values in the same country, that is intra-country level. According to the illusion of symmetry, the distance perceived from country A toward country B can be different than the one perceived from country B toward A.

The distance issue is strongly related to two critical steps in the FDI process: host country selection and foreign entry strategy (Xu and Shenkar, 2002). The concept of distance in internationalization is examined not only under several perspectives and perceptions but also taking into account a variety of dimensions and features, for instance, geographical (Fung, et al. 2005; Zihui et al. 2008, Child et al., 2009) and institutional distance, such as the degree of corruption (Chantasasawat, et al. 2010). Next to this, a cultural viewpoint (Cheng, 2006) in terms of ties (Chen and Chen, 2008) or cultural and ethnical proximity (Parmentola, 2011) are also taken into account.

2.2 PD and culture perceptions in the OLI paradigm

Among other factors, cultural and psychic distance, in particular, are mentioned in the OLI eclectic paradigm (Dunning, 1980) as key drivers in the FDI decisions since they pertain to location and internationalization choices. Accordingly, FDI is determined by three types of advantages: ownership, location, and internationalization (thus, OLI). The ownership advantage arises from the firm's size and access to markets and resources, the ability to coordinate complementary activities (e.g. manufacturing and distribution) and to exploit differences between countries. The distance issue may arise from differences in the form of culture (Hong and Chen, 2001; Brouthers, et al. 1996; Jiang, 2006), bureaucratic procedures (Spigarelli, 2010) or country characteristics (Zihui, 2008). Those differences do not always guarantee the success of the choice. However, in the case of China, their absence and the ignorance of the Chinese culture (e.g., the importance of *guanxi*) may lead to failure (Jiang, 2006).

The firm specific advantage is usually intangible and can be transferred within the MNE at low cost. Compared to a local competitor, a MNEs operating a plant in a foreign country faces additional costs that could include legal, institutional, cultural and language diversities. Location advantages of different countries are crucial to determine which will become a company's host country. Such advantages include differences in country's natural endowments, transportation costs, macroeconomic stability, cultural factors, and government regulation. According to this model, PD belongs to the country specific advantage group since it is part of the social and cultural features, together with language, cultural diversities, general attitudes toward foreigners and the overall position toward free enterprise (Brouthers, et al. 1996). This sub-group goes along with economic and political advantages (Hong and Chen, 2001; a, 201b, 2001; Jiang, 2006).

While quantities and qualities of the production factors, transportation and telecommunication costs, scope and size of the market belong to the economic advantages and common and specific government policies that influence inward FDI flows, intra-firm trade belongs to the political advantages (Fung, et al. 2005). Dunning (1997) shows that in determining FDI locations, transaction and coordination cost variables, such as interpersonal relations, information asymmetries, language and culture are more important than production-related variables. Despite the fact that differences are not always translated into a success factor (Jiang, 2006), it is argued that the internationalization incentives arise from exploiting imperfections in external markets. They entail reduction of uncertainty and transaction costs to generate knowledge more efficiently than state-generated imperfections, for instance, tariffs, foreign exchange controls and subsidies. An integrated view of these advantages and the interaction with one another produce the final decision on FDI location (Jajri, 2009).

2.3 OLI's evolution to OLMA and institutional theory traits

Dunning's OLI theory (Dunning, 1980, etc.) provides a framework for many researchers who examine the interaction between various determinants of IB activities and entry modes (Brouthers, et al. 1996, 1999; Tse, et al. 1997). Brouthers, et al. (1999) further suggest that this paradigm might be used as a normative model. It provides a balanced overarching framework that helps to identify the determinants of the cross-border expansion strategy, especially FDI (Dunning, et al. 2007). Dunning (2000) reconfigures the OLI paradigm to include asset FDI and MNEs activity. The OLI framework has been explained in details in most FDI literature (Ramasamy, 2003) since it is able to provide a theory for FDI activities under normal conditions. Nevertheless, Dunning (1993) himself admits that the paradigm is a general framework to determine the extent and the patterns of both foreign-owned production and domestic production rather than a theory of MNE or of FDI. This goes along with Hosseini's study (2005), since he proposes an alternative perspective to "read" the FDI decisions by applying a behaviorally based model (Heiner, 1985) because it seems to reflect the international reality, made up of not only economic factors, but also, political and cultural ones. A behavioral economics approach would enable to view a multinational firm as a complex organization in which all the three aspects intertwine and play a significant role.

Guisinger (2001) elaborates an evolved eclectic paradigm by replacing the "I" factor, which stands for "*internalization*", with "M" for the "entry mode", shedding light on the distinction between factors affecting different modes of entry in various countries. The model foresees the adaptation of the firm's operations to the IB environment building on institutional theory, hence OLMA stands for ownership, location, entry mode, and adaptation. Accordingly, there is a difference between foreign and domestic components of the environment. Within this context, North (2005) divides the environment into organizations and institutions. He names the institutions "geovalent component". In particular he refers to institutional rules, regulations, cultures and exchange rates as well as other elements that are geographically bound and in certain cases, but not always, follow national boundaries. It is about environmental forces that affect the firm but are not themselves organizations. This component is meaningful for adaptation and accommodation approaches to the IB environment (Guisinger, 2001), consistently with the role that PD plays in the international scenario. Next to the geovalent component, the author divides the environment in organizations, named "interactors".

As far as institutions are concerned, the literature seems to embed them into distance dimensions, essential in IB and international management research areas (Rottig and Reus, 2009). Institutional distance measures have been much under the attention of and criticized by international scholars (Kogut and Singh 1988; Shenkar, 2001) for neglecting such assumptions as intra-country differences and intra-country heterogeneity of cultures. Evidence is large and not limited to MNEs (Kostova, 1999; Xu and Shenkar, 2002) and recent streams of research increasingly consider their vital impact on firms, their performance, their patterns of expansion and strategies.

When operating in distant environments that differ from the source context, institutional distance is considered as one of the key drivers of the liability of foreignness that firms need to face (Gehmawat, 2001; Zaheer, 1995).The literature identifies three main institutional pillars-- regulative, normative and cognitive (Kostova, 1999)--that are strictly related to perceptions and subjective evaluation of the foreign environment. Apart from the regulative pillar regarding the existing laws and rules in certain contexts, the normative and the cognitive dimensions are particularly relevant to the present research. The normative dimension is about individuals' values and norms and it is related to the social life, while the cognitive dimension concerns categories at cognitive level shared by people in a particular country (Kostova, 1999), and it is about how people categorize their perceived reality. In the conceptual-theoretical work on institutional distance both normative and cognitive distance are not always considered explicitly, but embedded in the cultural dimension (Kogut and Singh, 1988). This paper focuses on the cognition rather than the normative elements. Building on Child et al.'s (2009) study, PD is defined as the existing perceived distance between home and host countries in terms of the following characteristics: factual

(Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977), cognitive (Evans et al., 2000), and perceptual (Stöttinger and Schlegelmilch, 2000).

2.4 OLI's integration with LLL theory and emerging countries MNEs internationalization

Moving on the developments of the OLI paradigm, Mathews (2006) proposes the so-called linkage, leverage and learning (LLL) framework, which has been defined as a complement to Dunning's (1993) eclectic paradigm. This contribution acknowledges that emerging countries MNEs may be willing to invest in more advanced countries to access or augment their resources rather than to exploit their ownership advantage. Linkages with foreign firms would foster the access to the resources they lack internally, subsequently, leverage would refers to how they can access the potential resources. The interaction between linkages and leverage may be conducive to learning related to the final outcome based on the opportunity to better understand how to operate internally and to allow firms to be competitive in the global markets.

In the context of emerging economies, MNEs seem not to follow the traditional patterns of development. The OLI paradigm could not explain these difficult patterns. In other words, it does not appear to explain the outreach toward international markets (Dunning, 1993; Hosseini, 2005). MNEs from emerging economies internationalize not because of their current advantages on a global scale, but to achieve competitive advantages (e.g., Spigarelli, 2010). The exploitation of opportunities, thanks to their positions as late entrants to the market, seems to be a key factor of global success. This goes along with the fundamentals of international entrepreneurship proposed by McDougall and Oviatt (2005). Thus, Spigarelli (2010) proposes that a new *ad hoc* theory is needed to interpret the flows of international investment following the recent phases of expansion, especially regarding the Chinese case. Other scholars argue that countries experiencing a rapid development (e.g. China) are giving rise to new models of internationalization, therefore the need to revise and consolidate the theoretical frameworks that the current literature offers (Aulakh, 2007).

3. Methodology

The criteria used to find relevant journal articles is based on the search cues "foreign direct investment*", "determinant*", "China" in the "Abstract" and in the following databases: *Business Source Premier*, *EconLit*, *Regional Business News* accessed through *EBSCOhost* and *ABI/INFORM*. This searching procedure delivered 35 results.

Regarding the criteria of inclusion and exclusion, among the 35 journal articles only documents focused on China and FDI were considered relevant. Four articles were "partly relevant" to this research since they deal with China, but focus on other issues: the "China effect" (Chantasasawat, et al. 2005; 2010), the determinants of disparities in inward FDI in China (Zheng, 2011) and the Japanese investment in Asian host countries in general (Langhammer, 1991). Other six articles were "not relevant" since they explore the regional per capita income distribution in China (Villaverde and Maza, 2012), the determinants of city growth in China (Anderson and Ge, 2004), the firm specific effects on location decision of FDI in China (Hong, 2007), the influence of FDI on the growth of Malaysia (Jairi, 2009), the global city-regions in China, (Zhao and Zhang, 2007), patterns and determinants of FDI in Malaysia from a comparative Southeast Asian perspective (Athukorala and Waglé, 2011), the diffusion and absorption of technological knowledge (Liao, et al. 2012). Finally, one of the articles is about FDI and Russia (Iwasaki and Suganuma, 2005). These studies resulted from the searching procedure because they include the above mentioned keywords searched in the abstract but are not purposeful for the research questions of this systematic literature review: is PD a key FDI determinant in the Chinese marketplace and to what extent?[5] The above mentioned papers are not relevant to the Chinese case but they are useful to analyze whether PD is a relevant object of studies among FDI determinants, regardless of the involvement of the Chinese marketplace.

Next to the documents obtained from the afore-mentioned databases, the snowballing technique (Jalali and Wohlin, 2012) was adopted on the basis of the relevant citations appearing in the 35 results. This additional searching procedure produced 82 documents resulted in a total of 117. The following sections analyze and discuss the key findings.

4. Analysis

Evidence shows a small number of studies have used PD as FDI determinants in the Chinese case. Specifically, 17 papers cover the "PD" topic. However, only 6 out of 17 papers focus on FDI (see tab. 2 below).

Table 2. Studies on PD, China, India, Japan, Taiwan, Australia and FDI determinants

Authors	Year of publication	Academic journal
Chen, H., Chen, T.-J.	1998	*Journal of International Business Studies*
Forsgren, M.	2002	*International Business Review*
Zihui, M., Ruilong Y., Zhang, Y	2008	*Economic Papers*
Buckley, P.J., Cross, A.R., Horn, S.A.	2012	*Business History*
Hashim, F.	2012	*Review of Business & Finance Studies*
Amighini, A.A., Rabellotti, R. Sanfilippo, M.	2013	*China Economic Review*

The study by Chen and Chen (1998) refers to psychological closeness and proximity rather than PD. In this paper China and Taiwan are examined. Concerning investors, China is psychologically close to Taiwan in terms of culture and communication, although they are distant in terms of political and economic systems. As first, the authors refer to the perception of location familiarity that measures

[5] Another pertinent question would be how scholars identify and isolate the variable in their models of analysis, but there are not consistent results about this as the most rigorous models are related to other variables, which are quantitatively measured (Zihui, et al. 2008; Sanfilippo, 2010; Villaverde & Maza, 2012).

investors' prior market experience in the host country in the form of exporting or licensing. Secondly, they refer to the investors' perceived distance of the host country in the form of affinities and similarities of culture, political system, economic conditions, and communication. They confirm Grosse and Trevino's (1996) findings on the relevance of cultural and geographical distances, which discourage FDI decisions. The study by Forsgren (2002) (tab. 2) does consider PD. This is a critical review of the Uppsala model of internationalization, adding a controversial point. The author argues that PD is basically a concept regarding the national level, while foreign investment is a phenomenon involving the management level. Ambos and Håkanson (2013) highlight the importance of the level of analysis. They point out that PD should be analyzed at firm and individual levels. However, the national level should run parallel to them. This leads to an integrated analysis of the perceptions that enables to capture the different nuances of the construct at all the three levels--national, firm, and personal.

In the third study the Asian investors are compared with the Australians. Zihui, et al. (2008) refer to the fact that Asian investors in China differ greatly from Australia in economic structure, per capita income, cultural ties with, and geographical proximity to, China. Generally speaking, the literature considers these features as ingredients of the PD construct. The authors highlight that it is therefore worth investigating whether the determinants of Australian FDI conform to the general pattern of inward FDI in China. Not only objectively measureable determinants, but also qualitative ones are important. They all contribute to the promotion of Australian FDI in China in terms of policy design.

The authors of the fourth paper (Buckley, et al., 2012) consider the "distance" issue being part of FDI determinants. However, their work does not focus on the Chinese marketplace. Their case about Japan and India shows that along with geographical distance and PD, risk averseness may be also responsible for the hesitant behavior of Japanese firms toward India. Results show that Japanese managers keep seeing India as psychically distant from Japan. Nevertheless, in this specific case it is the institutional factor (Kostova, 1999; Rottig and Reus 2009) that is the crucial determinant in Indo-Japanese economic relations rather than the notion of PD due to India's import substitution policy. This is to demonstrate how FDI determinants depend on the country pairs that are examined and their institutional, environmental and behavioral characteristics. In support of this, Mathews (2006) argues that globalization includes a number of processes and phenomena next to the integration of financial systems, trade liberalization, deregulation and market opening. This is an orientation toward a cultural, economic, and social homogeneity. Nevertheless, this is not the case if specific country pairs of different continents are taken into account, such as China and Italy. Therefore, we can refer to globalization in terms of generalization but if specific case studies are considered, this generalization is no longer applicable due to a wide range of differences. Under this perspective, PD and cultural distance are called upon: it is exactly here where the countries involved in the comparison collide or unify or even complement themselves (Mathews, 2006).

The fifth work on Malaysian FDI to China (Hashim, 2012) shows that PD plays a pivotal role in foreign expansion strategies. The author supports the applicability of the Uppsala incremental process of internationalization and the positive role played by the awareness of PD perception, which reduces uncertainties and risks of failure in foreign markets. The sixth and last paper (Amighini, et al. 2013) also supports Hashim's study (2005) by stating that PD and the issue of psychically distant market perceptions do matter. The authors emphasize the role of the international relations with overseas Chinese for Chinese companies since they are considered a crucial source of information and location attraction factors.

According to the theoretical background which provides with an overview of the main theories applicable in FDI decisions, PD is a key element of the Uppsala internationalization model (Johanson and Vahlne, 1977; 2009). The following articles support this theory (see Tab. 3.).

Table 3. Articles regarding Asia supporting the concept of PD according to the Uppsala scholars (e.g., Johanson and Vahlne, 1977; 2009)

Authors	Year of publication	Academic journal
Walters, P.G.P.	1996	*International Journal of Information Management*
Dunning, J.H.	2000	*International Business Review*
Xu, D., Shenkar, O.	2002	*Academy of Management Review*
Stoian, C., Filippaios, F.	2008	*International Business Review*
Luo, Y., Shenkar, O.	2011	*Journal of International Management*
Luiz, J.M., Ruplal, M.	2013	*Emerging Markets Finance and Trade*
Ambos, B., Håkanson, L.	2014	*Journal of International Management*

An exceptional investigation on PD by O'Grady and Lane (1996) highlights the fact that perceptions of familiarity and similarity across geographically close countries or similar countries, for example English speaking countries is not always a synonym of closeness (Henderson, 2005). For instance, geographically close home and host countries do not necessarily share the same business practices. Over-confidence attributed to the similarity of languages or to cultural aspects may lead to misperceptions and thereby to a negative impact on the business communication processes as well as personal relationships. This is defined as "PD paradox" (O'Grady and Lane, 1996).

Although the issue of non-physical distance does not appear consistently among the main FDI determinants many IB and international management scholars have been deeply explored the topic and are aware of the subjective aspect of the concept. Rather than focusing on the second word of the concepts "psychic distance" and "cultural distance" (thus, "distance") a deeper analysis of the relationship between the "psychic" and "cultural" terms may be necessary. For example, Spigarelli (2010), Al-Huda and Karim (2012) confirm their interest in the two strongly related constructs. Spigarelli (2010) refers to "psychological distances" and relates it to "cultural affinity". While Al-Huda and Karim (2012) argue that the PD concept includes the cultural factor next to the geographical, legal, and linguistic variables, both "distances" play a relevant role in the IB literature.

5. Discussion

The results analyzed in this systematic literature review show how PD has its valuable space in the IB literature, but has not been taken into account as much as other economic and quantifiable FDI determinants. The previous sections confirm two directions: on the one hand, the influence of PD perceptions and of cultural and political features in the decision making process; on the other hand, the difficulty to quantify and measure such variables in IB. As a matter of fact, scholars have tried to study and measure those subjective variables. Hofstede's (1980) dimensions of culture and other indices elaborated in subsequent studies over the years are some examples. Kogut and Singh's (1988) composite index is based on Hofstede's work. Drogendijk and Slangen (2006) support the validity of the cultural distance indices proposed by Hofstede (1980) and later by Schwartz in 1994, who elaborated another composite index based on their prior work. According to Drogendijk and Slangen (2006), it is premature to dismiss these indices and consider them as outdated or inaccurate.

5.1 The case of China: relevant findings

Recently China has been one of the most studied cases by international scholars (Parmentola, 2011; Villaverde and Maza, 2012). However, only 25 IB journal articles resulting from the search procedures illustrated above cover the Chinese marketplace, FDI determinants and PD all together. Shedding light on the issue of FDI direction, scholars identify in-, out-, and intra-country flows. 3 out of 25 articles are about outbound FDI. This shows that China is not only one of the largest recipients of FDI, but has been also playing an active role worldwide as far as outbound FDI is concerned (Spigarelli, 2010; UNCTAD, 2013). Generally speaking, developed economies expect a gradual recovery of FDI in the current year and it can be assumed that this phenomenon will be deeper investigated by scholars from now onward, especially covering the Chinese marketplace. This forecast is supported by the role played by cultural or historical ties of Chinese residents with other Chinese abroad or overseas Chinese, that may be crucial resources in explaining outward-trends of FDI. Thanks to these relations and the presence of Chinese in the rest of the world, the ability to exploit ties within the same ethnic networks worldwide is proven to be fundamental. Spigarelli (2010) confirms that "cultural affinity goes along with psychological closeness perceptions". This intertwines with the geographical viewpoint. For example, Chinese investments in Italy are strongly related to the local presence of Chinese residents (e.g., the city of Prato in Tuscany).

An increasing knowledge of foreign markets by multinational firms is gained through experience from the interaction between factors captured by the concept of PD, which includes not only cultural, linguistic and legal elements, but also the geographical differences and distance between two business locations (Al-Huda and Karim, 2012). Furthermore, legal, normative and cognitive aspects which draw from institutional theories are also considered (Scott, 1995; Kostova, 1999; Rottig and Reus, 2009).

According to Amighini et al. (2013), "cross-border" *guanxi* among the Chinese diaspora seems to be a relevant attraction factor in location decisions. Guanxi can be defined as "relational entities and their relationships, as social practices of building and using personal relationships to get through life and work, as a strategy for organizations to gain competitive advantage and as a mechanism of contracting and transactions" (Chen et al., 2013:169). In other words, exploitation of relational assets reduce PD with institutionally different countries. For this reason, local network of overseas Chinese are considered a crucial source of information - and trustworthiness - for Chinese companies in a psychically distant market. This is likely to affect the success or the failure of the investment or business. Entrepreneurship is a dynamic activity, between 2004 and 2007 the presence of the Chinese entrepreneurs increased by 45%. Scholars refer to "ethnic specialization", meaning a concentration of Chinese entrepreneurs in specific business segments and about "industry ethnicization", that is the trend of this ethnic group to saturate business initiatives of initial establishment. Next to this, they tend to favor areas that offer a wide range of peculiar skills.

The impact of transnational ties in the realm of FDI is crucial, as the author illustrates a striking example of how the presence of potential political and military public interests may impede international integration and transactions (Spigarelli, 2010). Chen et al. (2004) also emphasize the role of cultural background and affinity in Chinese IB relationships. In least institutionalized markets such as Southeast Asia, initial network connections with related firms and ethnic links to Chinese diaspora play an important role in facilitating and fostering FDI.

5.2 "Affinity" in cultural, background, and institutional features

Non-economic factors are argued to affect both the amount and direction of investment flows (e.g., bureaucratization of authorization procedures) which might be related to institutional features. The focus on intangible assets, such as government policies can be reflected in institutional distance, since government and companies are connected in interventions and reforms. Therefore this affect managerial culture and risk perceptions (Spigarelli, 2010). As far as bureaucratic difficulties are concerned, a certain degree of symmetry can be found and this should be further examined. Such issues affect the decision making of an investment in a specific country, including symmetric weaknesses encountered mutually by country A toward country B and by country B toward A. This is consistent with what the Uppsala School predicts in considering historical, economic and cultural ties between the home and host economy at the initial stage of the internationalization process (Johanson and Vahlne, 1977). And at a later stage, countries with low PD are taken into account due to the capitalization of experience after moving into other more distant economies (Stoian and Filoppaios, 2007). Besides, the re-examination of the Uppsala model by Johanson and Vahlne (2009) confirms that PD insists to be important in the current global scenario though weaker. A company network may transcend the geographical boundaries and internationalize through the exploitation of business network opportunities, drawing the conclusion that the selection criterion for mining FDI depends on minimization of the distance between the home country and the host country (Luiz and Ruplal, 2013).

6. Conclusion

The present study shows how PD as a determinant of Chinese FDI flows is under-investigated in the IB literature. However, scholars have worked on "distance" topics over the years since "psychic distance" first appeared in the 1950s. The concept was examined under various perspectives by considering a variety of features and "dimensions", drawing from the extant theories which propose how to define and operationalize the concept. The reasons may lie in the need for IB research to quantify variables in empirical studies by including PD perceptions at different levels of analysis: individual, firm/group, industry, and country level.

As about the models used to isolate the PD determinant, no consistent material appeared in the methodology parts of the analyzed works. The main findings illustrated in this research can be considered as a premise to confirm the need for further research on PD, FDI flows and FDI determinants related to the Chinese marketplace. China and its specific host countries can be the business settings to investigate PD on a specific level of analysis.

China is now widening its presence abroad, not only in the Eastern world regions but also in the psychically distant countries of the “West”. This means that Chinese investors have to carry out an attentive examination of FDI determinants concerning distance issues (e.g., psychic, cultural, institutional, and geographical distance) along with the mere economic and objectively measurable factors traditionally taken into account.

Most of the studies so far have studied the relationships between the Western and Eastern economies considering China as a passive actor. Now an inversion of trend in research is necessary to predict and to analyze its impact on other actors and markets around the world.

As a work-in-progress study within an EU project regarding partnership opportunities between Europe and China, the final results of this research are expected to come in 2016. A questionnaire covering not only economic aspects but also differences in the regulatory system, language, culture, and perceptions is currently being submitted to a wide range of companies operating in the green sector and environmental industry in China and Europe[6]. Two future lines of research can follow up this study. First, the elaboration of a new theoretical framework with the purpose to explain the role of “differences” between Europe and China is necessary. Secondly, individual perceptions of “distance” between a certain country and China as a home or host country could also be examined. In this case, existing PD operationalization can be applied in a specific business setting. The analysis could be conducted at firm or industry level by taking into account managers’ perceptions of PD along each of its components (e.g., cultural and legal aspects). A new framework or existing PD models can be tested within the EU project embracing markets in China and Europe, thanks to the data collected through the survey addressed to the European firms investing in China and the Chinese firms investing in Europe.

[6] The questionnaire is available in two versions in order to near both Chinese and European respondents: the Chinese version is addressed to the Chinese investors in Europe and the English version to the European firms investing in China.

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