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On China's FDI Leadership and Lessons for Ghana's FDI Development: A Theoretical Perspective

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ABSTRACT

The economic emancipation of Asia has materialized largely because of a deliberate attempt by the countries to make their economies attractive to Foreign Direct Investment (FDI) from the West. This initiative has succeeded in getting many western companies and multinationals to come and set up their production sites in Asia or at worst important most of their raw materials, accessories, components etc from Asian. These advances can be understood within the context of Foreign Direct Investment (FDI) theories with implications for FDI development in other countries. Faced with a dearth of studies that have examined the theoretical perspectives of the evolution of FDI in China this review analyses, unveils the skeletal framework and building blocks of FDI attraction in China and India using the simple Eclectic paradigm. This helps to bring out some of the basic lessons and intricate values that most African countries such as Ghana can learn to advance the frontiers of FDI development.

Keywords: Foreign Direct Investment, BRIC, WTO, LDC, OLI, OECD

I. INTRODUCTION

The level of economic development across the globe is not the same. There are very rich and very poor countries yet each of these have their own challenges. The world's highly industrialized nations are known as the G8 and only Japan is from Asia. This small number of countries epitomises the level and pace of Asia's development over the last century. Apart from the group of 7 most industrialized countries, there are also the BRICS. This is made up of Brazil, Russia, India, China, and South Africa. They are regarded as the emerging economies. China and India are the representatives of Asia within this community of nations (Burt and Sparks, 2003). There are other researchers who have also proposed what they call the Next 11 made up of the rapidly growing but still less developed nations after Brazil, Russia, India, China, and South Africa. The countries include Bangladesh, Egypt, Mexico, Iran, Vietnam, South Korea, Turkey, the Philippines and Nigeria was identified by Jim O'Neil. He is an economist with Goldman Sachs investment Bank. They describe them as the next countries to attain the same level of development as the BRICS in the 21st century. Out of this number, seven of them are from Asia while 4 are from other parts of the world. Apart from the G8, Asia virtually dominates as far as the development of the world is concerned when it comes to the emerging economies (Fernie, et al, 2003).

It is therefore not surprising that some researchers consider the 21st century as the Asian Century and this has been extended to cover the whole millennium as the Millennium of Asia (Stopford, 2001). Through hard work many of Asian economies have grown into global prominence from nearly failed states as they used to be in the past with China in particular becoming the second largest economy in the world and Japan as the third largest. Apart from that Asia is the largest market in terms of size with almost half of the world's population and market living in Asia (Cavusgil 1982).

The economic emancipation of Asia has materialized largely because of a deliberate attempt by the countries to make their economies attractive to Foreign Direct Investment (FDI) from the West and this has succeeded in getting many western companies and multinationals to come and set up their production sites in Asia or at worst important most of their raw materials, accessories, components etc from Asian countries particularly Japan

(G8), China, India (BRIC) South Korea (Next 11) and Malaysia (Outside Next 11) etc. Today, Asia remains the largest trading partner of the USA, EU, Africa and this story is entirely different from the case of Asia a little under a century ago (Financial Times, 2003).

Apart from policies to build capacity and factor availability (raw materials, land, labour and capital there has been other state initiated policies to attract FDI into Asian countries. Some of these include giving TNC lower rate of corporate tax, lower rate of income tax for expatriate workers, complete tax holidays and other forms of concessions or incentives in the form of tax reduction (Brunso, & Grunet, 1998).

In some countries such as China and India, the governments are offering preferential tariffs and or opportunities to operate in specially designated economic or export processing zones, access to bonded warehouses, equal access to state funded venture capital fund or other subsidies, maquiladoras, soft loan or sovereign guarantees (Alexander and Quinn, 2002)).

In other countries such as Vietnam, Thailand and Philippines the initiative of the state to support FDI is to offer them access to free land or build some capital intensive infrastructure which these organisations cannot build as individual or reimbursement if they do construct them as well as support for research and development (Hollander, 1970). In some other countries such as Indonesia, and most of the South East Asian countries, the state is supporting TNCs by offering them technical assistance. In East Asian countries, very large FDIs or TNCs are offered derogation from some regulations (Bilkey and Nes, 1982,). In the existing literature most of the basic information about Asia and how it is attracting the FDI are clearly explained. Other studies have even gone deeper to explain differences in factor availability in respective countries and how these affect their levels of development. However there are still limitations in research as to analysis of the sustainability of the condition in Asian countries and their ability to sustain the nature of economic growth in Asian countries (Burt, 2002).

This review seeks to explore the extent to which the achievements being made by the countries can be sustained and remain attractive for a long time. The review analyses the proportional rate of growth over a decade (Bannister and Saunders, 1978). In that way this study will be contributing to the existing literature about what Asian countries can do to entrench the pace of FDI development due to their great potential were unable to manage them hence their lagging behind in development (Burt and Sparks). This may give out some of the major issues that must be considered for policy formulation purposes when it comes to inbound FDI so that smaller Asian countries with good FDI potentials are not over exploited as has been the case with many African countries such as Ghana and Guinea etc (Cavusgil, 1982). These had great potential in the past because at independence they had better resources and factors of production that condition and resources than Singapore, Malaysia and South Korea but today they are pale shadows of what they were promised to become. Since China Joined the World Trade Organisation (WTO) and India economic reformation started, these two countries have become major investment destinations despite the recent economic slowdown, probably due to the economic characteristics of China and India of the two fast-growing developing countries (Sauvant, 2008) although available data suggest that India is still behind China as far as attraction is concerned. Generally the argument is that China has achieved high growth rate of 7.5% and can reduce interest rates in order to improve the economy since high rate of interest increases the cost of business. On the other hand India has a high rate of inflation but this is compensated by the fact that the average cost of labour and salary is very low as well as lower cost of other factors of production. So in all the lower cost of operation is an important factor for continuous attraction of FDIs into China and India. These advances can be understood within the context of Foreign Direct Investment (FDI) theories with implications for FDI development in other countries. Faced with a dearth of studies that have examined the theoretical perspectives of the evolution of FDI in China this review analyses, unveils the skeletal framework and building blocks of FDI attraction in China and India using the simple Eclectic paradigm. This helps to bring out some of the basic lessons and intricate values that most African countries such as Ghana can learn to advance the frontiers of FDI development.

II. METHODS AND MATERIAL

Theoretical Analysis of FDI flow to China and India

Several FDI theories exist in order to explain the attractive factors for FDI in a particular country. The first which is applicable to the specific situation is in respect of the capital market theory. This one of the oldest theories of FDI and explains that FDI is determined by interest rates (Datt and Sundharam, 2009). In this respect the interest rate is the rate at which interest is paid by a company for the use of money that they borrow from a lender.

Specifically, the interest rate is a percent of principal paid at some rate. These are the compensation for the loss of the asset's use (Manea and Pearce, 2004). In the case of lending money, the lender could have invested the funds instead of lending them out. With lending a large asset, the lender may have been able to generate income from the asset should they have decided to use it themselves. For many organisations therefore a higher interest rate means lower returns while a lower interest rate may also mean higher returns and these significantly affect the choices which they organizations make (Manea and Pearce, 2004)

Another theory which has also been used in explaining the flow of FDI is the dynamic macroeconomic FDI theory. In this theory the FDI are a long term function of TNC strategies and the timing of the investment depends on the changes in the macroeconomic environment "hysteresis effect". When it comes to the FDI theory based on exchange rates, it analyses the relationship of FDI flows and exchange rate changes and explains that FDI is a tool of exchange rate risk reduction (Rugman and Verbeke, 2003).

On another hand the FDI theory based on economic geography also explores the factors influencing the creation of international production clusters and suggests that innovation is the major determinant of FDI – "Greta Garbo effect". Another theory is the Gravity approach to FDI which explains that the closer two countries are (geographically, economically, culturally ...) the higher will be the FDI flows between these countries. Finally the FDI theories based on institutional analysis explores the importance of the institutional framework on the FDI flows and posit on the importance of e political stability as a key factor (Zeng and Wu, 2008).

From the above factors there is an indication that the attraction to invest in another country can be seen as the attraction of external environmental factors which like the political factors , the economic factors, the socio-cultural factors, the legal factors and even the technological and innovative factors. These are called location factors in the Dunnings OLI theory (Datt and Sundharam, 2009). All of these play different roles or are considered either in their own merit or together in affect the flow of investment into a particular country and these are directly applicable to the case of China an d India and why they will continue to be attractive destinations for FDI despite the recent economic slowdown.

Three additional theories are very important and have been used to explain FDI in India and China profusely in the extant literature. These are the internationalisation theory product life-cycle theory and the eclectic theory of international production (Dunning and Lundan, 2008)

The theory of internationalization was created by Buckley and Casson, and developed further by Rugman and Hennart. It is mainly related to the transaction cost approach (Buckley and Casson 1983). The basic hypothesis of this theory is that multinational firms emerge when it is most advantageous to internalize the use of intermediate goods such as outsourcing their technology through the market. The baseline forecast of the theory is that, given a particular distribution of the allocations of factors, multinational activity will be positively related to the costs of organizing cross-border markets in intermediate products.

In terms of the product Life-cycle theory Vernon who was the first to investigate the relationship between FDI and technology uses a microeconomic concept, 'the product cycle', to explain a macroeconomic phenomenon, which is the foreign activity of US MNCs in the post war period (Vernon 1966).

He claims that the product life cycle can be divided into three phases and these include the new product stage, the product being developed and standardized stage or the matured product stage and standardized product stage. In the early stage of the new product, companies put factories in the country of origin since the demand for a new product is too small elsewhere (Rugman and Verbeke, 2003).

As the expansion of production in the country of origin becomes too expensive, the mature oligopoly invests in a host country with high income elasticity of demand

and consumption patterns similar to those of the country of origin. Therefore develops in the second phase of the aged product. As the product becomes more standardized and competition is based on the price, the product is manufactured in less developed countries (LDCs) to export (Zeng and Wu, 2008).

Although this theory believes in changes in technology and implicitly assumes that corporations would acquire production facilities in countries with abundant cheap labour, it falls short of being a dynamic theory for the rate of change and the time between the phases of the product are not considered (Eichengreen et al, 2010). Chen replies that it is also able to explain FDI in non-standard and special products for overseas markets (Chen 1983).

The theories explained above mentioned only in the country of origin macro-economic, industry specific and company specific external (supply side) factors. But you must bear in mind that the host country must have some locational advantages to attract foreign direct investment. The OLI paradigm developed by Dunning tries to offer a comprehensive framework by combining the comparative advantages of the host country town and amenities.

Eclectic Theory of International Production

The eclectic paradigm of international production, which postulates that FDI is determined by three sets of factors, namely ownership (firm-specific) advantage, internalization advantage and location (country-specific) advantage, is developed by Dunning and modified by his associate Narula (Dunning 1988; Dunning and Narula 1995).

According to Dunning, the rationales of FDI can be well-defined by O-L-I paradigm: Ownership (O) advantages: economies of scale, exclusive production and technical expertise, managerial and marketing skills. These are the prerequisite to ensure or enable the MNCs to recover the costs of investing abroad. Itaki further argues that these O advantages largely take the form of privileged possession of intangible assets and the use made of them are assumed to increase the wealth-creating capacity of a MNC, and hence the value of its assets (Itaki 1991).

Location (L) factors: low labour costs, potential foreign market, favourable investment incentives. These pull factors of host country contribute to the MNCs' decision to employ ownership advantages to produce aboard.

Internalization (I) factors: Comparing with licensing and exporting, by using greater organizational efficiency or ability to exercise monopoly power over the assets under the governance, an internal market is created between parent-company and affiliates to control key resources of competitiveness or to reduce the risk of selling them as well as the right of use of them, to foreign firms.

Compared with the above theories, which were founded on ownership advantages in the form of technology and finance, transaction costs and differential factor endowments, the unique feature of Dunning's O-L-I paradigm is to unify and summarize the various theories, although it is still a frame which synthesizes most FDI theories rather than a new theory per se. It signified the ownership, locational and internalization advantages of the firm and, by extension, the ownership and internalization advantages of the home country, and locational advantages of the host country of FDI, which Dunning stipulates that O-L-I is applicable to 'home country' and 'host country FDI' (Dunning 1981). According to this theory, FDI is chosen as a market entry strategy so that a firm can exploit its ownership advantages through internalizing transaction costs in a specific location, which possess locational advantages.

Application of Theories to FDI in China and India

Table 1: Macroeconomic developments and prospects of China

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Real GDP growth	10.0	10.1	10.4	11.6	13.0	9.0	8.3	10.2	9.3
Inflation	1.2	3.9	1.8	1.5	4.8	5.9	−1.1	1.8	2.0
Fiscal balance (% of GDP)	−1.2	−0.4	−0.2	0.5	2.0	1.1	−1.8	−0.9	−0.3
Current account balance ($ billion)	46	69	161	253	372	426	321	282	302
Current account balance (% of GDP)	2.8	3.6	7.2	9.5	11.0	9.8	6.4	5.4	5.9

Source: National bureau of statistics and OECD projections.

Although the financial crises broke out in the East-South Asia in 1997, China's economy is considered to be the first to recover. The reason is that China joined the WTO in 2001; the commercial policy was relaxed to increase the enterprises and foreign business cooperation (Voss, 2011). China's economy has played

a huge role in promoting for attracting foreign investment. Related theories of FDI, the flexible markets can attract FDI in developing countries. Foreign companies obtain economic benefits in long-term by using monopolistic advantage. Moreover, The Chinese government controls a lower inflation rate, and government set preferential tax policies and the Free Trade Zone for International transactions. Furthermore, environmental issue has improved to attract FDI into China. The Economist reports that China implemented 'iron hand' policy to reduce energy consumption by 20% from 2005-2010 (The Economist, 2011). The Chinese gross domestic product (GDP), adjusted for purchasing power parity, ranked number 2 after USA, whereas Indian adjusted GDP ranked number 2 after USA. Over the past two decades, China’s average annual growth rate was above 9 percent, and the average annual inflation rate was kept below 3 percent. The Chinese economy continues its robust development, total growth in 2005 exceeded expectations at nearly 10 percent. In contrast, the Indian rate also jumped from about 3 percent a year during 1950-79 to between 5-6 percent a year during 1980-2004 (Chai and Roy 2006).

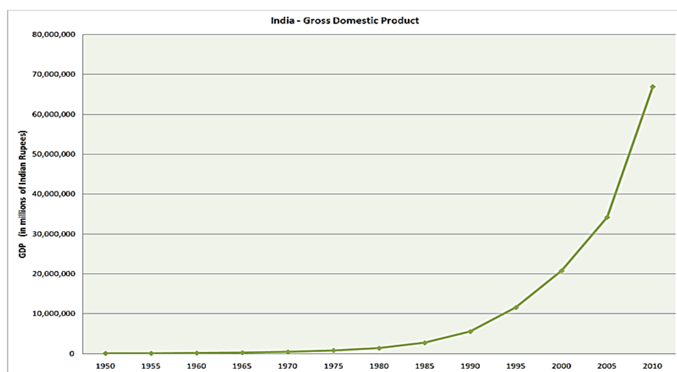


Figure 1. Rise in GDP in China since 1991

According to the research on the contribution of GDP growth to FDI by Hsiao and Shen, the elasticity of a 1 percent increase in GDP raises FDI by 2.117 percent (Hsiao and Shen 2003).

Table 2 : FDI inflows, by region in South Asia 2007-2009 (Millions of dollars)

Region	**FDI inflows**		
	2007	2008	2009
SOUTH ASIA	33868	49653	41406
Afghanistan	243	300	185
Bangladesh	666	1086	716
Bhutan	73	30	36
India	**25001**	**40418**	**34613**
Iran	1670	1615	3016
Maldives	15	12	10
Nepal	6	1	39
Pakistan	5590	5438	2387
Sri Lanka	603	752	404

Source: World Investment Report, 2010, p.170.

After 1990, India's economy improved significantly and that reformed the market to promote economic growth. Major initiative is to create a liberalized market environment to encourage the growth of private economy (Eichengreen and others, 2010). For example, government reduced barriers to international trade. In addition, India joined the WTO in 1995 years for opening market to global. Presently India's macro advantages include more youthful population of the welfare burden smaller than China. By comparing that India has a better environment to attract FDI in future. Democratic country provided stability political to ensure the stable economic development (ibid).

TABLE 3 Indian economic growth outlook April, 2012 - March, 2013

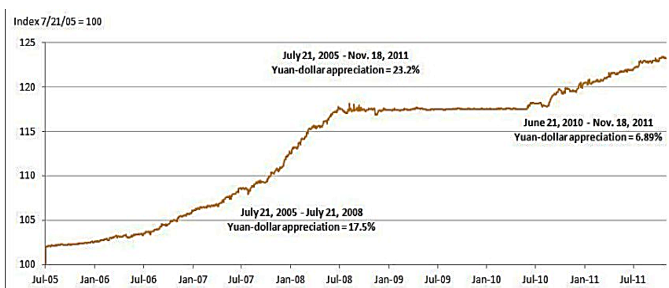
Organisation	**Estimated GDP growth rate**	**Month of projection**
International Monetary Fund	6.1%	July 2012
World Bank	6.9%	June 2012
Asian Development Bank	6.5%	July 2012
Nomura	5.8%	June 2012
Morgan Stanley	5.8%	June 2012
JP Morgan	6-6.5%	June 2012
Goldman Sachs	6.6%	May 2012
Bank of America-Merrill Lynch	6.5%	May 2012
HSBC	6.2%	June 2012

Standard Chartered	6.2%	June 2012
Centre for Monitoring Indian Economy	7.2%	July 2012

After the economic crisis, Indian GDP has increased steadily from 1999 to 2011. The data shows that India will continue to be the destination to attract FDI. Therefore, if both countries could sustain their present growth in the future, they are likely to attract more FDI.

Interest Rates

Foreign companies consider the exchange rate of capital value, the investor consider the exchange ratio with target countries, use capital more effective to obtain tremendous benefits (Dunning and Lundan, 2008). And the exchange rate of target country as an element for measuring the return on investment. Chinese exchange ratio is more attractive to western investors. However, FDI enter China because a highest savings in China, which is due to cultural influences. The capital had been shelving, but government needs huge funds to build infrastructure. Consequently, FDI increase is a political choice of the Chinese government (Voss, 2011). Furthermore, the opposite view is that with the rise of exchange ratio.



Source: Federal Reserve Bank of New York Foreign Exchange Rates.

Figure 2 : Chinese Yuan/US Dollar Exchange Rate Index, July 2005-Nov 2011

On the contrary FDI in Europe declined after the financial crisis. The reason is that Europe and America were the main origins of the global economic slowdown as a result of both political and economic decisions there by reducing the level of confidence in the economy by investors. Even when the economic crisis seems to have been overcome, then emerged the euro zone debt crisis which further reduced investor confidence owning to records of deficit and profits reduction among multinational companies. Additionally it is observed by Floyd (2009) that the general capitalist and structured marketing system in Europe and America makes it less flexible market (Floyd, 2009). Because of these limitation most people will prefer investing in Asia where market condition a can be adjusted to accommodate even individual investors based on the negotiation power. This is consistent with FDI theories of promoting a safe investment environment and the expectations of high returns.

Market Size and factors of Production

For researchers such as Czinkota (2010) China and India has a lot of resources and factors of production which are cheaper compared to those in the western world and with competition almost about prices, the ability to produce at a lower cost is considered much better and safer for organisation’s survival. In his view it is because of this that even organisations that do not want to market to Chinese and Indian find it expedient to produce there and then resell in their respective countries. Also in the study of Fang (2009) he acknowledges the fact that China and India’s huge population is a tempting market for several companies as one can find the population of about America and Africa in China and India alone.

In term of, the location advantages of FDI theories are ideally suited for China and India (Eichengreen and others2010); the two countries with favourable geographical conditions provide a wealth of raw materials. Compared to other countries, China and India provided the minimal barriers of international trade policy. The bonded and the developing park created a high-quality environment for multinational corporations in China and India (ibid). In particular, India allows foreign companies to hold 100% equity (Alamgir, 2008). Moreover, China and India could provide the sufficient labour and lower labour costs. Compared to the higher labour wages in developed countries, the low-cost strategy for multinational companies could bring greater returns on investment. The foreign companies implement the emerging market theory of location advantage to enter the China market. Tesco and McDonald's can be seen that occupy the best location in the cities of in China. China and India market environment conformed advantages of Dunning’s

theories. These are evidences of the two countries will continue to be target countries to attract FDI

Political Stability

The gravity FDI theories point that political stability of the target country is an important factor to attract the high-inflow. For a long time China and India have experienced immense political stability. For example in China President Hu Jintao formulated "harmonious society" policy for narrowing the gap between rural and urban (The Economist, 2011). This indicates that China's political and economic will be more favourable situation and Chinese government has gradually open up the market from a purely centrally planned market to a mixed economic policy to promote the development of privatization.

However, the economic policy response to the theory of FDI, the changes of policy and macroeconomic environment will restrict FDI in China. Government regulates the foreign companies to control the shares of Chinese companies. According to The Economist (2011), China may have a large surplus of FDI with risks. FDI profits has been remitted upward trend, Chinese government should consider the trend of the 'Yuan' appreciation, and RMB will take risk by disequilibrium. China policy will control more strictly on FDI despite China obtained many benefits from foreign investor. This policy is to prevent the massive outflow of capital to lead the financial crisis. For this reason, FDI will decline in China.

In term of, India government realized the corrupt policies and regulations are obstacle to development after independence and implement the planning economy earlier than China in 1951 (Datt and Sundharam, 2009). India is the fastest growing country of the emerging market, the FDI theories can be used in this developing country, because India's macroeconomic situation met the requirements of FDI theories.

Social Organisation

The Dunning's O-L-I framework and other mainstream FDI theories discussed in the Chapter 2 do not take social factors explicitly into consideration. Undeniably, social factors are considered by MNCs and they have a tremendous impact on the causes and effects of FDI inflows. Firstly, the FDI gap between two countries is partly a tale of two Diasporas. China has a large and wealthy Diaspora that has long invested its money. During the 1990s, more than half of China's FDI came from overseas Chinese sources (Friedman and Gilley 2005). Yeung revealed that a large proportion of foreign investment in Dongguan, Guangdong Province was stemmed from overseas Chinese entrepreneurs (including the overseas-based subsidiaries of enterprises originating in China). The competitive advantage for overseas Chinese-funded enterprises in Dongguan was their ethnic or close relationship with local government officials (Yeung 2001).

In the same regard, the Indian diaspora was, at least until recently, resented for its success and much less willing to invest back home. Until now, the Indian diaspora has accounted for less than 10 percent of the foreign capital flowing to India. Recently, the Indian government has noticed this problem and organizations, such as The Indus Entrepreneurs (TiE), were established to provide platforms for formation of social networks (McManus, Li et al. 2007).

Besides the ethnic networks, the personal relationship (Guanxi) cultivated with local officials is also considered by foreign investors, especially those from Hong Kong and Taiwan. As Yeung (2001) indicates that some open-minded local government officials have established communication channels exclusively for foreign investors and this is helping substantially to make the country attractive (Yeung 2001).

It is regarded as an internalization advantage for foreign investors as it reduces the information costs for clarifying and understanding new policies. In contrast, feedbacks received from potential foreign investors indicate that India's vast market-place and skilled workforce do not compensate for poor infrastructure and a corrupt bureaucracy (Fortune India 31 December 2003). The American congressman, Frank Pallow once complained that 'India is not a difficult place to invest, apart from the bureaucratic maze which makes it more difficult to handle than the stringent bur clearer norms of more autocratic countries like China' (Gakhar 2006). There has been initiatives thus to flush out the India's corrupt and inefficient bureaucracy, which used to be a veritable and bothersome hurdle.

Imitating Chinese Firms FDI Strategy

Strategic Fitness

Chinese firms seek strategic fitness when embarking on FDI. The whole essence of strategic fitness is to ensure that the recommended strategy of a company is deployed in such a way that the organisation's strength and opportunities would be maximised while the threats and weaknesses will be minimised in a significant way possible. As Roberts, (2000) has explained, strategic fitness is a description of the degree to which an organization matches its capabilities and resources to take advantage of the opportunities within the external market environment. For Ghanaian firms to be able to adopt the FDI effectively it must do so through a strategy which require them not only to have the capabilities and actual resources to execute and support the strategy but also to align its internal structure and system to enable it take advantage of the opportunities (Aronson et al, 2005). As McKinsey says the organisation must deploy its resources such that it effectively combines the systems, shared goals, strategy, staff, skills, style and structure into a formidable strategy in order to gain the competitive attention of the market

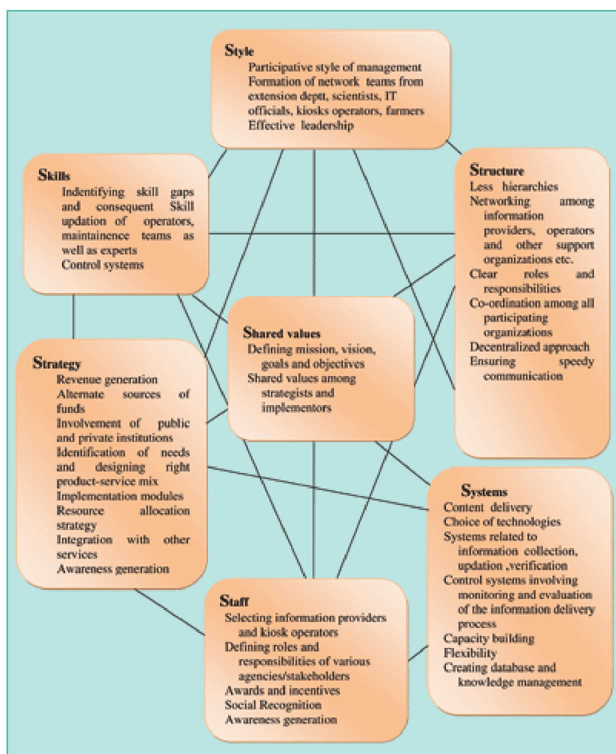


Figure 3 : McKinsey 7S model

For most Chinese firms such as Sinopec, they develop strategic fit that can transport it to achieve high profitability through foreign direct investment by aligning well its technology and knowledge transfer, absorptive capacity; outsourcing, global manufacturing networks, global supply chains (Baars and Kemper, 2008). These are very important lesson that Ghanaian firms can learn.

Global Supply Chains

One of the many challenges in developing a strategy that fits the environment which Ghanaian firms will have to contend with in foreign direct investment is global supply chain practices. These is the question about the developing a responsive supply chain yet within an uncertainty market terrain. The demand for the market cannot be easily predicted but when the demand comes the organisation must be able to live up to expectation and deliver within the shortest possible times.

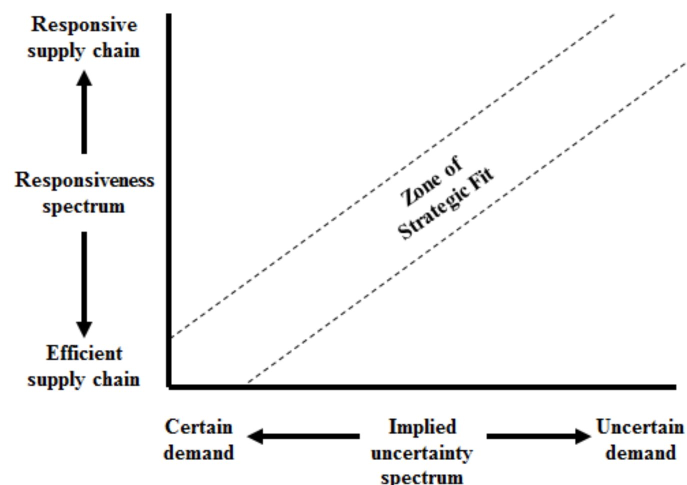


Figure 3 : The Strategic Fit Process

In figure 3 the conundrum of achieving Strategic Fit shown on the Uncertainty/Responsiveness Map. In this case the company has to position itself within the boundaries where it is where it has some degree of predictive competence and then ability to respond as fast as possible to any predicted or unpredicted patterns of supply chain. In order to define a more strategically fit operation in the foreign market, Ghanaian firms would have to be able to balance the following drivers of supply chain performance. In terms of facilities, Ghanaian firms must have well operated and regulated storage facilities for its inventory as well as well regulated assembly, and fabricating points. There is also the need to get good sites for production. The next issue

that the company has to deal with is its inventory which entails the raw materials, the work in progress and the finished products within a supply chain (Chorell et al, 2005). The company will have to make sure that there is a reliable supply sources and that the management of the inventories are well coordinated using contemporary technology to manage maximum stock level, minimum stock levels, reorder levels, danger levels and etc.

The kind of policies which are made about logistics and transportation is very important for the company to achieve effective strategy fit (Etemad, 2013). For example the company must design a mechanism that allows it to move the stock or inventory from one point to another point within the supply chain through by combining various modes of transportation routes so as to deliver materials as fast as possible. Management of information is a major driver of supply chain and can affect strategy fitness, S Ghanaian firms have to ensure that there is appropriate mechanism to collect and analyse information or data about its stock of inventory, its transport, and other storage facilities within the entire points of the supply chain (Baars and Kemper, 2008). This is important because it is the biggest driver of the performance of the supply chain. Another major issue that Ghanaian firms have to deal with is sourcing. It needs to determine which of the aspect of operation and supply must be sourced internally and which must be outsourced. This is because they require different approaches to managing them, The company must develop a pricing system which allows it to compete at the market value price yet flexible enough to adjust prices to overcome the competitive strength of its competitors (Chorell et al, 2005).Thus Ghanaian firms must design its strategy bearing in mind the integration of the facilities decisions components such as capacity, location method of manufacturing, warehousing overall trade off and methodology,). Ghanaian firms also has to deal with other elements of the inventory decision such as inventory cycle, seasonal changes in inventory, safety cycle control, overall trade off and level of product availability and all the other components must be well managed in order to achieve strategic fitness in FDI (Chorell et al, 2005)

Global Manufacturing Networks

Configuration and Coordination advantages are the major issues in global manufacturing networks which is an issue of strategic fitness that Ghanaian firms has to deal with as much as it wants to stay in the competition and operate with a FDI mechanism. According to Colotla, Shi and Gregory (2003) there is a strong relationship of strategic value between network coordination and configuration to the competitiveness of international manufacturing especially for companies that wants to use FDI as the tool for international business. The extent to which the forces of network configuration and coordination can affect the competitiveness of the operation of Ghanaian firms with FDI is demonstrated by Colotla et al (2003) and this is seen as below:

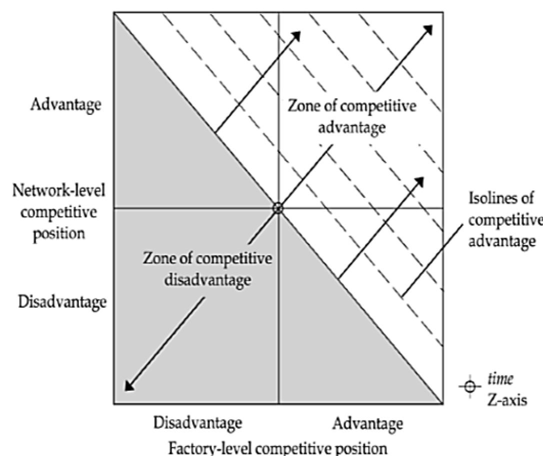


Figure 4 : Network Competition

In this case the zone of competitive advantage is found where the factory level competitive position and the network level competitive position is high. For Ghanaian firms therefore it if it wants to achieve this level of competitive advantage then it must seek configuration advantages. This includes getting advantages from being close to the suppliers, labour availability, having access o technological knowhow and skills, specialism in managing social and political environment, managing competition and other (Gustavson, 2008). It must also be able to get a strong coordination advantage which entails economies of scale and scope, manufacturing mobility, learning ability. In addition, and from the diagram, Ghanaian firms can gain additional competiveness by moving from one iso-line to another and development of resources have a significant importance over time (Cohen, et al, 1990)

Technology and Knowledge Transfer

Another major issue which will affect the success of the organisation with FDI in the destination countries is the

technology and knowledge transfer. Successful organisations thrive when they are able to disseminate information across the organisations. Ghanaian firms has to make sure that flow of knowledge among the various units of the organisation is strong and goes beyond mere communication between them (Chorell et al, 2005) Just like the case of managing knowledge transfer in Ghanaian firms means organizing, creating, capturing or distributing knowledge to make sure it is available for future users (Baars and Kemper, 2008). Technology transfer is directly related to the knowledge management but not the only element. Ghanaian firms will also have to design its operations such that it transfer technology from places where they have built significant competences to those new areas where they are yet to gain competences. Through technological transfer Ghanaian firms can transfer its skills, accumulated knowledge, operational technologies, and operational methods of manufacturing, facilities and sample of manufacturing to make them accessible to a wider range of users within and even outside the organisation in so far as it will inure to the competitive benefit of the organisation.

Absorptive Capacity

Another of the elements which will be influential in the success of Ghanaian firms when it enters into FDI is what Cohen, et al (1990) describes as the absorptive capacity. The absorptive capacity in this respect reflect the degree to which Ghanaian firms will be able to make out the value of the new information they will find in their new market, assimilate the information, and apply to achieve their commercial ends. This require the organisation not only to rely solely on the information it has accumulated over the years or prior knowledge and experience but set itself as a learning organisations, In whichever market it find itself there is opportunity to learn new things which can be well integrated or assimilated into its prior experiences and that s can contribute to the competitive success of the organisations (Arul, 2009). To achieve these Ghanaian firms must develop a well-endowed research and development unit to better interrogate the external information. The more effort Ghanaian firms will apply to the learning new things in its environment the better the opportunity to retrieve success and innovation. As it is often said practice indeed makes an organisation perfect and having a diverse background will provide Ghanaian firms with a more robust basis for learning in uncertain situations and stimulates creativity by associating to more linkages (Gustavson, 2008).

Outsourcing

A major challenge which faces companies which enter into new market with the FDI is the issue of outsourcing, It is validity to claim that it is because of proximity to raw materials and other factors of production which will inspire Ghanaian firms to go into another country by FDI, However when they enter into the new markets it is not everything the company can produce on its own there (Baars and Kemper, 2008). There are some of the products where the company will have to rely on other firms to produce. Porter calls these ancillary organisations the clustering conditions and the facilitating conditions. Sometimes it is better to outsource a product than to product it by yourself. If Ghanaian firms take advantage of the outsourcing opportunities in its new market it will bring to the company several advantages (Arul, 2009). Firstly Ghanaian firms will be able to focus on the activities where it is best at and leave those where it is weak. This will enable it to better deploy its core competencies to the maximum, The Company will save cost by saving cost that should have been invested in capital and technology and labour which contributes substantially to total corporate cost (Arul, 2009). These notwithstanding there are disadvantages with outsourcing especially when one has to deal with having unreliable suppliers sometimes. There are times cost of transportation and others can frustrate the ability to take advantage of opportunities. Because of outsourcing organisation are hesitant to develop internal capacity and skills for the days of adversity where they cannot get any more suppliers (Baars and Kemper, 2008).

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