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Chinese Foreign Direct Investment, Market Entry Strategies, and SME Growth: Evidence from Nigeria

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Abstract
This study examines how Chinese FDI entry strategies Greenfield investments, mergers and acquisitions (M&A), and joint ventures (JVs) affect Nigerian SMEs. Using panel data on 2,500 manufacturing, construction, and retail firms from 2003 to 2023, along with 45 semi-structured interviews, we assess these effects using fixed-effects regression and thematic analysis. Aggregate Chinese FDI is modestly but significantly associated with SME revenue growth, though outcomes depend on entry mode. JVs have the strongest positive effect, supporting knowledge transfer and supply-chain integration. Greenfield investments create opportunities but intensify competition, yielding no net growth effect. M&A is linked to slower growth among competing SMEs, likely because consolidation and competitive pressure reduce growth. Interview findings reinforce these results: owners view collaborative investment as more beneficial, while wholly owned Greenfield projects can displace local firms. The study shows that how FDI enters matters as much as its scale. It recommends that Nigeria encourage strategies that maximize spillovers and strengthen ties between foreign investors and domestic SMEs.

Keywords: *Chinese FDI, Market Entry Strategy, SME Growth, Nigeria, Greenfield Investment, Joint Ventures, Spillovers, Economic Development*

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I. Introduction

The 21st century has seen a significant recalibration of global economic power, with emerging economies rising as major sources of foreign direct investment (FDI) (Cui & Jiang, 2008). Among these, the People's Republic of China has emerged as a formidable global investor, with its outward FDI (OFDI) stock expanding at an unprecedented rate (He et al., 2020). Much of this capital has gone to developing regions, particularly Africa, reshaping the continent's economic landscape (Kolstad & Wiig, 2011). As Africa's largest economy and most populous nation, Nigeria has been a prime destination for Chinese FDI, attracting investment across sectors from infrastructure and construction to manufacturing and retail.

Discourse on Chinese FDI in Africa is often polarized. Proponents highlight its role in bridging critical infrastructure gaps, creating employment, and stimulating economic growth (Doku et al., 2017). Conversely, critics raise concerns about debt sustainability, environmental standards, labor practices, and the potential for Chinese firms to crowd out local enterprises (Koumou, 2016; Pani, 2025). This debate is particularly salient for the Small and Medium Enterprise (SME) sector, which is widely recognized as the engine of job creation and inclusive growth in developing economies like Nigeria (Adeniji, 2022). However, SMEs in Nigeria face persistent challenges, most notably limited access to finance and intense competition (Aryeetey et al., 1994; Hallberg, 2000).

Much existing research on Chinese FDI in Africa treats it as a monolithic phenomenon, focusing on aggregate investment volume and its correlation with macroeconomic indicators such as GDP growth (Doku et al., 2017). This approach, while useful, overlooks a critical dimension: the strategic choices foreign firms make when entering a new market. The choice of market entry strategy—be it establishing a new subsidiary from scratch (Greenfield), acquiring an existing local firm (M&A), or partnering with a local entity (Joint Venture)—is a fundamental decision that shapes the nature of the MNE's engagement with the host economy (Buckley & Casson, 1998; Glowik, 2020). These entry modes create distinct opportunities and challenges for local SMEs, shaping pathways for technology transfer, supply chain linkages, and competitive dynamics.

This paper addresses this gap by asking: How do different market entry strategies employed by Chinese firms in Nigeria influence local SME growth? We disaggregate Chinese FDI into its primary entry modes (Greenfield, M&A, and Joint Ventures) to provide a more granular understanding of its impact. We hypothesize that these effects are not uniform; collaborative entry modes like JVs are expected to generate stronger positive spillovers for SMEs, while wholly owned modes like Greenfield investments and M&As may create more intense competitive pressures.

To investigate this, we employ a mixed-methods research design. Quantitatively, we construct a unique panel dataset of 2,500 Nigerian SMEs from 2003 to 2023 and analyze the relationship between their growth (measured by revenue and employment) and the prevalence of different Chinese FDI entry modes in their respective sectors and states. Qualitatively, we conduct in-depth interviews with SME owners, managers of Chinese firms, and government officials to uncover the causal mechanisms behind the statistical patterns and to capture the lived experiences of local entrepreneurs.

This study makes several contributions. First, it adds to the literature on the development impact of Chinese FDI by moving beyond aggregate analysis and focusing on the crucial role of entry strategy (Cui & Jiang, 2008). Second, it provides empirical evidence from Nigeria, a critical yet under-researched context for firm-level analysis of China-Africa relations. Third, by integrating quantitative and qualitative methods, it offers a richer and more nuanced account of the complex interactions between foreign MNEs and local SMEs. Finally, the findings have significant policy implications, suggesting that host countries can more effectively harness the benefits of FDI by creating incentive structures that favor entry modes conducive to local enterprise development.

The remainder of this paper is structured as follows. Section 2 provides a comprehensive review of the relevant literature. Section 3 details the research methodology. Section 4 presents the empirical results from both the quantitative and qualitative analyses. Section 5 discusses the interpretation and implications of these findings. Finally, Section 6 concludes the paper with a summary, policy recommendations, and suggestions for future research.

II. Literature Review

2.1. The Rise of Chinese FDI in Africa

The rapid expansion of Chinese foreign direct investment worldwide, particularly in Africa, is a defining feature of the contemporary international political economy (He et al., 2020). This surge is driven by a complex interplay of motives. Early literature emphasized strong resource-seeking motives, with Chinese firms investing in Africa to secure access to oil, minerals, and other raw materials essential to China's industrial engine (Kolstad & Wiig, 2011; Tuman & Shirali, 2015). More recent studies, however, point to a more diversified set of drivers, including market-seeking objectives to tap Africa's growing consumer base (Utesch-Xiong, 2021) and efficiency-seeking goals to leverage lower labor costs. The rise of supermarkets and modern retail formats in Africa, for instance, presents new market-seeking opportunities for foreign investors (Reardon et al., 2003).

A key characteristic of Chinese FDI is the significant role of state-owned enterprises (SOEs), which often pursue strategic objectives aligned with the Chinese state's broader geopolitical and economic goals (Fon & Alon, 2022). However, Chinese investment is not monolithic; private enterprises (PEs) are increasingly active and often pursue different strategies and motivations than their state-owned counterparts (He et al., 2020).

The host country's institutional environment plays a critical role in attracting Chinese FDI. Some studies suggest that Chinese firms, particularly SOEs, are more tolerant of or even attracted to environments with weaker governance and institutional quality, especially in resource-rich nations (Kolstad & Wiig, 2011; Utesch-Xiong & Kambhampati, 2021). This risk tolerance may stem from the Chinese state's political and financial backing, which can mitigate risks that private Western firms might find prohibitive (Fon & Alon, 2022). Other research indicates that Chinese firms are not uniformly risk-acceptant and that their behavior can vary significantly based on ownership structure and the specific type of risk involved (Li et al., 2026).

2.2. Foreign Market Entry Strategies

The choice of entry mode is a cornerstone of international business strategy (Goodnow & Hansz, 1972). MNEs can choose from a spectrum of options, ranging from low-commitment modes like exporting to high-commitment FDI modes such as wholly-owned subsidiaries or joint ventures (Shaw & Onkvisit, 2008). Within FDI, the primary distinction is between Greenfield investments, M&A, and JVs.**Greenfield investments** involve the creation of a new facility from the ground up. This mode offers the MNE maximum control over operations, technology, and corporate culture. It is often preferred when the firm's competitive advantage is based on tacit knowledge or a unique organizational structure that is difficult to transfer to an acquired firm (He et al., 2020).

Mergers and Acquisitions (M&A) provide rapid market access by taking over an existing local company. This strategy lets the MNE quickly gain local market knowledge, distribution channels, brand recognition, and an established workforce. Firms often pursue M&A to acquire strategic assets, such as technology or brands, to enhance global competitiveness (He et al., 2020).Joint Ventures (JVs) involve a partnership with a local firm, where both parties contribute resources and share risks and rewards. JVs often respond to institutional pressures, such as government regulations requiring local participation, or mitigate the "liability of foreignness" by leveraging a local partner's market knowledge, political connections, and cultural nuances (Chen et al., 2006).

The choice among these modes is influenced by a host of factors, including firm-specific advantages, industry characteristics, host country conditions (e.g., market size, risk, institutional environment), and strategic objectives (Buckley & Casson, 1998). For Chinese firms, strategic behavior and the desire to overcome latecomer

disadvantages often shape their entry mode decisions (Cui & Jiang, 2008). For example, some Chinese firms may use cross-listing on international stock exchanges as a way to gain credibility and overcome market entry challenges in institutionally distant countries (Liang et al., 2025).

2.3. SME Development and Constraints in Nigeria

Small and Medium Enterprises are the bedrock of the Nigerian economy, contributing significantly to GDP and accounting for the vast majority of employment. Despite their importance, Nigerian SMEs operate in a challenging environment (World Bank, 2012). The most frequently cited constraint is access to finance (Adeniji, 2022). Formal financial institutions often perceive SMEs as high-risk borrowers due to information asymmetry, lack of collateral, and poor financial record-keeping, leading to a significant credit gap (Aryeetey et al., 1994). The development of financial markets is thus a critical prerequisite for robust economic and SME growth (Levine, 1999).

Beyond finance, Nigerian SMEs grapple with inadequate infrastructure (especially power and transport), an inconsistent policy and regulatory environment, and intense competition, both from large domestic firms and increasingly from foreign imports and foreign-owned firms. A market-oriented strategy for SME development must therefore focus on creating an enabling business environment that reduces policy-induced biases and improves access to markets and services (Hallberg, 2000).

2.4. The Nexus: FDI Entry Modes and SME Growth

FDI's impact on local SMEs is not automatic; it is mediated by the mode of entry. Each strategy creates different spillover channels and competitive dynamics.Competition Effects: All forms of FDI introduce a new competitor into the market, which can be detrimental to incumbent SMEs. This effect may be strongest with Greenfield investments and M&As. A Greenfield investor adds new capacity to the market, potentially driving down prices and margins for existing SMEs. An M&A can create a more powerful, foreign-backed competitor by combining the acquired firm's local knowledge with the foreign parent's financial and technological resources, leading to market consolidation and the exit of weaker SMEs. The rise of large, foreign-owned supermarket chains, for example, can present an existential challenge to small, traditional retailers (Reardon et al., 2003). Domestic producers may lobby for protection from foreign entry, especially in industries with high economies of scale where new competition is most threatening (Ro, 2021).

Spillover Effects: FDI can also generate positive spillovers that benefit SMEs. These can occur through several channels:Backward Linkages: Foreign MNEs may source inputs from local SMEs, creating new demand, raising quality standards, and providing technical assistance. This is a potential outcome of all entry modes but may be more pronounced in JVs where the local partner can facilitate connections with domestic suppliers.Forward Linkages: SMEs may benefit from using the products or services of foreign affiliates as inputs, which may be of higher quality or lower cost.Knowledge and Technology Transfer: SMEs can learn from MNEs by observing their practices, hiring former employees of foreign firms, or through direct training and collaboration. This channel is arguably strongest in JVs, where the partnership structure facilitates direct knowledge exchange. In M&As, technology may be transferred to the acquired firm, but its diffusion to the broader SME ecosystem is not guaranteed. Greenfield investments may bring new technology, but it often remains encapsulated within the foreign subsidiary.Labor Market Effects: The entry of MNEs can increase competition for skilled labor, potentially raising wages. They may also invest in training, upgrading the local skills base from which SMEs can benefit.

The net effect of Chinese FDI on Nigerian SMEs is therefore an empirical question, depending on the balance between these negative competition effects and positive spillover effects. This balance, we argue, is critically shaped by the entry strategy. JVs, by their collaborative nature, are hypothesized to foster stronger positive linkages. Greenfield investments present a mixed picture, creating both new competition and potential new supply chain opportunities. M&As are hypothesized to be the most competitively challenging for other SMEs in the same sector, as they create formidable foreign-backed incumbents. This study will empirically test these propositions in the Nigerian context.

III. Methodology

3.1. Research Design

To provide a comprehensive and robust analysis of the research question, this study adopts a mixed-methods approach, specifically a sequential explanatory design. This design involves two distinct phases. The first phase uses quantitative panel data analysis to identify statistical relationships between different Chinese FDI entry modes and SME growth indicators. The second phase involves qualitative analysis of semi-structured interviews to explain, interpret, and deepen the quantitative findings. This approach allows us to determine *whether* and *what* kind of relationship exists, and to understand *how* and *why* it manifests in the real-world context of Nigerian business. Figure 1 summarizes the two phases of the design and how they are integrated.

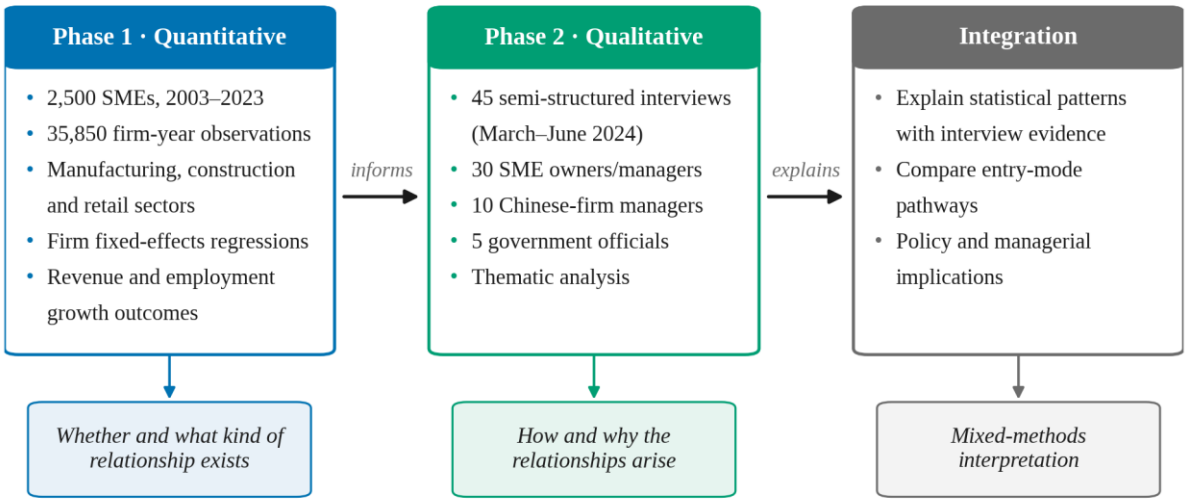


Figure 1. Sequential Explanatory Mixed-Methods Research Design

3.2. Quantitative Phase

3.2.1. Data and Sample

This study's quantitative analysis relies on a firm-level panel dataset covering 2,500 Nigerian SMEs from 2003 to 2023. The sample was drawn from three key sectors that have seen significant Chinese investment: manufacturing, construction, and retail. The firms were selected using stratified random sampling from the Nigerian Corporate Affairs Commission (CAC) corporate registries and membership lists of SME associations such as the Nigerian Association of Small and Medium Enterprises (NASME). The panel is unbalanced because it accounts for firms' entry and exit over the period.

We collected firm-level characteristics (the dependent and control variables) from archival sources at the CAC and from a retrospective survey administered to the sampled firms. We compiled data on Chinese FDI (the independent variables) from multiple sources, including the United Nations Conference on Trade and Development (UNCTAD) FDI Statistics, the American Enterprise Institute's China Global Investment Tracker, and reports from the Nigerian Investment Promotion Commission (NIPC). A key contribution of our data collection effort was meticulously disaggregating annual FDI inflow data by entry mode (Greenfield, M&A, JV), sector, and destination state within Nigeria. We sourced macroeconomic control variables from the World Bank's World Development Indicators and the Central Bank of Nigeria's Statistical Bulletin.

3.2.2. Variables and Measurement

Dependent Variables: SME growth was measured using two standard indicators: *annual revenue growth (the percentage change in a firm's total annual sales revenue) and employment growth (the percentage change in full-time equivalent employees)*. *Employment Growth*: The percentage change in full-time equivalent employees.

Independent Variables: The primary variables of interest capture the intensity of Chinese FDI by entry mode.*Chinese Greenfield Inflow (CGF)*: The value of new Greenfield investment projects initiated by Chinese firms in a given sector and state in year *t*, measured in millions of USD.*Chinese M&A Value (CMA)*: The value of M&A deals completed by Chinese firms in a given sector and state in year *t*, measured in millions of USD.*Chinese JV Inflow (CJV)*: The estimated capital contribution from the Chinese partner in new Joint Venture agreements in a given sector and state in year *t*, measured in millions of USD.

Control Variables: To isolate the effect of Chinese FDI, we controlled for firm-level and macroeconomic factors known to influence SME growth.*Firm Age*: The number of years since the firm's incorporation.*Firm Size*: The natural logarithm of the firm's total assets.*Leverage*: The ratio of total debt to total assets.*Domestic Credit*: The total credit extended by domestic banks to the private sector as a percentage of GDP, to control for the overall financial environment (Levine, 1999).*GDP Growth*: Nigeria's real GDP growth rate.*Inflation Rate*: The annual consumer price index inflation rate.*Infrastructure Index*: A composite index created using principal component analysis based on indicators such as electricity access and road density at the state level.*Institutional Quality*: The state-level "Ease of Doing Business" score, adapted from World Bank methodologies (World Bank, 2012).

3.2.3. Model Specification

We employed a panel fixed-effects regression model to analyze the data. The fixed-effects approach suits this analysis because it controls for time-invariant, unobserved firm-level heterogeneity (e.g., managerial quality, initial firm culture) that could bias the results. The general model is specified as follows:

$$Growth_{ist} = \beta_0 + \beta_1 CGF_{st} + \beta_2 CMA_{st} + \beta_3 CJV_{st} + \gamma' X_{ist} + \delta' Z_t + \alpha_i + \varepsilon_{ist} \quad (1)$$

Where:

- $Growth_{ist}$ is the growth indicator (revenue or employment) for firm i in sector s at time t.
- CGF_{st}, CMA_{st}, and CJV_{st} are the Chinese FDI variables for sector s in the state where firm i is located at time t.
- X_{ist} is a vector of firm-level control variables.
- Z_t is a vector of time-varying macroeconomic control variables.
- α_i represents the firm-specific fixed effects.
- ε_{ist} is the error term.

We ran several specifications of this model, first with an aggregate measure of Chinese FDI and then with the disaggregated entry-mode variables to test our main hypotheses. Standard errors were clustered at the state level to account for potential correlation of errors within states.

3.3. Qualitative Phase

3.3.1. Sampling and Data Collection

Following the quantitative analysis, the qualitative phase was conducted to provide explanatory depth. We used a purposive sampling strategy to select 45 participants for semi-structured interviews. The sample included:30 owners/senior managers of Nigerian SMEs (10 from each of the manufacturing, construction, and retail sectors), selected to represent firms that had experienced both high and low growth and were located in areas with high concentrations of Chinese FDI (e.g., Lagos, Ogun, Kano).10 senior managers of Chinese firms operating in Nigeria (representing a mix of Greenfield, M&A, and JV operations).5 officials from Nigerian government agencies involved in investment promotion and industrial policy (e.g., NIPC, Ministry of Industry, Trade and Investment). Interviews were conducted between March and June 2024, lasted approximately 60–90 minutes each, were audio-recorded with consent, and transcribed verbatim. The interview protocol was designed to explore perceptions and experiences related to Chinese investment, including the nature of competition, opportunities for collaboration and supply chain linkages, knowledge transfer, and the role of government policy.

3.3.2. Data Analysis

The qualitative data were analyzed using thematic analysis. This involved systematically reading and re-reading the transcripts to identify recurring patterns and themes related to the research questions. We developed an initial coding framework based on the literature review and the quantitative findings. This framework was then refined and expanded as new themes emerged from the data. The analysis compared and contrasted SMEs' experiences with different types of Chinese investment (Greenfield, M&A, JV) to build a rich, narrative-based explanation for the statistical results.

IV. Results

This section presents the findings from both the quantitative and qualitative phases of the study. We begin with descriptive statistics and regression results, followed by an analysis of the key themes that emerged from the interviews.

4.1. Quantitative Findings

4.1.1. Descriptive Statistics and Trends

Figure 2 illustrates the trend of Chinese FDI inflows into Nigeria from 2003 to 2023, disaggregated by the three primary entry modes. The data show a marked increase in overall Chinese FDI over the two decades, with a particularly sharp acceleration after 2013. Greenfield investments have consistently constituted the largest share, especially in large-scale infrastructure and construction projects. M&A activity, while smaller in volume, has become more frequent in recent years, particularly in the manufacturing and technology sectors. Joint Ventures represent the smallest but a steady component of the investment flow.

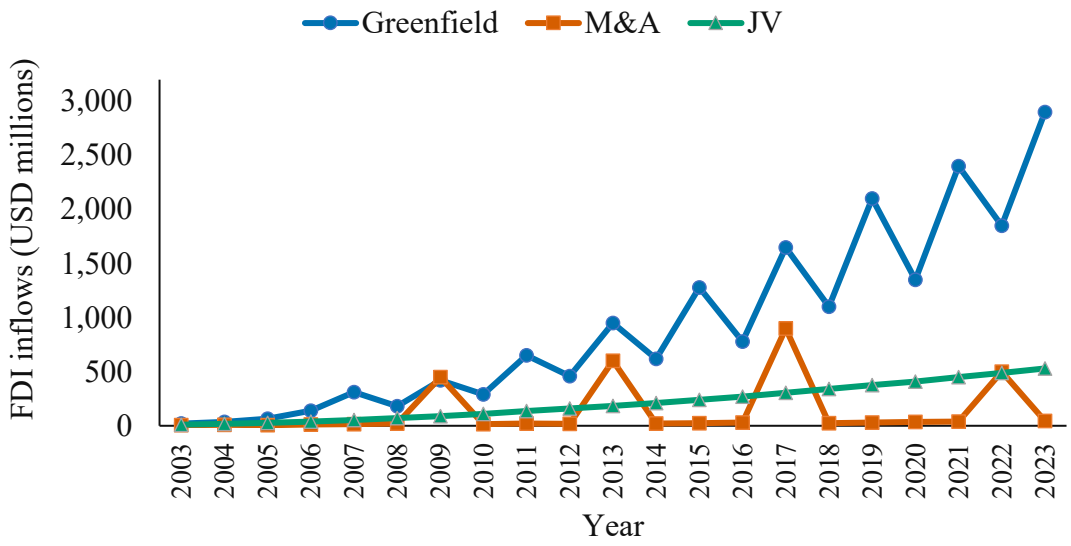


Figure 2**.** Chinese FDI Inflows to Nigeria by Entry Mode (2003–2023)
Note. Inflows in millions of USD, disaggregated by entry mode. Data sources are described in Section 3.2.1.

Figure 3 displays the sectoral distribution of cumulative Chinese FDI over the study period. The construction and infrastructure sector is the dominant recipient, accounting for over 45% of the total investment. This is followed by manufacturing (25%), mining and quarrying (15%), retail and wholesale trade (10%), and other services (5%). This distribution underscores the resource- and infrastructure-seeking motives of much of the Chinese investment in Nigeria.

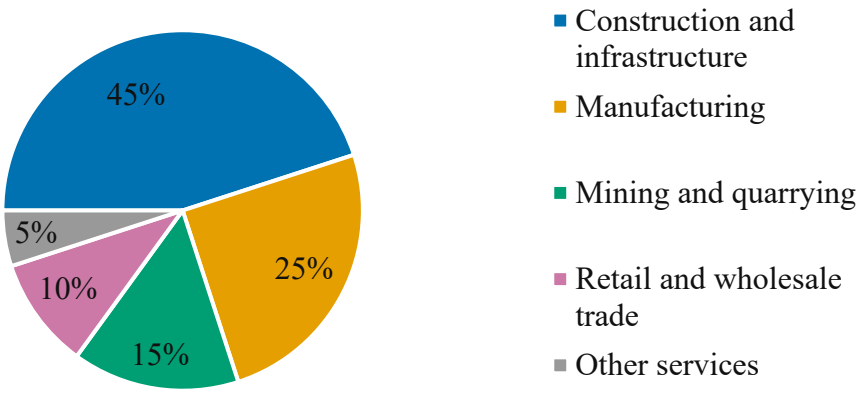


Figure 3**.** Sectoral Distribution of Cumulative Chinese FDI in Nigeria (2003–2023)

Table 1 presents the descriptive statistics for the key variables used in the regression analysis. The average annual revenue growth for SMEs in the sample was 8.5%, while employment grew at an average rate of 5.2%. There is considerable variation in these growth figures, as indicated by the high standard deviations, reflecting the dynamic and often volatile environment for Nigerian SMEs.

Table 1. Descriptive Statistics of Key Variables (N = 35,850 firm-year observations)

Variable	Mean	Std. Dev.	Min	Max
Dependent Variables				
Revenue Growth (%)	8.52	15.61	−45.2	120.5
Employment Growth (%)	5.21	9.88	−30.0	75.8
Independent Variables (USD Million)				
Chinese Greenfield Inflow (CGF)	150.4	210.7	0	950.2
Chinese M&A Value (CMA)	35.8	85.3	0	550.0
Chinese JV Inflow (CJV)	25.1	40.2	0	210.5
Firm-Level Controls				
Firm Age (Years)	12.4	8.7	1	45
Firm Size (ln Assets)	18.2	2.5	14.1	24.5
Leverage (Debt/Assets)	0.45	0.22	0	0.95
Macroeconomic Controls				
Domestic Credit (% of GDP)	14.8	3.5	9.8	22.1
GDP Growth (%)	4.6	2.8	−1.8	8.9
Inflation Rate (%)	12.5	4.1	7.5	24.5

Table 2 shows the correlation matrix for the main variables. As expected, the FDI inflow variables are positively correlated with each other, though the correlations are not high enough to suggest severe multicollinearity issues. Both SME growth measures are positively correlated with GDP growth and domestic credit, and negatively with inflation, which is consistent with economic theory.

Table 2**.** Correlation Matrix

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) RevGrowth	1.00						
(2) EmpGrowth	0.68*	1.00					
(3) CGF	0.09*	0.05	1.00				
(4) CMA	−0.04	−0.02	0.21*	1.00			
(5) CJV	0.15*	0.11*	0.18*	0.15*	1.00		
(6) GDPGrowth	0.25*	0.19*	0.31*	0.12*	0.22*	1.00	
(7) DomCredit	0.18*	0.14*	0.28*	0.10	0.25*	0.45*	1.00

Note. RevGrowth = revenue growth; EmpGrowth = employment growth; CGF, CMA and CJV = Chinese Greenfield, M&A and JV inflows; GDPGrowth = real GDP growth; DomCredit = domestic credit to the private sector (% of GDP). * indicates significance at the 5% level.

4.1.2. Regression Results

Table 3 presents the results of the fixed-effects regression models for SME revenue growth. Model 1 includes only the control variables. Model 2 adds an aggregate measure of Chinese FDI (the sum of CGF, CMA, and CJV). Model 3, our main model of interest, disaggregates Chinese FDI by the three entry modes.The results from Model 2 show that aggregate Chinese FDI has a positive and statistically significant, albeit small, effect on SME revenue growth. A one-standard-deviation increase in total Chinese FDI in a sector-state is associated with a 0.8% increase in the average SME's revenue growth.

However, Model 3 reveals a much more nuanced story. The coefficient for Chinese JV Inflow (CJV) is positive, substantially larger than the aggregate effect, and statistically significant at the 1% level. This suggests that joint ventures drive the overall positive relationship. The coefficient for Chinese Greenfield Inflow (CGF) is very small and statistically insignificant, indicating a neutral net effect on SME revenue growth. Most strikingly, the coefficient on Chinese M&A Value (CMA) is negative and statistically significant at the 5% level, implying that Chinese firms' M&A activity is associated with lower revenue growth among other SMEs in the same sector and state.

Table 3. Fixed-Effects Regression Results for SME Revenue Growth

Variable	Model 1	Model 2	Model 3
Chinese FDI (Aggregate)		0.004* (0.002)	
Chinese Greenfield (CGF)			0.001 (0.002)
Chinese M&A (CMA)			−0.015** (0.007)
Chinese JV (CJV)			0.042*** (0.011)
Firm Age	−0.152*** (0.03)	−0.151*** (0.03)	−0.155*** (0.03)
Firm Size	0.850*** (0.12)	0.845*** (0.12)	0.839*** (0.12)
Leverage	−2.511** (1.05)	−2.505** (1.05)	−2.530** (1.05)
Domestic Credit	0.215*** (0.05)	0.209*** (0.05)	0.198*** (0.05)
GDP Growth	0.554*** (0.09)	0.541*** (0.09)	0.535*** (0.09)
Inflation Rate	−0.310*** (0.06)	−0.312*** (0.06)	−0.318*** (0.06)
Constant	5.123*** (1.5)	5.098*** (1.5)	5.150*** (1.5)
Observations	35,850	35,850	35,850
R^2 (within)	0.185	0.188	0.195
Firm fixed effects	Yes	Yes	Yes

Note. Coefficients with standard errors clustered at the state level in parentheses. Chinese FDI (Aggregate) is the sum of CGF, CMA and CJV. *** p < 0.01, ** p < 0.05, * p < 0.1.

Table 4 replicates the analysis using SME employment growth as the dependent variable. The pattern of results is highly consistent with those for revenue growth. Aggregate Chinese FDI (Model 5) has a small positive effect. When disaggregated (Model 6), JVs show a strong, positive, and significant effect on employment growth. Greenfield investments have an insignificant effect, while M&As have a significant negative effect. This consistency across both growth measures strengthens the confidence in our findings. Figure 4 plots the entry-mode coefficients from Models 3 and 6 together with their 95% confidence intervals.

Variable	Model 4	Model 5	Model 6
Chinese FDI (Aggregate)		0.002* (0.001)	
Chinese Greenfield (CGF)			0.000 (0.001)
Chinese M&A (CMA)			−0.009** (0.004)
Chinese JV (CJV)			0.028*** (0.008)
Firm Age	−0.098*** (0.02)	−0.097*** (0.02)	−0.101*** (0.02)
Firm Size	0.540*** (0.08)	0.536*** (0.08)	0.531*** (0.08)
Leverage	−1.854** (0.75)	−1.850** (0.75)	−1.865** (0.75)
Domestic Credit	0.145*** (0.03)	0.139*** (0.03)	0.129*** (0.03)
GDP Growth	0.381*** (0.06)	0.370*** (0.06)	0.365*** (0.06)
Inflation Rate	−0.205*** (0.04)	−0.207*** (0.04)	−0.211*** (0.04)
Constant	3.987*** (1.1)	3.965*** (1.1)	4.011*** (1.1)
Observations	35,850	35,850	35,850
R^2 (within)	0.162	0.164	0.171

Variable	Model 4	Model 5	Model 6
Firm fixed effects	Yes	Yes	Yes

Table 4. Fixed-Effects Regression Results for SME Employment Growth

Note. Coefficients with standard errors clustered at the state level in parentheses. Chinese FDI (Aggregate) is the sum of CGF, CMA, and CJV. *** p < 0.01, ** p < 0.05, * p < 0.1.

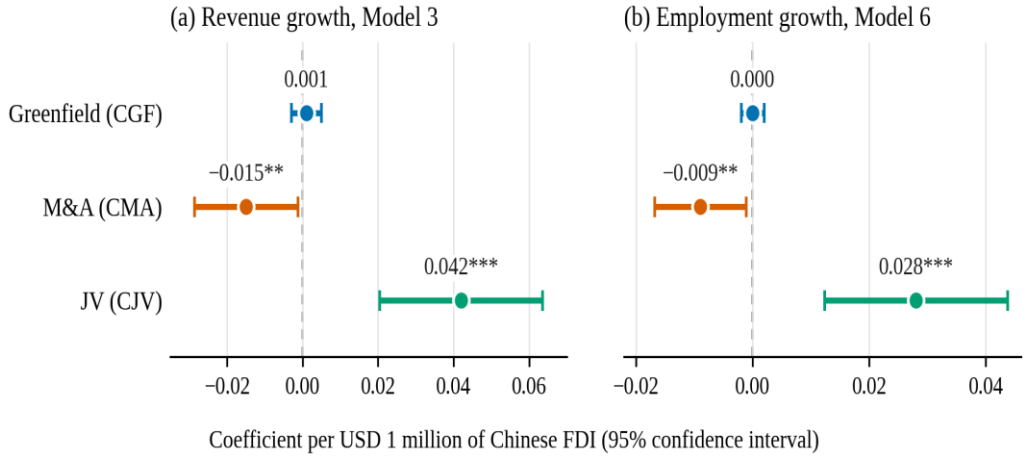


Figure 4. Estimated Effects of Chinese FDI Entry Modes on SME Growth
Note. Points show the fixed-effects coefficients from Model 3 (Table 3) and Model 6 (Table 4); bars show 95% confidence intervals (±1.96 × state-clustered standard error). *** p < 0.01, ** p < 0.05.

4.2. Qualitative Findings

The thematic analysis of the 45 interviews provided rich, contextualized explanations for the statistical patterns observed. Three major themes emerged: (1) JVs as a vehicle for "Symbiotic Growth," (2) Greenfield investments as a "Double-Edged Sword" of competition and opportunity, and (3) M&As as a source of "Market Disruption and Displacement." Table 5 summarizes the key sub-themes and illustrative quotes.

Table 5. Thematic Analysis of SME Perceptions of Chinese FDI Entry Modes

Main Theme	Sub-Themes	Illustrative Quote
1. JVs: Symbiotic Growth	• Knowledge & Technology Transfer • Access to New Markets • Supply Chain Integration • Shared Risk & Credibility	"Our Chinese partners brought in new machinery and trained our staff. We couldn't afford that technology on our own. Now we are exporting to ECOWAS countries through their network. It's a win-win." *— SME Owner, Manufacturing JV*
2. Greenfield: Double-Edged Sword	• Intense Price Competition • Creation of New Supplier Demand • Labor Market Pressures • Limited Local Linkages	"When their new factory opened, they flooded the market with cheaper tiles. We lost 30% of our sales. But they also needed packaging, so we started supplying them with cartons. It's a fight to survive, but also an opportunity." *— SME Owner, Manufacturing*
3. M&A: Market Disruption	• Aggressive Competitive Tactics • Consolidation & Reduced Choice • Disruption of Existing Supply Chains • Limited Spillovers Beyond Acquired Firm	"They bought out our main local competitor, and overnight the game changed. They started undercutting everyone on price, using their global supply chain. Many smaller players like us had to close down." *— SME Owner, Retail*

Theme 1: Joint Ventures as a Vehicle for Symbiotic Growth. SME owners involved in or supplying to JVs consistently reported positive experiences. The partnership structure was seen as inherently more collaborative. A key benefit was direct knowledge transfer. An SME owner in a furniture manufacturing JV explained how his Chinese partners introduced lean manufacturing techniques that dramatically improved efficiency. JVs also bridged access to new markets, with the Chinese partner often facilitating entry into regional export markets. This model was seen as creating the strongest backward linkages, as the Nigerian partner actively connected the JV to its existing network of local suppliers, fostering a more integrated ecosystem.

Theme 2: Greenfield Investments as a Double-Edged Sword. The perception of Greenfield projects was highly ambivalent. On one hand, SME owners, particularly in manufacturing and retail, spoke of intense and often

"unfair" competition. A manufacturer of plastic goods lamented, "A new Chinese factory set up nearby. Their scale is massive. They can produce at a cost we can't even dream of. It's a daily struggle." This direct competition explains the insignificant net effect in the regression analysis—the negative competitive pressure likely cancels out any positive spillovers for many firms.

On the other hand, these same large Greenfield projects create new opportunities. A construction SME owner noted that while he couldn't compete for the main contracts won by large Chinese construction firms, his company thrived by securing sub-contracts for services like plumbing, electricals, and site finishing. Similarly, Greenfield factories create demand for ancillary services and inputs, from logistics and security to packaging and raw materials. The challenge for SMEs is to pivot from direct competition to finding a complementary niche in the new value chain.

Theme 3: M&As as a Source of Market Disruption and Displacement. The interviews painted a largely negative picture of the impact of Chinese M&As on competing SMEs. When a Chinese MNE acquires a leading local firm, it injects significant capital and global efficiencies into an already established player. An SME owner in the food processing sector described how a local brand, after being acquired, was re-launched with aggressive marketing and pricing strategies that smaller firms could not match. This often leads to rapid market consolidation. Furthermore, M&As were seen as disrupting existing local supply chains. The new foreign parent often prefers to integrate the acquired firm into its global supply network, dropping local suppliers in favor of cheaper or higher-quality imports. This explains the negative and significant coefficient in the regression models, as the benefits of the investment are largely internalized within the acquired firm, while the negative competitive externalities are felt by the entire sector.

V. Discussion

The findings of this study provide compelling evidence that the development impact of Chinese FDI on local SMEs in Nigeria is not uniform but is critically contingent on the mode of market entry. Our integrated mixed-methods approach allows us to move beyond broad generalizations and offer a nuanced interpretation of the mechanisms at play. The conceptual framework in Figure 5 summarizes the pathways through which each entry mode influences SME growth.

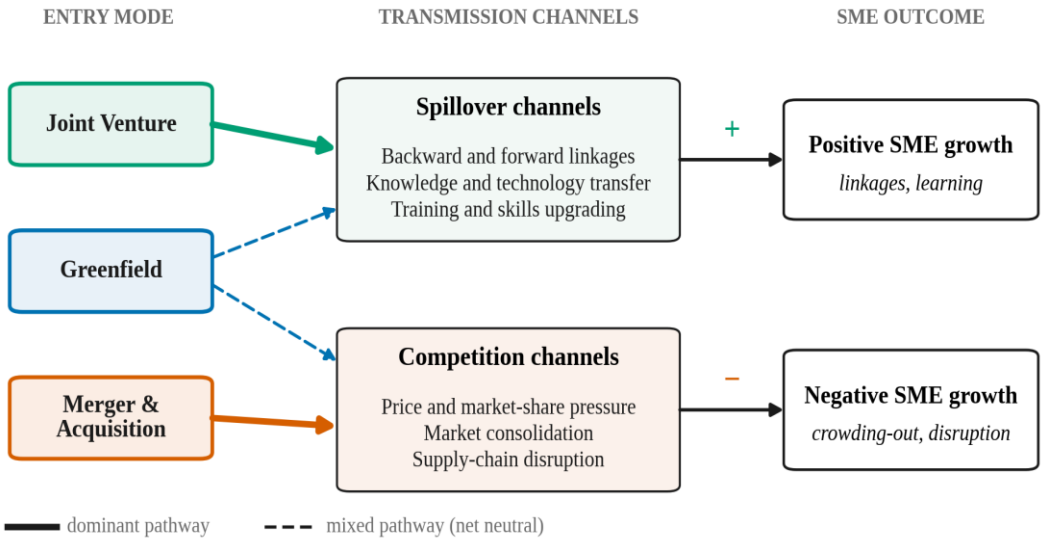


Figure 5. Conceptual Framework of FDI Entry Mode Impact on SME Growth

Note. Line weight indicates the dominant pathway for each entry mode. Greenfield investment operates through both channels, which is consistent with its net neutral estimated effect.

5.1. The Superiority of Collaborative Models: The Case for Joint Ventures

Our most significant finding is the strong, positive impact of Joint Ventures on both revenue and employment growth for Nigerian SMEs. This result strongly supports the theoretical arguments that collaborative entry modes are more conducive to positive spillovers (Walsh et al., 1999). The qualitative data clearly show that the JV structure creates an institutionalized channel for knowledge transfer, access to new technologies, and integration into wider markets. The local partner acts as a crucial intermediary, embedding the foreign investment within the domestic economic fabric and ensuring that linkages with local suppliers are established and maintained. This finding challenges the narrative that Chinese investment is purely extractive; when structured collaboratively, it can be a powerful catalyst for local enterprise development. The JV model effectively mitigates

the "liability of foreignness" for the Chinese investor while providing the local SME with the capital, technology, and market access it desperately needs (Chen et al., 2006), creating a symbiotic relationship.

5.2. The Ambivalence of Greenfield Investments

The statistically insignificant net effect of Greenfield investments on SME growth masks a complex reality of simultaneous creation and destruction, which our qualitative findings aptly termed a "double-edged sword." On one side, the entry of a large, efficient Greenfield player intensifies competition, putting immense pressure on the prices and market share of incumbent SMEs. This aligns with concerns about foreign firms crowding out local businesses (Reardon et al., 2003).

On the other side, these projects generate new demand for a wide range of goods and services, creating opportunities for SMEs that are agile enough to adapt and find a complementary role. The net neutral effect in our regression suggests that, on average, these two forces—competition and opportunity—cancel each other out. The outcome for any individual SME depends on its adaptive capacity and its position in the value chain relative to the new entrant. This finding highlights the importance of policies that not only attract Greenfield FDI but also support local SMEs in upgrading their capabilities to successfully link into the new value chains created by these investments. The distinction between Chinese SOEs, which often undertake large Greenfield projects for strategic reasons, and PEs could be a fruitful area for further investigation (He et al., 2020).

5.3. The Disruptive Force of Mergers and Acquisitions

The finding that Chinese M&A activity is negatively associated with the growth of competing SMEs is a critical contribution of this study. This result suggests that when Chinese firms enter by acquiring a strong local player, the primary effect is a consolidation of market power that harms other domestic firms. The qualitative evidence supports this, pointing to aggressive post-acquisition strategies and a tendency to sever ties with local suppliers in favor of global ones. This "buy-and-integrate" strategy, while efficient for the MNE, appears to generate limited positive spillovers for the broader SME ecosystem and can lead to a less competitive market structure. This finding resonates with provocative claims that large-scale FDI absorption can sometimes be a sign of underlying weaknesses and allocative inefficiencies in the host economy, where foreign firms essentially take over functions that domestic firms could have performed (Pye et al., 2004). Policymakers should therefore pay close attention to the competitive implications of M&A deals, particularly in concentrated sectors, and may need to strengthen competition and antitrust oversight.

5.4. Policy and Managerial Implications

Our findings have significant implications for both Nigerian policymakers and managers of local SMEs. For the Nigerian government, the key takeaway is that FDI policy should be more sophisticated than simply maximizing inflow volumes. Policies should be designed to actively shape the *type* of investment received. This could involve offering preferential treatment, such as tax breaks or streamlined approvals, for FDI projects that are structured as JVs with local partners.For Greenfield projects, making investment incentives conditional on clear, verifiable commitments to local sourcing and SME development programs.Empowering antitrust authorities to rigorously review M&A deals involving foreign buyers to prevent anti-competitive market consolidation.Investing in training, infrastructure, and access to finance to help SMEs upgrade their capabilities, enabling them to better withstand competitive pressures and seize linkage opportunities (Hallberg, 2000).For Nigerian SME managers, the study underscores the need for strategic adaptation. Rather than viewing Chinese firms solely as a threat, SME owners should proactively seek opportunities for collaboration and complementarity. This involves identifying niches in large Chinese firms' value chains, investing in quality upgrades to meet their standards, and actively seeking partnership opportunities.

VI. Conclusion

This study set out to investigate the complex relationship between Chinese FDI entry strategies and the growth of local SMEs in Nigeria. By disaggregating FDI into Greenfield, M&A, and Joint Venture modes, we have demonstrated that the impact of foreign investment is far from uniform. Our mixed-methods analysis reveals a clear hierarchy of impact: Joint Ventures are strongly and positively associated with SME growth, driven by collaboration and knowledge sharing; Greenfield investments have a neutral net effect, representing a mix of intense competition and new opportunities; and M&As are negatively associated with the growth of competing SMEs, primarily through market consolidation and disruption.

This research makes a significant contribution by shifting the focus of the FDI-development debate from the *quantity* of investment to the *quality* and *character* of that investment, as defined by the entry strategy. It shows that the strategic choices of foreign firms have profound and differential consequences for the host economy's most vital economic actors—its Small and Medium Enterprises.

The study is not without limitations. The disaggregation of FDI data by entry mode at the sub-national level is challenging and relies on estimations from multiple sources. While our panel data is extensive, it may not capture the full dynamism of the informal sector, where many SMEs operate. Future research could build on our findings by examining these relationships in other African countries to test the generalizability of our results. Further studies could also delve deeper into the differences between Chinese state-owned and private enterprises in their choice of entry mode and subsequent impact on local economies (He et al., 2020).

In conclusion, for Nigeria and other African nations seeking to leverage Chinese FDI for sustainable development, the message is clear: not all investment is created equal. Fostering a business environment that encourages and incentivizes collaborative, embedded forms of investment like joint ventures is paramount. By strategically managing the mode of foreign entry, host countries can better ensure that the wave of Chinese investment lifts the entire fleet of local enterprises, rather than swamping them.

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