

# Navigating Foreign Direct Investment (FDI) Challenges: A Strategic Framework for Chinese Enterprises in Guinea

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## Abstract

This research investigates the challenges and opportunities faced by Chinese enterprises, particularly Angel Yeast, in entering the Guinean market. By examining key barriers in regulatory, infrastructural, socio-cultural, and environmental contexts, this study identifies factors that affect Foreign Direct Investment (FDI) success. It proposes a strategic framework for market entry that emphasizes regulatory reforms, infrastructural development, cultural sensitivity, and sustainable practices. The research integrates theoretical models with empirical data gathered through interviews with industry professionals and government reports, offering valuable insights for Chinese companies seeking long-term success in Guinea.

## Keywords

Foreign Direct Investment (FDI), Chinese Enterprises, Guinea, Market Entry Strategies Local Partnerships

## 1. Introduction

China's economic expansion into Guinea is part of a broader pattern of Chinese foreign direct investment (FDI) across Africa. Guinea's abundant resources, particularly in bauxite, iron ore, and gold, are crucial for China's manufacturing industries, which increasingly rely on these resources. However, despite the opportunities presented by Guinea's economic growth and rich resources, Chinese firms face significant barriers when attempting to establish operations in the country.

These challenges include a cumbersome regulatory environment, inadequate infrastructure, cultural misalignments, and environmental sustainability issues. This study explores these challenges and offers strategic recommendations for

overcoming them, with a particular focus on Angel Yeast, a Chinese agribusiness company.

## 2. Research Objectives

This study aims to:

- 1) Identify the regulatory, infrastructural, and socio-cultural barriers faced by Chinese enterprises operating in Guinea.
- 2) Propose strategies for integrating sustainability and cultural sensitivity into Chinese firms' market-entry approaches.
- 3) Develop a strategic framework to guide Chinese enterprises in navigating the complexities of the Guinean market, enhancing the effectiveness of their FDI.

## Significance of the Study

This study contributes to understanding how foreign firms, particularly Chinese enterprises, can overcome barriers to successful operations in Guinea while supporting the country's economic development. By focusing on the regulatory, infrastructural, and cultural dimensions, this study offers a framework that can guide future foreign investors in Guinea, with practical implications for enhancing market-entry success.

## 3. Literature Review

Guinea has become increasingly open to foreign investments, particularly from China. However, despite the potential, foreign investment in Guinea faces several challenges, including regulatory barriers, infrastructural deficits, and cultural misalignments (Bah & Zhang, 2020). In addition, the country's underdeveloped financial sector makes it difficult for foreign firms to establish meaningful linkages with local businesses (Bilivogui & Liu, 2022). Despite these challenges, Guinea offers significant opportunities, including abundant natural resources and a rapidly growing middle class.

### 3.1. Regulatory Challenges

The regulatory environment in Guinea remains one of the primary barriers to foreign investment. Bureaucratic inefficiencies, inconsistent enforcement of regulations, and lengthy approval processes make it difficult for foreign companies to operate smoothly. Regulatory uncertainty exacerbates the risks associated with foreign investments (Bah & Zhang, 2020).

### 3.2. Infrastructural Issues

Inadequate infrastructure, especially in the transportation and energy sectors, poses another significant challenge. Poor roads, unreliable power supplies, and limited access to ports create barriers to efficient operations, driving up costs for foreign firms (Bilivogui & Liu, 2022). Logistics and transport inefficiencies further compound investment risks, as emphasized by Bilivogui, Bah, and Camara (2022).

### 3.3. Cultural Sensitivity and Adaptation

Cultural differences often lead to misunderstandings and alienation. Chinese firms entering the Guinean market often fail to adapt their business practices to the local culture, which leads to consumer dissatisfaction and poor market penetration (Bamidele et al., 2023). Angel Yeast struggled to align its marketing strategies with local consumer preferences, demonstrating the need for cultural adaptation in business practices.

### 3.4. Challenges for Chinese Enterprises in Guinea

Cultural differences are one of the primary challenges faced by Chinese enterprises in Guinea. Bamidele et al. (2023) highlighted that many Chinese companies fail to adapt their marketing strategies to the local culture, which can lead to consumer alienation. Angel Yeast faced difficulties in adjusting its advertising and promotional strategies to resonate with local consumers' preferences. Cultural sensitivity in business practices is crucial for success, as local consumer preferences and expectations differ significantly from those in China. In addition to cultural challenges, the regulatory environment in Guinea can be restrictive and inconsistent, often leading to delays in project approval and increased operational costs (Bah & Zhang, 2020).

### 3.5. Environmental Sustainability and CSR Initiatives

Environmental sustainability has become a key concern for foreign enterprises operating in Guinea, particularly in the mining industry. Kolie et al. (2019) observed that the environmental impact of industrial activities, such as deforestation and water pollution, has led to public distrust of foreign enterprises, particularly those from China. Angel Yeast has attempted to mitigate these concerns by adopting sustainable practices in its operations, such as promoting sustainable agriculture. However, such efforts have not fully dispelled the perception that Chinese firms are unsustainable. Therefore, Chinese enterprises must significantly increase their CSR efforts, focusing on environmental sustainability, to enhance their image in Guinea.

## 4. Theoretical Framework

This study employs two key theoretical frameworks to assess the market entry strategies of Chinese enterprises in Guinea.

### 4.1. Dunning's Eclectic Paradigm

Dunning's Eclectic Paradigm, which focuses on Ownership, Location, and Internalization (OLI) advantages, can explain why Chinese firms, such as Angel Yeast, prefer to establish direct investments in Guinea rather than relying on less controlling forms of market entry, such as licensing or franchising. This model suggests that firms invest directly in foreign markets when they possess ownership advantages (e.g., technology and brand), location advantages (e.g., access to resources), and internalization advantages (e.g., reduced transaction costs). Angel

Yeast's decision to establish direct investments in Guinea aligns with this paradigm, as the company possesses proprietary technology and aims to control its supply chain by sourcing raw materials locally (Dunning, 2000). Recent extensions of the Eclectic Paradigm highlight its applicability to emerging market contexts like Guinea (Batschauer da Cruz, Smith, & Wang, 2022).

#### 4.2. Uppsala Model of Internationalization

The Uppsala Model of Internationalization emphasizes gradual market entry through incremental steps. Angel Yeast's approach to the Guinean market follows this model, with the company initially entering through small-scale investments and expanding its presence incrementally (Johanson & Vahlne, 1977). This strategy minimizes risks and allows for adjustments based on local conditions, such as regulatory requirements and cultural preferences (Ashiru & Oni, 2022).

#### 4.3. Sustainability and Corporate Social Responsibility (CSR)

Corporate social responsibility (CSR) plays a crucial role in improving foreign firms' public image and aligning their activities with local expectations. Angel Yeast's focus on sustainable agriculture and community welfare programs is an example of how Chinese enterprises can leverage CSR to address environmental and social challenges in Guinea. By adopting cleaner production technologies and engaging with local communities, companies can mitigate the adverse effects of industrialization and build trust among local stakeholders. Angel Yeast has attempted to mitigate these concerns by adopting sustainable practices in its operations (Angel Yeast, 2023), such as promoting sustainable agriculture.

### 5. Methodology

This study adopts a mixed-methods approach, combining qualitative and quantitative data. A systematic literature review was conducted, focusing on scholarly articles, government reports, and CSR reports. In addition, primary data was collected through interviews with Chinese business leaders operating in Guinea, local government officials, and industry experts. The primary data provides firsthand insights into the challenges and strategies employed by Chinese enterprises in Guinea.

### 6. Result

The results of the study highlight the following key challenges (Table 1 and Table 2).

**Table 1.** Key challenges faced by Chinese enterprises in Guinea.

Challenge Area	Description	Examples	Impact
<b>Regulatory Barriers</b>	Lengthy administrative processes and inconsistent enforcement of regulations.	Delays in project approval.	Increased operational costs and project delays.

## Continued

<b>Infrastructural Issues</b>	Poor transport, energy, and logistical infrastructure.	Limited road networks, erratic electricity supply.	Higher operational costs, lower efficiency.
<b>Cultural Sensitivity</b>	Lack of adaptation in marketing and business practices to local culture.	Use of Western advertising methods.	Loss of consumer trust and alienation of local consumers.
<b>Environmental Sustainability</b>	Adverse environmental effects of industrialization, such as pollution and deforestation.	Mining and industrial waste.	Increased community resistance and negative public perception.

**Table 2.** Strategic framework for overcoming FDI challenges.

Strategy	Description	Expected Outcome
<b>Regulatory Engagement</b>	Engage proactively with local authorities to streamline approval processes and reduce bureaucratic delays.	Faster project approval and reduced compliance costs.
<b>Infrastructure Investment</b>	Invest in infrastructure development, particularly in transportation and energy, either through direct investment or partnerships with the government.	Improved logistical capabilities, enhanced operational efficiency.
<b>Cultural Adaptation</b>	Adapt marketing strategies and business practices to align with local cultural norms and consumer preferences.	Increased consumer trust, improved market penetration.
<b>Environmental Sustainability</b>	Implement CSR initiatives focusing on sustainable practices, including Eco-friendly production and community engagement.	Improved public perception, reduced environmental impact, and enhanced community relations.
<b>Local Partnerships</b>	Establish partnerships with local suppliers and businesses to navigate market complexities and enhance market entry strategies.	Stronger market presence and better understanding of local dynamics.

1) Regulatory Barriers: Lengthy and inefficient administrative procedures, inconsistent enforcement of regulations, and high levels of bureaucracy hinder foreign investment (Bah & Zhang, 2020).

2) Infrastructural Issues: Guinea's underdeveloped transportation, energy, and logistical infrastructure creates significant operational challenges (Bilivogui & Liu, 2022).

3) Cultural Sensitivity: A lack of adaptation to local cultural preferences leads to consumer alienation and market penetration difficulties (Bamidele et al., 2023).

4) Environmental Sustainability: The environmental impact of industrial activities generates negative public perception, particularly in the mining and manufacturing sectors (Kolie et al., 2019).

## 6.1. Comparative Analysis with Other Foreign Investors

A comparison with foreign investors from other regions, such as Europe and the U.S., reveals that Chinese firms often lag in terms of CSR and environmental sustainability. While European and American firms tend to focus more on local community engagement and environmental practices, Chinese firms have been criticized for neglecting these areas (Bamidele et al., 2023).

## 6.2. Discussion

### 6.2.1. Regulatory and Infrastructural Improvements

To mitigate the impact of regulatory and infrastructural challenges, it is essential for both the Guinean government and foreign enterprises to collaborate to create a more streamlined regulatory process. Simplifying bureaucratic procedures and enhancing the country's infrastructure, particularly in the transportation and energy sectors, would significantly improve the attractiveness of Guinea as an investment destination. The African Development Bank (AfDB) (2024) notes ongoing efforts to improve Guinea's infrastructure, although gaps remain in road networks, energy reliability, and logistics. According to the World Bank (2024), Guinea's regulatory and infrastructural constraints remain key deterrents to foreign investment.

### 6.2.2. Cultural Sensitivity and Adaptation

Cultural Adaptation is critical for successful market penetration in the global market. Chinese companies must adjust their marketing and business practices to meet local consumer expectations. Providing cultural competence training to employees and collaborating with local consultants can help to bridge the cultural gap.

### 6.2.3. Environmental Responsibility and CSR

Environmental sustainability is a major concern for Chinese enterprises in Guinea. By investing in sustainable practices and engaging in corporate social responsibility (CSR) programs, Chinese companies can improve their reputation and reduce environmental degradation. Angel Yeast's commitment to sustainable agriculture provides a useful model for other Chinese firms operating in the country. Implementation of quality management systems remains limited in Guinea's agribusiness sector, further complicating operational effectiveness (Diakite, Soumah, & Touré, 2023).

## 7. Conclusion

This study delves deeper into the multifaceted challenges encountered by Chinese enterprises operating in Guinea, emphasizing the interconnected nature of these obstacles. Regulatory inefficiencies, characterized by complex bureaucratic processes and inconsistent policy implementation, create a challenging business environment. These issues are further compounded by infrastructural weaknesses, including inadequate transportation networks and unreliable power supply, which

hinder operational efficiency and increase costs. Cultural misunderstandings between Chinese businesses and local stakeholders often lead to communication breakdowns and misaligned expectations, while environmental concerns raise questions about the long-term sustainability of certain projects and their impact on local communities.

The research utilizes Dunning's Eclectic Paradigm and the Uppsala Model to provide a comprehensive framework for foreign companies seeking to enter the Guinean market. This approach emphasizes the importance of gradual market entry, knowledge acquisition, and adaptation to local conditions. The study highlights that successful market entry requires a holistic strategy that addresses multiple challenges simultaneously. Key recommendations include prioritizing sustainability initiatives to mitigate environmental concerns, fostering cultural sensitivity through cross-cultural training and local partnerships, and proactively engaging with regulatory bodies to navigate the complex bureaucratic landscape. By adopting these strategies, foreign enterprises can better position themselves to overcome barriers and establish successful operations in Guinea's challenging yet potentially rewarding market.

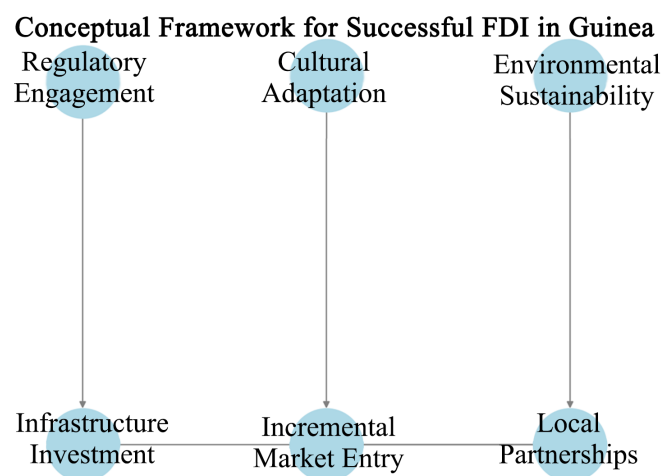
## 7.1. Recommendations for Professional Practice and Implications for Social Change

### 7.1.1. Professional Practice

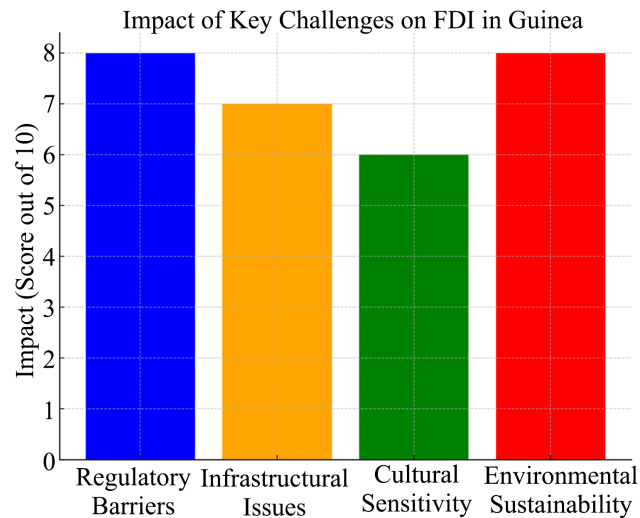
1) Regulatory Engagement: Proactively engage with Guinean authorities to understand and expedite regulatory processes (Figure 1 and Figure 2).

2) Cultural Sensitivity: Adapt marketing strategies and business practices to local cultural norms and consumer preferences.

3) Infrastructure Investment: Invest in infrastructure, particularly in transport and energy, either through direct investment or partnerships with the government.



**Figure 1.** This simple flowchart illustrates how regulatory engagement, cultural adaptation, and environmental sustainability are interlinked and contribute to a more successful market entry, supported by infrastructure development and local partnerships.



**Figure 2.** This bar chart visually displays the impact of regulatory and infrastructural challenges, as well as cultural and environmental concerns, on foreign direct investment in Guinea.

4) Sustainability: Adopt sustainable practices and invest in CSR initiatives to mitigate environmental impact and enhance public perception.

5) Financial Risk Management: Implement financial strategies, such as currency hedging, to reduce exposure to financial risks.

6) Technology Transfer: Collaborate with local tech firms to improve digital infrastructure and facilitate technology transfer, boosting innovation and productivity.

### 7.1.2. Social Change

The recommendations offered in this study have the potential to foster social change by improving the local economy, creating jobs, and enhancing the quality of life through improved infrastructure and environmental sustainability.

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## Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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## Abbreviations and Acronyms

FDI: Foreign Direct Investment

CSR: Corporate Social Responsibility

OLI: Ownership, Location, and Internalization (Dunning's Eclectic Paradigm)

SMEs: Small and Medium Enterprises

NGOs: Non-Governmental Organizations

Guinea: Republic of Guinea (Country in West Africa)