The Role of China in the Portuguese Speaking African Countries: The Case of Mozambique

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Abstract

Due to the Reform and Open Door Policies initiated in 1978, China recorded a fast sustainable economic growth with an estimated average GDP growth rate of 9.7% in the period of 1980-2008, turning China-- in 2009 – into the world's second largest economy, just after USA. With an export oriented economic model, highly supported by FDI, mostly from developed countries, China is, since 2002, the most attractive developing country for FDI flows, both at short and long terms, becoming not only the world's factory, but also its number one exporter, after surpassing Germany in 2009. With the biggest current account surplus balance, China has been able to achieve a foreign exchange reserve of US$ 2.2 trillion -- the world´s largest reserve currency. Around 50% of this huge reserve is being applied in American bonds, while the remaining supports Chinese health and social security systems, Chinese banks' solvability, internationalization of the Chinese economy, investment in geostrategic positioning to guarantee energy independence and making foreign aid available to other developing countries.

During 2008's global crisis, China was able to resist better than the major world economies even benefitting from this downturn to implement policies to reduce its economic imbalances. One of these imbalances is the gap between Chinese FDI and OFDI which is now progressively narrowing. In fact, in the near future, OFDI is expected even be larger than FDI. Mostly two types of Chinese OFDI can be distinguished: trade-oriented investment and resource–seeking investment. Governmental backing, including official developments assistance (ODA) has been crucial for the resource–seeking investment. Although the Chinese investment is nowadays more oriented to mature economies, its bulk is mainly directed to the other developing countries mainly to Latin American countries and now also to African countries. Following the Beijing Consensus, Chinese planners are pushing partnerships with African countries and within those, the Chinese government identified one strategic group worth to cooperate and invest, the Portuguese Speaking African Countries which are linked through a network of language and culture between themselves and also to other geostrategic economic spaces; to Europe via Portugal, to Latin America via Brazil and to Asia via Macau. These African countries have high expectations on the Chinese cooperation and our research questions are. (a) Should this investment be consider ODA or OFDI; (b) How far can Chinese finance flows contribute to the development of these countries in terms of employment, exports, technology transfer; (c) is this investment seen as an opportunity or a threat by local people, is it fulfilling the created expectations or not? In this paper our empirical case is researching the perception of Mozambique government on the ODA and OFDI Chinese investment there, and the conclusions were reached by analyzing the Mozambique government high officials opinions publically expressed or resulting from their answers to media inquires. We also will try to find secondary data with information on the perception of the population on China presence in Mozambique through secondary data.

1. Introduction

Due to the Reform and Open Door Policies initiated in 1978, China recorded a fast sustainable economic growth with an estimated average GDP growth rate of 9.8% in the period of 1980-2009, turning China, in 2009, into the world's second largest economy, just after USA. With an export oriented economic model, highly supported by FDI, mostly from developed countries, China is, since 2002, the most attractive developing country for FDI flows, both at short and long terms, becoming not only the world's factory, but also its number one exporter, after surpassing Germany in 2009. With the biggest current account surplus balance of US$ 253.3 billion in 2009, China has been able to achieve a foreign exchange reserve of US$ 2.3 trillion, the world´s largest reserve currency. Around 50% of this huge reserve is being applied in American bonds, while the remaining supports Chinese health and social security systems, Chinese banks' solvability, internationalization of the Chinese economy, investment in geostrategic positioning to guarantee energy independence and foreign aid to other developing countries.

During 2008's global crisis, China was able to resist better than the major world economies, even benefitting from this downturn to implement policies to reduce its economic imbalances. One of these imbalances is the gap between Chinese Foreign Direct Investment (FDI) and Outward Foreign Direct Investment (OFDI) which is now progressively narrowing. In fact, in the near future, OFDI is expected even to be larger than FDI, Davis (2009) refer that "*China OFDI accounts for not much more than 1% of the global total, far below the country´s share of the world trade. However, this total is rising fast and the country will eventually become a major source of global FDI*."

Mostly two types of Chinese OFDI can be distinguished: trade-oriented investment and resource–seeking investment. Governmental backing, including official developments assistance (ODA) has been crucial for the resource–seeking investment. Although the Chinese investment is nowadays more oriented to mature economies, its bulk is mainly directed to the other developing countries mainly to Asian countries, Latin America, and now also to African countries. Following the Beijing Consensus (non-interference in African affairs), Chinese planners are pushing partnerships with African countries and within those, the Chinese government identified one strategic group worth to invest and cooperate with, the Portuguese Speaking African Countries which are linked through a network of language and culture between themselves and also to other geostrategic economic spaces; to Europe via Portugal, to Latin America via Brazil and to Asia via Macau.

2. Literature review

FDI is presently one of the most important variables of the international business flows. FDI is defined as an investment, involving a long-term relationship and reflects the objective of establish a lasting interest and control by an individual or organization (foreign direct investor) of one country in an enterprise of a foreign country (Foreign Invested Enterprise - FIE). FDI implies that the investor exerts a significant degree of management and control in the FIE. This can be done by the transfer of capital flows to create a new venture (green field investment) but also by the acquisition of equity capital in an enterprise already existing in a foreign country. Reinvested earnings in the FIEs or short or long-terms loans between the foreign direct investor and the FIE is also consider Foreign Direct Investment (UNCTAD, 2009).

OECD (2008) benchmarking definition of FDI, adds that the lasting interest implying a long-term relationship and a significant degree of influence and management and control requires at least the direct or indirect ownership of 10% of the voting power. Basically OECD defines FDI as an investment of an entity resident in one country that has acquired, either directly or indirectly at least 10% of the voting power of a corporation or equivalent for an incorporated company resident in another country. The entity that invests abroad can also contribute with other assets either than equity capital, like technology and production knowledge, that although being intangible assets can be evaluated and considered in the capital invested in the venture or are considered non-equity forms of investment.

Yan (2005) resumes FDI to two types of economic activities the firm´s equity based investment, including the purchase of equity shares in foreign firms in foreign countries and the establishment of firms operations and management in foreign countries the equity based production.

International Business (IB) and Marketing theories, consider FDI (new ventures, joint ventures and acquisitions) as one mode of entry into foreign markets, and in fact the one which reflects the higher degree of commitment to those market, allowing the higher involvement in the management and control of the ventures. Bradley (2002) refers that FDI in new ventures, joint ventures or acquisitions can only be consider when the firm is ready for heavy commitment of resources, accepts higher risks and has enlarged capacity of control.

Meyer (2004) consider that foreign investors establish their operations using three types of modes, normally classified as joint venture, acquisition and greenfield investments. Theoretically, the short term impact on the host country economy can vary with the type of entry mode, but there are not empirical evidences of this on long-term basis. This author concluded that greenfield investments creates new businesses and are normally seen as having positive impact on "*employment and domestic value added*", but acquisitions can easily be seen with reserves by local population, governments and network partners. Joint ventures are welcomed if they bring mutual learning, knowledge transfer, risk sharing, and economies of scale in production and market distribution, as well as an increase in assets and resources.

The mode of entry which represents the higher committed involvement on the international market is the foreign direct investment, with the direct ownership of 100% foreign capital, known in the literature as Wholly Owned Enterprises (WFOEs), which represents the direct ownership of foreign based assembly manufacturing or services facilities (Terpstra and Sarathy, 1994; Kotler, 2003). Only in this entry mode, the firm has a full control over the investment; it is fully independent to develop a long-term international market strategy, without conflict with local partners and can protect the company from local protectionism given to domestic companies. With this entry mode the firm acquires greater knowledge of the market and is able to appropriate local advantages without having to share it, and gets the "*possibility of integrating various national operations into a synergistic international system*" (Terpstra and Sarathy, 1994, p.401).

Normally the company who choose this mode of entry might strengthen its image, and get the goodwill of local government, workers, customers, suppliers, distributors and the local society in general (Kotler, 2003).The main disadvantage of this mode of entry is the large investment normally required, and the political or economic risks involved. The firm can also face higher exit barriers if the local government fear employment and economic lost with the firm withdraw from the country.

The firm can obtain wholly owned foreign production in two ways; developing its own facilities from the ground or through the merger and acquisition of a foreign based firm. In some cases the structure of market can justify the Merger & Acquisitions (M&As) process as the only way to enter the market. One of most common reasons to choose the M&As mode of entry, is the quickness of the establishment of the company and of getting knowledge, local market experience, market share, labor force, institutional support, a network of suppliers, intermediaries and customers, contacts with local market operators and government, or acquiring a well-known brand with loyal clients, which allows the promptness of returns (Terpstra and Sarathy, 1994; Bradley, 2002).

But this can be a very expensive way to enter the market and with risks due to the lack of transparency of the real market and poor finance situation of the local firm. Accordingly with Woodcock, *et al.* (1994, p.260) the acquisition mode of entry has a cost associated with the risk of paying too much for the target firm, "*the cost of this risk is associated with the asymmetric information problem confronting the acquiring firm due to the firm's inferior knowledge of the resources being purchased*". Also the integration process can be difficult due to the difficulty of integrate two management teams with different language, culture and business practices. These authors also concluded that "*strategic implementation and organizational cultural differences* *make it very difficult for organizations to merge efficiently and effectively*" and that "*post-acquisitioned performance was negatively influenced by the two firm's top manager's divergent views of organizational culture*" see (p.255).

So the foreign firm may not be able or want to buy a local operation and might prefer to build up a new venture from the beginning. The firm may want to introduce the latest technology and equipment, may want to avoid heritage problems, and may want to shape the local firm with its own culture practices and image (Terpstra and Sarathy, 1994). Smaller firms normally prefer new ventures, not only because they are frequently less expensive than acquisitions, but also the size of investment and firm's commitment can be controlled and adjusted to the capacity of the foreign firm and market needs, being the expansion done accordingly with its market share growth and results (Bradley, 2002).

Also foreign investors may join with local investors to create a joint venture company in which ownership control, risk, and market experience is shared. The foreign firm might lack market knowledge, finance, and physical or management resources to operate alone, Kotler (2003), but other reason to form an international joint venture can be to facilitate technology transfer, Bradley (2002).We can observe that international joint ventures (IJV) rise especially in difficult markets, and they are motivated by the desire of the international partner to have access to knowledge of local market and culture as well as to local distribution channels, since accordingly with Bradley (2002, p.291) "G*eneral knowledge of the local economy is the key contribution a local partner can make to an international firm seeking entry to a new foreign market*".

In some countries, local conditions and/or government policies can orient the foreign investors to joint local companies and create joint ventures in which they share capital, technology, management and markets. Many countries are known to impose or to have imposed legal restrictions to foreign ownership of local enterprises, some relaxed these restrictions on the 80´s, others did so later or are doing it now or didn't make it yet (Barkema and Vermeulen, 1998). Government's regulations can require local equity participation for example; India, China, Brazil and Thailand were successful in imposing the joint venture option to foreigners (Govindarajan & Gupta, 2001). Chinese government has oriented foreign investors to joint venture with local firms and in some sectors still imposes it (Vanhonaker and Pan, 1997).

Firms may prefer joint ventures as a mode of entry in a culturally distant country, because joint ventures allow them to use the knowledge of the local partners, in local business practices, local institutions, distribution channels, customer preferences and so on (Kogut and Singh, 1988; Barkema and Vermeulen, 1998).

As per Terpstra and Sarathy (1994, p.396) "*A joint venture is a foreign operation in which the international company has enough equity to have a voice in management but not enough to* *complete dominate the venture*", and this might be the problem with this entry mode since "*dominant managerial control exercised by foreign partners is significantly and positively related to performance*", (Bradley, 2002, p.294).

Performance is affected by conflicts between partners, and these conflicts easily happen, when there are different incompatible business operational routines, management practices, strategic views and expectations, and dominant management controls don´t exist (Ding 1997) also the greater the cultural disparity the worst the joint venture performance, "*the cultural similarity between partners is a critical antecedent for IJV success. The greater the cultural similarity between IJV partners the better the IJV performance*" (Lin and Germain, 1998, p.189).

But FDI research for itself developed its own theories which can be seen on light of an unified framework that attempt to incorporate the entry mode decision making of FDI, known as the Eclectic model or OLI (Ownership, Location, Internalization) model of Dunning as defended by Hill *et al.* (1990, p.117) "*Dunning introduced a unified framework within which different factors can be placed and the relationship between them analyzed*". The model of Dunning (1980, 1988), brought together aspects of industrial organization and location economics, but was particularly dependent on internalization analysis to explain FDI. The model introduces explicit considerations of ownership factors which are very close to the ideas of resources, skills and capacities in the Resources Based View models of multinationals enterprises (MNEs) or FDI strategic choices, (Fladmoe-Lindquist and Tallman, 1997). The Eclectic model identifies ownership-specific advantages, location-specific advantages and internalization-specific advantages as relevant factors for entry mode.

Ekeledo and Sivakuma (1998, p. 276) concludes that "*Ownership advantages refer to firm specific assets and skills, such as firm size, multinational experience, or ability to develop and market a differentiated product. Location advantages refer to attractiveness of a foreign market. Internalization advantages refer to benefits of retaining assets and skills within the firm when market fails or there is a potential for opportunistic behavior by a partner*".

Accordingly to Dunning (1980) the ability of enterprises to acquire ownership advantages is related to specific endowments of their country of origin which is the base of their ownership advantages and of the countries they operate, as mentioned in p.11, "*the possession of ownership advantages determines which firms will supply a particular foreign - market, whereas the pattern of location endowments explains whether the firm will supply that market by exports (trade) or by local production (non trade)*".

Ownership of specific advantages is the ownership of unique factors, meaning resources, skill capabilities developed in country of origin. Location advantages are linked to specific factors of a foreign country that could include cheap labor, superior production processes, local image, governmental trade barriers or others, which justify to undertake production in that country in order to obtain new competitive advantages, that can be internally exploited, through complementary resources of the firm like an international distribution network, or finance capability, Table 1.

Table – Some OLI Paradigm Advantages

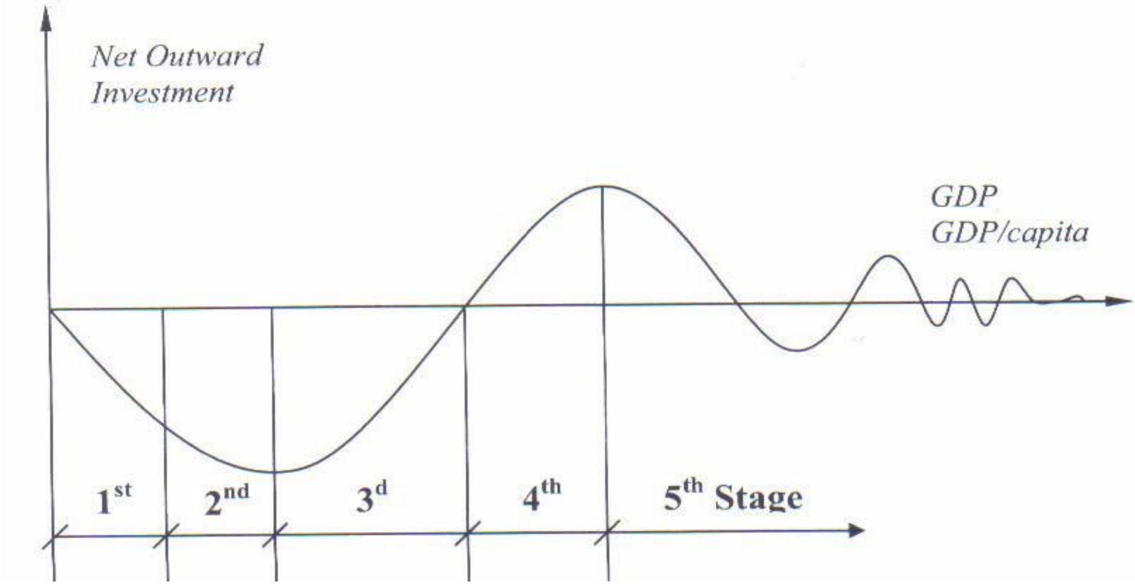
Ownership of Specific Advantages (O)	Location Advantages (L)	Internalization Advantages (I)
Ownership rights, tangible or intangible; Innovation capacity; Accumulated experience; Exclusive access to certain inputs.	Inputs price, Quality and productivity; Transports costs; Infrastructures; Legislation.	Markets control; Externalities internalization; Avoid government barriers

Source: Adapted from Dunning & Lundan (2008: 101-102)

Dunning (1977, 1993) suggests three basic motivations to justify FDI, influencing also its location; foreign market-seeking, efficiency (cost reduction) seeking and resource-seeking (including strategic-asset-seeking). Market-seeking FDI is frequently used by firms to have access to distribution networks and to enhance exports, efficiency-seeking FDI normally occur when firms seek lower-cost locations for operations or seek high technologic operation centers and resources-seeking FDI is practice by firms who need to acquire or guarantee the supply of raw-materials, energy and other kind of assets like knowledge and experience in a market, patents or famous brands.

This firm´s oriented analysis mostly done at the light of BI and marketing theories, can be complemented with the other side of the some coin, the macroeconomic theory, which looks for answers to the questions; what is the relation between economic development of one country and its inward and outward foreign investment and what is the contribution for the economic development of the host country of the inward foreign investment?. A widely used framework for researching the relationship between inward FDI from foreign firms, outward foreign investment of domestic firms and economic development of the host country is the Investment Development Path (IDP) proposed by Dunning (1981) and further develop mainly by Dunning and Narula (1996) and Durán and Úbeda (2001, 2005). According with these researchers, IDP is a dynamic sequential model, with 5 stages of economic development, analyzed in terms of GDP or GDP per capita that relates a country net outward direct investment (NOI) with its economic development stage.. This progressive stages starts with a 1st stage where the country is a net receiver of inward FDI and goes to the 5th stage where the country is a net outward investor see Fig. 1

Fig. 1 Model - Investment Development Path Stages



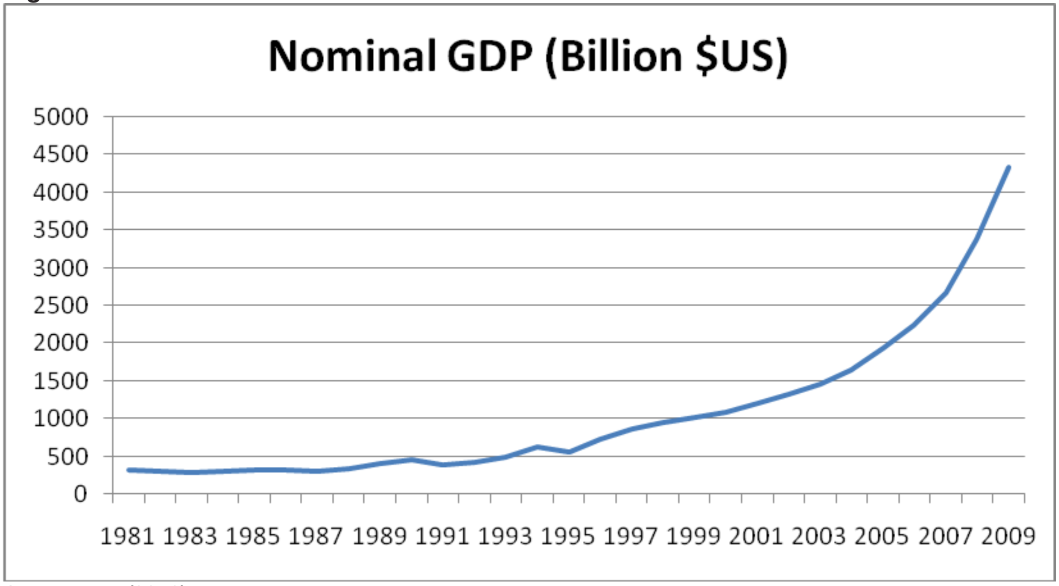
Source: Dunning and Narula (1996).

The empirical studies of Mendonça *et al* .(2009), confirmed this model shows a relationship between GDP per capita and NOI, the results were obtained in a sample comprising USA, Japan and 23 EU countries. Durán and Úbeda (2005) concluded, that the main variables that defines countries in the 1st, 2nd and 3d stages (less developed economies) is inward FDI, although outward FDI and NOI can be verified in a group of these countries, they demonstrated that 4th stage countries are focusing outward FDI, while the 5th stage countries are characterized by a positive NOI.

Dunning *et al.* (2001) developed the IDP model, considering countries with different types of products and industries, but belonging to the same development stages (based mostly in the GDP per capita, in terms of 1994 US$ values), being these stages the main determinants of the verified inward and outward investment flows. In the Stage 1 of IDP – pre-industrial stage (GDP per capita below US$1000 at 1994 prices) the country receives a small amount of inward FDI, due to insufficient market size, poor infrastructures and has insignificant outward FDI, the weak L-advantages explain it. The Stage 2 is characterized by a GDP per capita between US$1000- $3000, in which economic growth, development of infrastructures and enlarged market size, attracts market-seeking and resource-seeking FDI. Some OFDI can also begin as a result of the internationalization of domestic firms, but in this stage the country is a net recipient of FDI. In the Stage 3 with GDP per capita from $3000 to $10000, improvements in L-advantages go on being registered and the country continues to attract significant amounts of FDI. Domestic companies begin to develop O-advantages, and their internationalization process explain the exploitation of their own specific assets in foreign markets, increasing the amount of OFDI flows, but the country remains a net recipient of FDI. At the 4th Stage GDP per capita exceeds $10000 and the country is normally characterized by being a net outward investor, with OFDI increasing faster than FDI. Finally in 5th Stage the country is characterized by having high living standards and advanced technology, becoming major importer and exporter of FDI, and the FDI and OFDI are balanced.

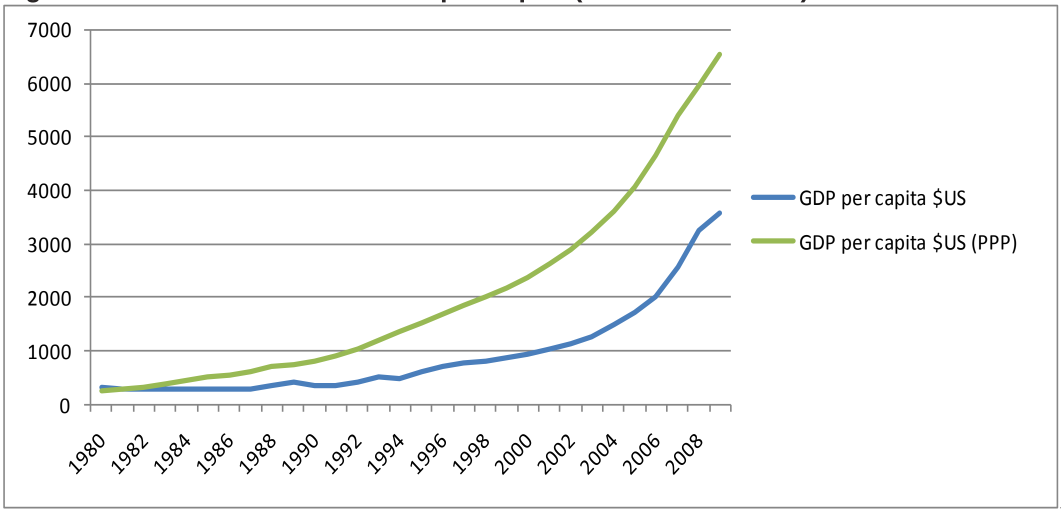
Statistical observation confirms the relationship between the evolution of China economic growth and inward and outward FDI see Fig.2; Fig.3: and Fig 4. Per the classification of Dunning *et al.* (2001), China is now on stage 2 on the bridge to stage 3, remaining an important recipient of FDI but increasing substantively and at a very fast pace the amount of OFDI, although still being a net recipient of FDI.

Fig: 2 – Chinese GDP Growth



Source: IMF (2010)

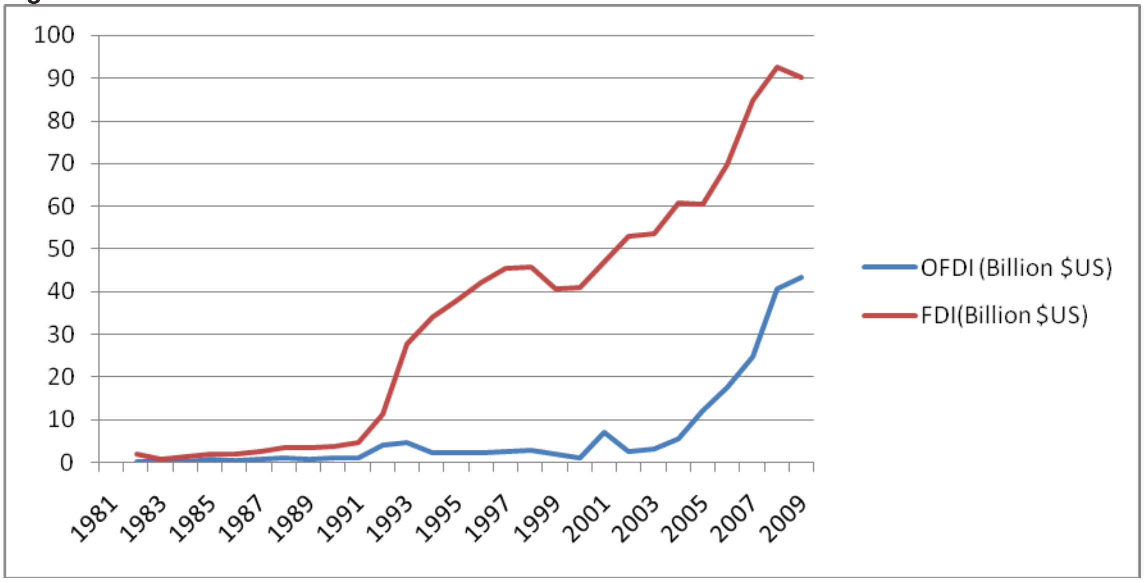
Fig: 3 – Evolution of Chinese GDP per capita (nominal and PPP)



Source:

Source: IMF (2010).

Fig: 4 – Evolution of Chinese Inward and Outward Investment



Source: China Statistical Yearbook (1982-2010; Ministry of Commerce (MOFCOM) (2010).

IDP pattern vary significantly across developing countries but the case of China is so different that Dunning *et al.* (2001) and Liu *et al.* (2005) among others, consider GDP per capita insufficient to explain Chinese OFDI.

Liu *et al.* (2005) researched 3 supplementary variables, the local investment in human resources, the exports and the inward FDI, their conclusions postulate, that the increase in GDP per capita and the investment in human resources are positively correlated with Chinese outward investment, but the exports effects in OFDI are ambiguous, however they found a significant interaction between inward FDI and OFDI. Other important conclusion is that China´s OFDI seems to be consistent with an economy at China´s level of economic development; the tested model suggests that policies specially directed to OFDI may be unnecessary, since OFDI seems to follow economic development automatically. The conclusions of Gao (2008) don´t differ most from the ones of Liu *et al.* (2005) he found that GDP per capita indirectly influence China´s OFDI and proved that the outward investment of China is directly influenced by the overseas network, knowledge building (investment in R&D) and market openness (inward FDI). Buckley *et al.* (2007) researched if OFDI from China requires a special theory within Dunning general theory, calling our attention for three potential arguments; capital market imperfections, special ownership advantages of Chinese MNEs and institutional factors. Capital imperfection could be found in China, as SOEs can access capital below market rates, inefficient banking system may make soft loans available to OFDI as a policy, conglomerate firms may be funded with subsidies (state-sponsored soft loans) family owned firms can obtain cheap capital from family members. Chinese low cost capital for Chinese firms mostly SOEs made available by market imperfections can explain that M&As is often chose as the mode of entering a new market, and the perception of risk is not as rigorous as it his for firms of industrialized economies. This turns on to be an ownership advantage of Chinese MNEs, being others the flexibility and the networking skills of the Chinese Diaspora. State direct or indirect influence over these firms, is going to drive the decision of outward investment and its location pattern, with criterions that are not profit maximization as in the general theory.

Although policies specially directed to OFDI might not be necessary as per conclusions referred above, the fact is that governments in emerging economies such as India, China and Brazil actively encourage their domestic enterprises to go global (WIR, 2009). A good example is China, that in the last 30 years emerge from a marginal to an important source of OFDI (Luo *et al.*, 2010), its domestic government policy was the main determinant of Chinese OFDI on the beginning of the Chinese internationalization, and after 2001 with the implementation of the "*Go Global*" policy, when the controls on outward investments start being steadily relaxed and at the same time that the Chinese companies begin to be encouraged to invest outward following its own commercial strategies. Through the implementation process of this policy the Chinese government passed from regulator to supporter of OFDI and we can even say to promoter within certain drivers, Fig.5.

Fig: 5 – Key Stages of the Chinese Outward Foreign Direct Investment

Stage 1 (1979-1985) - Cautious Internationalization With the "Open Door Policy" Chinese OFDI was identified by government as one mean of opening up China to the world economy. Focus in FDI inflows rather than outflows (going global). OFDI was very residual, and only allowed to SOES (State Owned Enterprises), under MOFTEC (later MOFCOM, now Ministry of Commerce).
Stage 2 (1986-1991) - Government Encouragement The government liberalized restrictive policies and allowed more enterprises to establish foreign affiliates, provided they have sufficient capital, technical and operational know-how and a suitable joint venture partner. Only companies who export could retain a share of its foreign exchange positive balance and invest outside China. With the objective of accumulate foreign exchange Chinese application process for OFDI was very strict. Approval of all the FDI projects was done by the National Planning Commission (NPC) or the State Council, after the evaluation of SAFE- State Administration of Foreign Exchange. The maximum limit was US$10 million and all the profits abroad had to be remitted to China
Stage 3 (1992-1998) - Expansion and Regulation Chinese governmental actively promoted the international business activities of enterprises under their supervision especially in Hong Kong. Regulations indicate that Chinese OFDI should focus on using overseas technologies, resources and markets, applications should include a feasibility report, Though approval procedures for projects over US$ 1 million were to be done by NPC and over US$ 30 million by the State Council. Projects concerning SOEs should be approved by the State Council.
Stage 4 (1999-2001) – Implementation of the "Go Global" Policy In June 1999 the "*Guidelines on Granting Credits for Overseas Processing and Assembling*" was published and in October 2000 the "*Measures of Capital Support for Small and Medium Enterprises to Develop International Markets*" were approved. These guidelines and measures had as objective encourage exports, provide loans to companies with mature technology and equipment to invest abroad, and encourage small medium enterprises (SMEs) to join international market. Mostly national Chinese "champions" in domestic market were encouraged to go global, through privileged loans, tax advantages, and "diplomatic" markets. OFDI in specific industries was actively encouraged with export tax rebates, foreign exchange assistance and direct financial support. In 2001 this encouragement policy was formalized in the 10th five-year plan. To achieve the "*Go Global*" policy the Chinese government created incentives for OFDI, lightened the administrative procedures and capital controls, decentralized to local authorities the approval to projects under a certain amount and provided information and guidance on international opportunities and investment risks.

Stage 5 (since 2002 till now) - Post- WTO Period OFDI become part of China´s national strategy. Regulations were approved to implement this strategy, like the; "*Notice on Simplified Foreign Exchange Administration Related to OFDI*" (March 2003), "*Notice on Providing Credit Support to Key ODFI Projects Encouraged by State*" (May 2003), "*Notice on Using and Managing Special Funds for Foreign Economic Cooperation*" (December 2005), "*Encouraging and Supporting "Go Global" of Private Owned Enterprises*" (February 2006), "*Supplement Measures of Foreign Exchange Usage for OFDI*". The quota system to purchase foreign exchange for OFDI was released, the funds for domestic investors to invest abroad, can be constituted by self-owned foreign exchange fund and by domestic or overseas foreign exchange loans. A government system supporting OFDI has been approved in the 11th five-year plan in 2006, including a simplified approval system where only projects over US$ 100 million require provincial approval, provision of financial support, expansion of the business areas allowed for OFDI, taxation and foreign exchange management, overseas insurance. In September 2007, the Chinese Wealth Fund, (CIC-Chinese Investment Cooperation) a semi-independent quasi-governmental investment firm, was created with the objective of invest a portion of China foreign exchange huge reserves and funded with $US 200 billion initial capital. Chinese government provides financial support to enterprises making OFDI and China Export and Import Bank EXIM bank offer them credit funds and credit insurance.

Source: Buckley et al*. (2007); Liu (2009); Luo et al. (2010).*

Liu (2009) considered the following motivations for Chinese companies to invest abroad; seek resources, markets, technology or strategic assets and capabilities. M&As mode of entry, was identified, as a major form of doing it, since 2002. In fact in 2004 the State Administration Reform Commission and the EXIM bank published a guideline to promote OFDI, stating witch kind of OFDI was welcomed by Chinese government, namely" *(1) resources exploitation projects to mitigate the domestic shortage of natural resources, (2) projects that encourage the export of domestic technologies, products, equipment and labor, (3) overseas R&D centers to utilize internationally advanced technologies, managerial skills and professional contacts, and (4) mergers and acquisitions that could enhance the international competitiveness of Chinese enterprises",* Luo *et al.*(2010); OECD (2008), categorize Chinese OFDI in five types of projects; resource-seeking, market seeking, strategic assets seeking, diversification seeking and efficiency seeking.

China needs an enormous amount of natural resources to fuel its economic growth, government consider this gap a national strategic issue, backing its SOEs, with preferential loans, soft loans or grant programs to get them and developing intense diplomatic relations with countries rich in natural resources even offering to some of them official development assistance (ODA) programs. Very often Chinese government offer to these governments infrastructure projects in exchange of deals of natural resources acquisions or exploration. Davies (2009) refer that one of the most well known motivations for Chinese OFDI is the resource-seeking investment to secure natural resources needed to fuel Chinese rapid economic growth. Although this is presently not the most important sector of OFDI, see Fig. 6, it received a lot of government backing including ODA programs. This sector of activity represented 48% of the total Chinese OFDI in 2003, but accounted in 2008 for 10.4% of the Chinese outward investment, mainly in projects of oil and gas exploitation and non-ferrous metal extraction. Resource-seeking OFDI is dominated by few large SOEs, like; CNPC - China National Petroleum Corporation, CNOOC-

China National Offshore Oil Corporation, Sinopec- China Petroleum & Chemical Corporation, Sinochem, Baosteel and China Minmetals among others who have access to huge loans of state-owned banks. This type of projects has been progressively changing from North America and Oceania in the 90s to Africa, Asia and Latin America.

Other changing trends can be seen in business services now the most important sector of Chinese OFDI (38.8), banking (25%), transport (4.8%) these sectors accounted with less of 3% of Chinese investment outward in 2003, wholesaling and retailing continue to be an important sector of investment for Chinese enterprises in foreign markets with 11.7% of the total. These trends can be explained by the importance of market-seeking projects and Chinese firm´s needs of distribution channels in foreign countries and services like shipping and insurance to support their exports. Lately many Chinese enterprises have been investing in production unities and supply chains to enhance their competitiveness in foreign markets and sometimes as an entry mode in certain markets. This kind of projects driven by commercial reasons, are not considered crucial by the Chinese government and as a consequence they are normally small private firm's projects without much official support.

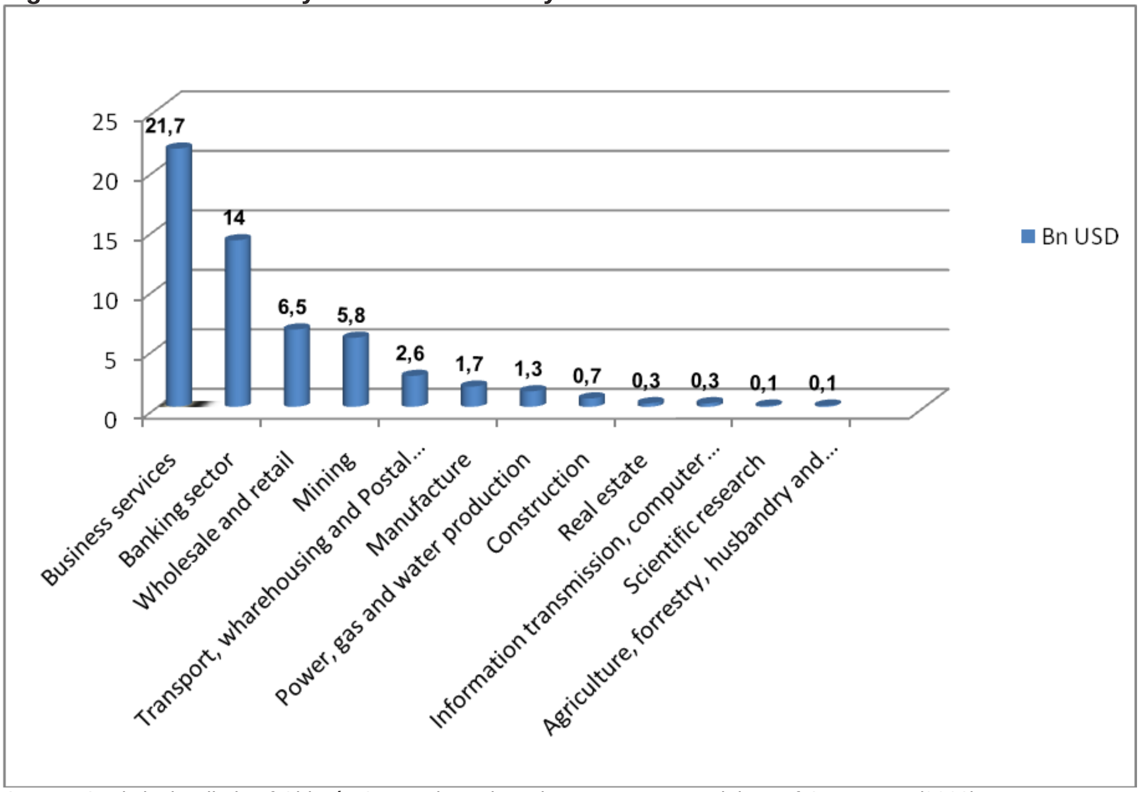
In certain circumstances these market-seeking projects turns on to be strategic-asset seeking projects, when what is in stake is the need by Chinese companies of strategic assets like state-of-art technology, global brands, customers networks and international marketing know- how. China multinational companies consider the acquisition of foreign international enterprises a quick way to obtain these strategic assets and are practicing M&A to acquire them; good examples of this strategy can be found in companies like the Nanjing Auto purchase of MG Rover or Lenovo buying of IBM personal computers unit. Preferential loans of Chinese state-owned banks, like EXIM bank and China Development Bank (CDB), are offered to this type of Chinese companies for M&A transactions, like for instance the acquisition of Ssangyong Motors by Shanghai Auto, which got 66% of the buying fund in this way (Lunding, 2006).

Also Chinese fierce domestic market competition obliges big Chinese SOEs to diversify to other business areas into foreign markets arena, if they want to survive and growth. Examples of Chinese SOEs pursuing diversification-seeking OFDI include Sinochem and China Resources Corporation; both were large trading companies under the control of MOFCOM, both are now listed in Fortune Global 500, with multinational businesses comprising agriculture, energy, chemicals, finance and real estate (OCDE,2008).

As Chinese enterprises moves up in the value chain, the most internationalized ones look for efficiency-seeking projects, either investing in labor intensive markets, either investing in capital and knowledge intensive markets, depending on their international marketing strategies. For instance the rise of labor costs in some regions in China, like the regions of Guangdong and Shanghai, Zhejiang among others, justifies the production investment of Chinese companies in locations like some ASEAN countries and Africa, but this represents only 3.2% of Chinese OFDI. We can find research centers of Chinese companies like Glanz, Konka, ZTE, Huawei, Haier, in developed countries like USA (Silicom Bay and Dallas) in Sweden (Stockholm) Germany, or in some specific technologic geographic clusters like Bangalore in India.

According with OECD (2008) the three former types of projects have been highly influenced by Chinese government intervention, while the latter two are more commercial oriented, for instance state-owned oil companies accounted for nearly 50% of the outward Chinese M&A in 2005, implementing Chinese government energetic policy ((Lunding, 2006).

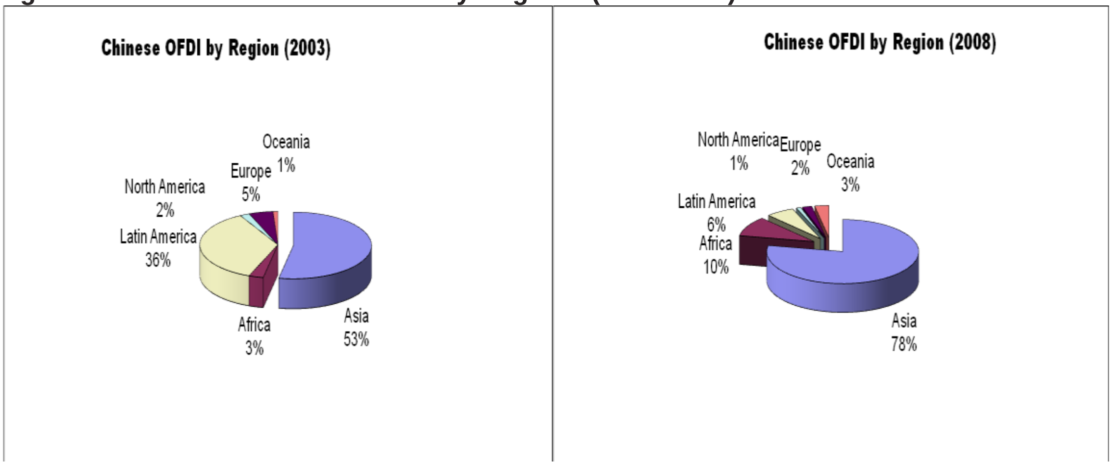
Fig: 6 – Chinese OFDI by Sectors of Activity in 2008



Source: Statistical Bulletin of China´s Outward Foreign Direct Investment, Ministry of Commerce (2008)

The evolution of the geographical destinations of Chinese OFDI reflects the evolution of the referred investment drivers, reinforcing the weight of Asia, where in 2008, 78% of Chinese OFDI was made, Fig. 7. More than 50% of this investment is made in Hong Kong (being a part of it reinvested in China or in other Asian countries) and the rest is mainly applied in Chinese production facilities in Southeast Asia countries, with the objective of increasing its market share in countries like Japan, South Korea, Singapore, Thailand, Malaysia among others, and benefit from lower production costs in ASEAN countries. China is each time more the final stage of the production value chains of Chinese or foreigner MNEs. The importance of Southeast Asia is recognized by President of the World Bank, Zoellick (2010) in this affirmation "*Southeast Asia has become a middle income region of almost 600 million people,* *with growing ties to India and China, deepening ties with Japan, Korea, and Australia, and continuing links through global sourcing to North America and Europe."*

Fig: 7 – Evolution of Chinese OFDI by Regions (2003-2008)



Source: Statistical Bulletin of China´s Outward Foreign Direct Investment, Ministry of Commerce (2008)

Africa was in 2008, the second destination of Chinese OFDI, with 10% of all these flows, replacing the importance of Latin America in last five years. According with OECD (2008), China increasingly consider Africa as an important source of energy and strategic natural resources, and a good expanding market for its manufactured products. China trade volume with Africa has increased more than China trade with the world and China is now the seconds' largest trading partner of Africa, after the USA and surpassing France and England.

3. Research Objectives and Methodology

Following the Beijing Consensus, Chinese planners are pushing partnerships with African countries and within those, the Chinese government identified one strategic group worth to invest cooperate with, the Portuguese Speaking African Countries which are linked through a network of language and culture between themselves and also to other geostrategic economic spaces; to Europe via Portugal, to Latin America via Brazil and to Asia via East Timor and Macau.

These group of African countries have in common the Portuguese language and culture (Angola, Mozambique, Cape Verde, Guinea Bissau) and are part of a network, of around 230 million people in geographically strategic locations; moreover, Portugal is a member of EU which allows access to a market of 27 European countries with a population around 500 million consumers with high purchasing power; Brazil is a member of Southern Common Market (MERCOSUR) with a population of around 193 billion persons, Brazil is a currently one of China´s largest economic partners being a strong supplier of oil and other raw materials and food products opens the door to American continent; Angola and Mozambique, members of the Southern African Development Community (SADC), are China's important economic partners in Africa, in particular, Angola was in 2008, China´s single largest oil supplier, acquiring an increasingly strategic role in China´s external relations; Cape Verde is located in proximity to the European Union and West Africa, China supports economic development in Cape Verde and Guinea Bissau and maintained good bilateral relations with these countries; East Timor is an oil supplier in front of Indonesia and Macau is China´s strategic dialogue platform to these countries. In 2003 China lead the initiative of creating the Forum for Economic and Trade Cooperation between China and Portuguese-Speaking Countries, this Forum based in Macau, has the objective of promoting trade relations between those countries and develop and implement common projects in various domains. As affirmed by Qin Gang (2009) "*Macao plays a unique and constructive role in promoting economic and trade cooperation between the Chinese mainland and Portuguese-speaking countries*".

These African countries have high expectations on the Chinese investment and our theoretical research didn´t find an answer concerning the contribution of the Chinese OFDI in the economic development of these host countries also is questionable if Chinese operations in there should be considered ODA or OFDI so our empirical survey is going to have the following objectives: a) understand if Chinese investment in these countries takes the form of ODA or OFDI; b) How far can Chinese cooperation either through ODA or/and OFDI contribute to the development of these countries in terms of employment, exports, technology transfer; (c) is this investment seen as an opportunity or a threat by local people, is it fulfilling the created expectations or not?

In this paper our empirical case is researching the perception of Mozambique government on the ODA and OFDI Chinese investment there, and the conclusions were reached by analyzing the Mozambique government high officials opinions publically expressed or resulting from their answers to media inquires. We also will try to find information on the perception of the population on China presence in Mozambique through secondary data.

4. The Relation between Chinese OFDI and Chinese ODA

The importance of Africa for China can be observed in the African Policy Paper issued in 2006, the Beijing Action Plan for the period 2007-2009 on China-Africa cooperation, in ODA program's to African countries as well as in the organization of the summits of the Forum on China Africa Cooperation (FOCAC). According with its official website the Forum, it is a "*platform established by China and friendly African countries for collective consultation and dialogue and a cooperation mechanism between the developing countries, which falls into the* *category of South-South cooperation*": the first FOCAC was organized in Beijing in 2000 and was followed by summits each three years, in Addis Ababa in 2003, Beijing in 2006 and Sharm El Sheik in 2009-.

In the FOCAC 2006, more than 2500 commercial agreements were signed and 48 high officials from 53 countries were present in Beijing. These agreements covered different areas as politics, health, education, science, technology, culture, security, students interchange, and human resources qualification among others. In FOCAC 2009 the Declaration of Sharm el-Sheikh provides the guide lines for China – Africa cooperation on the next three years and constitutes a political framework for diplomatic interaction in global and regional issues as well as commercial involvement. New measures for the 2010-2012 Action Plan were announced offering significant opportunities for advancing Africa´s development agenda, new partnerships were announced addressing, climate change, science and technology transfer, agricultural, medical assistance, trade (increase of number of products with free access tariff to Chinese market, development of logistic supply chains and permanent exhibition of African products in China), education (5500 scholarships for African students in China) and China promise to provide US$ 10 billion in concessional loans. In the 3rd Entrepreneurs China- Africa Conference in 2009, priority was given to economic cooperation and technology transfer, Wen Jiabao mentioned that in parallel with infrastructures construction in African countries, China is going to offer more finance support to those countries in areas like agriculture, education, health, water treatment and human resources development.

FOCAC is recognized as the leading element of China´s soft power approach to Africa, and seems well received by African leaders as an opportunity to develop their countries and catch the train of globalization, as Luisa Diogo ex-Prime Minister of Mozambique affirmed in the Global China Business meeting in November 2009 in Lisbon "*the Chinese do not invest in Mozambique because of the beautiful eyes of the Mozambicans, but rather due to the convergence and complementarity of interests between the two countries*" (Freitas &Ilhéu 2009).

The main drivers of Chinese OFDI in Africa are market-seeking and resources-seeking oriented, while resource-seeking projects are developed by large Chinese SOEs, (with strong government support) like CNOOC, CNPC and Sinopec , market-driven projects are done by for more than 700 SMEs, that operate in sectors like trading, wholesale and retail, manufacturing and other services (OECD, 2008).

A large share of China OFDI in Africa is concentrated in resource extraction and services activities, namely the construction of infrastructures projects, developed by huge Chinese SOEs as China Overseas Engineering Corporation, China Roads and Bridges Corporation, China

Railways Corporation and China Complete Plant Import and Export Corporation (COMPLANT), normally these two types of projects are related.

China ODA programs to African countries consists of grants, zero rate loans and concessional loans, normally with flexible payment schedule, China also provides technical assistance, students scholarships, medical missions and human resources cooperation, as seen before. Since the beginning in the mid 50´s till May 2006, the total amount of Chinese assistance to Africa, sum US$ 5.7 billion in 800 projects, FOCAC 2006 itself provided US$ 3 billion in preferential loans, US$ 2 billion in buyer´s credits, a US$ 5 billion development fund and the cancellation of African debt (OECD 2008; Shelton 2009; Hon *et.al*, 2010).

African countries with strong energy and other strategic resources supplies, receive a lot of OFDI infrastructures projects financed by Chinese ODA programs and mainly developed by Chinese constructors.

The predominance of Chinese construction companies in these projects is easy to explain, first they are imposed by China concessual loans and grants terms and second these companies have a comparative advantage over their competitors from the developed countries, since they have access not only to cheap finance sources, provided by Chinese State Banks but also to relative low-cost labor force as well as equipments and materials available from China.

Summarizing resources-seeking projects exploitation appears as a compensation for the infra-structure projects developed by Chinese companies in these African countries and financed by China ODA programs and preferential credit loans, and the African market for Chinese constructors is pushed by the Chinese government itself which imposes them as conditions in these concessual loans and grants as well as the supplies of labor, equipment and goods. Also to facilitate Chinese OFDI in Africa the Chinese government launched the CADFund to support the investment of Chinese enterprises in Africa.

We can conclude that China´s ODA programs has been aligned with its OFDI policy, and it is part of the soft power policy of China in international arena and is being used as an instrument with the objective of gaining access to strategic natural resources and international political support for China Agenda in international forums like the United Nations. In recent years economic and commercial reasons are increasingly determining China ODA, each time more fuelled by the "*going out*" policy of Chinese government and instrumentally acting as a complement of Chinese OFDI seeming both strategically planned to achieve the objectives of this policy.

China COMPLANT is a good example of the interrelation between ODA programs and economic and commercial activities, it started as a government agency to execute ODA projects but turn´s on to be increasingly involved in OFDI projects and trading business on a profit oriented base, from the construction of railways, water conservatory plants, hotels, cultural centers and stadiums, to investments in sugar plants joint ventures (OECD 2008).

This Chinese approach to Africa problems is often criticized by other countries, mostly the ones which are in Africa for many years, like England, France, USA and Portugal, that contest the way this ODA linked OFDI programs are developed, forgetting human rights abuses and corruption in some of these countries, not following the Washington Consensus (conditional aid to Africa) Shelton (2009). They also accuse China of unfair governmental subsidies to Chinese enterprises, poor environment and social protection, lack of transparency, poor utilization of local labor force, insufficient technology transfer, no respect of labor rights, no investment in development of local workers skilling.

5. Chinese OFDI in Mozambique

5.1. Sino –Mozambican political and diplomatic framework

The presence of China in Mozambique dates back to the times, when Mozambique was a Portuguese colony and a lot of Chinese immigrants worked there, first in the plantations and latterly mostly in commerce. A Chinese community around 20000 people was well integrated in Mozambique having their own club, school, temple, shops, restaurants, being well accepted by the Portuguese. A lot of them chose to be Portuguese when the independence of Mozambique took place in 1975, and move to Portugal or Macau; by now is estimated that the Chinese population in Mozambique is around 2000 people.

During the war independence from 1961 till 1975, China offered support to the liberation movement FRELIMO, namely with military training, money and military equipment. During this period several visits from the leaders of FRELIMO were done to Beijing and China was the first country to recognize the independence of Mozambique.

From 1975 on, the independence year, till the 90´s the Sino-Mozambican economic cooperation was enhanced through the provision of credit lines to purchase equipment, raw-materials and consumer goods. In 1989, Qian Qichen, Chinese minister of foreign affairs visited Mozambique and offered a finance credit of US$ 12 million.

After FOCAC 2000, the presence of China in Mozambique was intensified with loans, foreign direct investment, technical cooperation, contract projects and grants for public works. In 2001 a general Trade Agreement and an Agreement for Reciprocal Investment protection were signed and a Joint Commission for Technical Cooperation was established. In 2004 the president of Mozambique on the date Joaquim Chissano and now Armando Guebuza became honorary chairman of Mozambique Association for Promotion of Peaceful reunification of China, supporting China ambitions of peaceful reunification with Taiwan. President Hu Jintao visited

Mozambique in 2007 and announced the cancellation of US$ 20 million of Mozambique debt, he also announced that Mozambique would be the first African country to receive one of the 14 special agriculture technology demonstration centers in Africa, and US$ 55 million were offered by Chinese government for its establishment. Other contributions of Chinese government were the buildings of the Ministry of Foreign Affairs and Co-operation, the Joaquim Chissano Conference Centre and the National Parliament in Maputo, build by the Chinese enterprise Sogecoa (IIM 2009; Hon *et.al*, 2010).

5.2 Economic Cooperation and Chinese OFDI in Mozambique

The sustainable economic growth of Mozambique is only possible with industrialization, development of agriculture and tourism, relying heavily in ODA projects and foreign investment.

According to the Hon *et.al*, (2010) China started to invest in Mozambique in 1990, although the economic cooperation had begun earlier in the form of ODA projects. During the period of 1990 till 2007 Chinese OFDI in Mozambique reach US$ 148 million. In 2008 China with an investment of US$ 76.8 million became Mozambique second largest foreign investor, after South Africa, Macauhub (2009) and its second development partner. Over 40 Chinese companies are registered in the Mozambique´s Investment Promotion Centre and it is estimated that they create around 11214 jobs. The interest of Chinese companies in Mozambique is mostly, oriented to get mineral resources and natural commodities, and be involved in agriculture and retail businesses.

The huge rise of China OFDI in Mozambique is due to the Centre for Investment Promotion Development and Trade of China (CPIDCC) established in 1999 by MOFCOM and Anhui Foreign Economic Construction (Group) Co. (AFECC), this Centre in Mozambique is one of the eleven Centres that this venture has in Africa. CPIDCC invested US$ 12 million in the initiative; its head office is in Oriental Plaza a 16 storey's building in Maputo, with a hotel, restaurant and supermarket build by AFECC, just in front of Mozambique Investment Promotion Centre (CPI). CPIDCC and CPI work together to foster trade and investment between the two countries, and offer services like market research, networking, the processing of visas and promotional events, sometimes in cooperation also with Macau government. For instance in 2007 during the Macau Forum meeting in Maputo, the then Prime Minister Luisa Diogo in its speech mention the event as a win-win event and in 2009 MOFCOM and the Macau government co-sponsored a trade fair in Maputo, taking with them a delegation of Chinese companies from Mainland China and Macau. Also in 2009 Maputo received the visit of a 35 enterprises Delegation oh Hubei Province looking for new partnerships with Mozambique people, some projects were submitted to CPI in fields as solar energy, acclimatization, wood processing and civil construction.

Statistics from the Embassy of China in Maputo show more than 30 projects developed by China in Mozambique, comprising ODA projects with focus in construction sector, followed by agricultural processing and manufacturing.

Among the construction projects we can mention the expansion and recuperation of Maputo airport financed by a concessional loan of US$ 75 million of EXIM bank and undertaken by AFECC, the construction of the National Soccer Stadium of Maputo´s Zimpeto with 42000 seats had the Chinese funding of US$ 72 million and was also developed by AFECC, around 600 workers are on the site one third of which are Chinese, the Chicamba Water system project is being built by China Henan International Corporation Group (CHICO) in Manica, this US$ 44.7 million is co-funded by the governments of Mozambique and the Netherlands, an housing project in the surroundings of Maputo, developed by China Internal Trade Engineering Design &Research Institute and China Shandong Foreign Economic and Technical Cooperation Group, a bridge on the Incomati river and a water distribution network to Inhambane and Maxixe cities is being developed by CHICO, the refurbishment of Maputo water supply system was finished in 2008 by the China Metallurgical Construction Group (MCC) with an estimate cost of US$ 145 million also the five stars Hotel Polana Serema is being modernized by Sogecoa Mozambique owned by Chinese investors, Jiang Quingde and Jiang Zhaoya developers of other projects in Mozambique. The construction of the new office of the Auditor-General was also developed by the Chinese companies COMPLANT e Nanjing Construction CCM a US4 40 million project that received a concessional loan of Chinese government, on site local 250 labors and 100 Chinese worked on it. CMM and COMPLANT have other projects in Mozambique funded by Chinese government, including a housing project for 150 affordable houses, the justice centre, criminal courts a jail and an anti-corruption centre.

The Lianfeng Farm of Hubei Province was selected by MOFCOM to implement the agriculture centre in Mozambique, agricultural technicians from this farm will train local farmers and teach them farming practices contributing to the increasing of Mozambique agricultural productivity, and the technicians will also bring different seeds from China and try them in Mozambique climate like maize, rice, vegetables and fruits seeds.

But the Sino-Mozambican cooperation in agriculture doesn’t confines to this centre and includes other projects and organizations, for instance in 2008 Chinese government offered a loan of $US 18 million to fund the Zambezi Valley project, Mozambique future centre for rice production, although other crops can also be developed. .Moreover in 2008 a plan of investment of US$ 800 million was presented for the modernization of the agriculture sector of Mozambique, increasing the production of 100 thousand tons of rice to 500 thousand. China is looking for huge plantation and breeding cattle fields to be managed by Chinese companies in Zambeze Valley at North and Limpopo at South, the plan is to install 3000 Chinese in these regions in the coming five years. More than 100 Chinese agriculture experts are now living in Mozambique including the staff of the Institute of Hybrid Maize of Hunan, linked to their activity is foreseen the construction of irrigation channels, including a channel linking the Malawi lake to rivers and dams in Mozambique. In 2009 the EXIM bank conceded to the Cabinet Planning for the Development of Zambezi Valley (GPZ) a credit of US$ 50 million for agricultural projects in the Valley, around US$ 20 million will be utilized in the imports of agricultural equipments and trucks from China and the remaining US$ 30 million to be utilized by industrial units in Tete, Zambezi and Manica.

In the industrial sector some important projects from Chinese investors are already approved by CPI namely the cement factory of Marracuene with an investment of US$ 90 million funded by CADFund as well as an investment of US$ 72 million for a decoration materials factory in Maputo, an agro-processing factory in Sofala, US$ 12 million, a textile factory in Matola US$ 10 million, in total between 2004 and 2009 US$ 213 million industrial projects were approved

5.3 Development of Bilateral Trade

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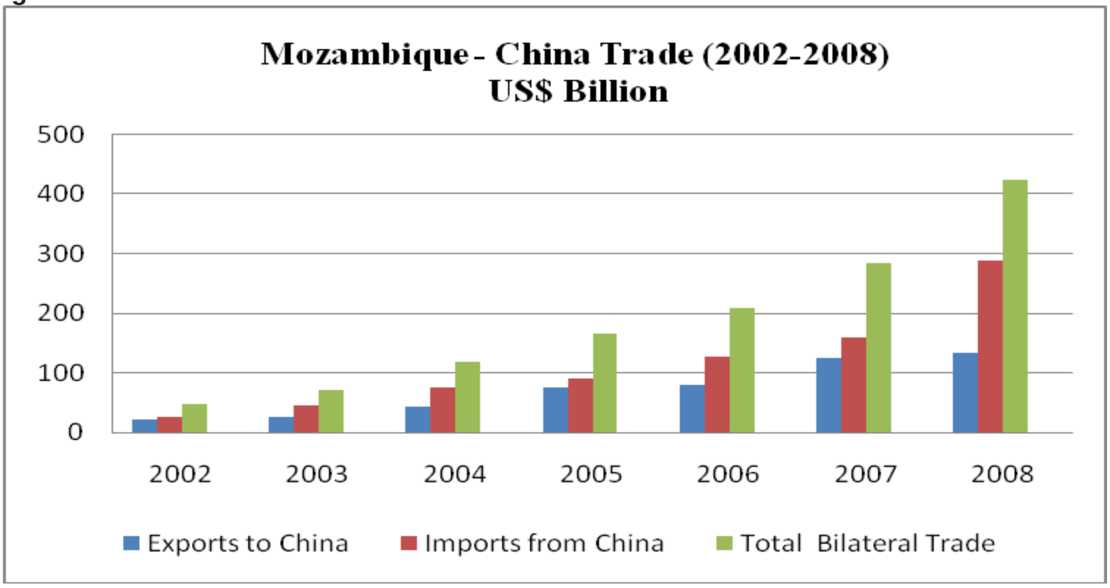
In the last six years the bilateral trade between Mozambique and China registered an important development with an average annual growth rate of 43% and reaching $US 422.78 in 2008. Both exports and imports increased and although exports from Mozambique increase at a faster pace (51% a year) than imports (35%) the bilateral balance is still very negative to Mozambique, Fig.8

Fig: 8 – Evolution of Bilateral Trade relations



Source: World Trade Atlas; MOFCOM.

According to the Chinese embassy in Maputo, several Chinese companies are doing research in potential mineral reserves but nothing substantial have been developed till now even so Mozambique main exports to China are minerals and natural resources, namely sawn wood, oil seeds, cotton, vegetables, and minerals like chromium ore, titanium, niobium ore and precious stones, insignificant exports values of textiles, fish and seafood are also registered, Fig.9

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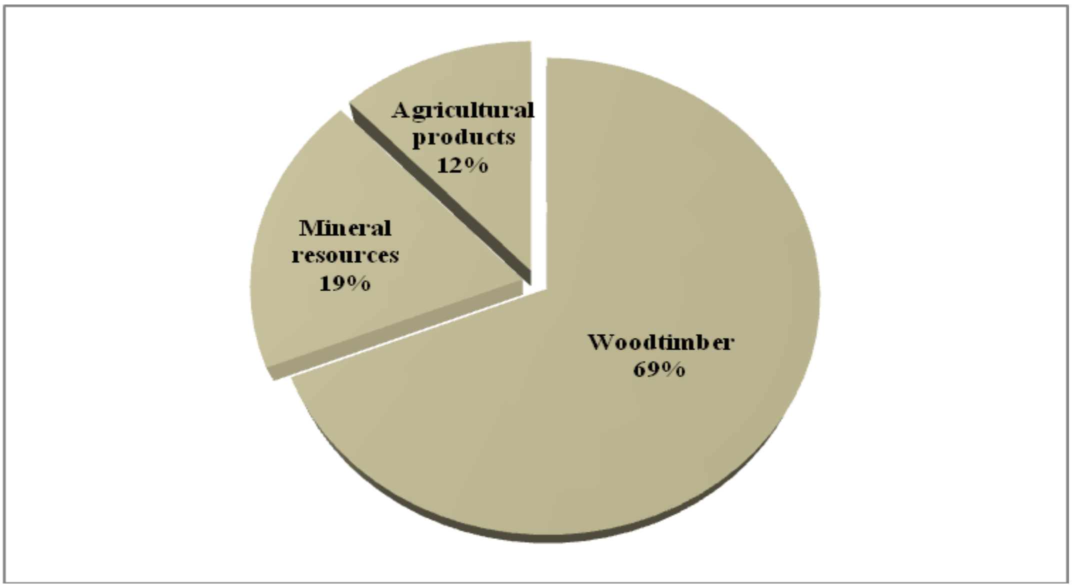
Fig: 9 – Composition of Mozambique Exports to China in 2008



Source: World Trade Atlas; MOFCOM.

Mozambique imports from China are dominated by vehicles and parts, electrical appliances and iron and steel articles, construction materials and related machinery, manufactured goods, like footwear, bags, electronic products, textiles…

This pattern of trade is characteristic of the trade relations between African countries and more developed countries, with negative Terms of Trade (price exports/price imports), exporting raw-materials and importing manufactured products with higher add value. In fact at this stage Mozambique industry don´t produce sufficient goods in quantity and quality to export. This justifies the expectations of the Mozambique government towards the OFDI in China as Mário Machungo President of the BIM – Banco International de Mozambique referred "*the installation of Chinese industries in the country and the technology transfer is the expectation of the future*" (IIM, 2009, p. 86).

5.4 Contribution of China to Mozambique and Human and Social Development

Chinese medical, agricultural and engineering teams have been providing aid to African people from building projects to treating malaria and AIDS and other diseases. China´s contribution to Africa human resources development can be seen in its heavy investment in Africa´s educational systems either by sending teachers to these countries but also by offering scholarships to African students. This support to education sector improves China image in Africa and provide China with the required kind of workforce to expand its projects there helping also China in building valuable political and business networks (Thompson, 2004). This kind of cooperation was established in Mozambique by China a long time ago, for instance, medical teams can be seen in Mozambique hospitals since 1976, more than 17 teams of two years term have been working there, presently two Chinese medical teams are actually in Mozambique one group of twelve is in Maputo Hospital and the other at Mavalane Hospital. China also supplies free medication to Mozambique. Chinese agricultural technicians are operating in government farms, China donated an agricultural demonstration centre that worth US$ 55 million, which is being built in Maputo´s Boane district, another agricultural research centre is planned for the Moamba Technology Park.

Mozambican students are studying in China with scholarships offered by Chinese government. In the follow-up of FOCAC 2006, two schools were built by China, in rural Mozambique, as well as an art school, China contribution for each school was US$700 000, and also 438 Mozambican professionals were trained by the end of 2008 in China in different fields (Hon *et.al*, 2010).

5.5 Mozambique Perceptions of the Expected Relations with China

IIM (2009) concluded that the Chinese are in general welcomed in Mozambique, even if occasionally some conflicts arise, the positive references are predominant saying that Chinese are hard working people doesn´t matter if it rains or the sun is shining, together with local population, in the cities or the rural areas, in the interior, in good or bad conditions, the common Mozambican is impressed by the working capacity of the Chinese.

The conclusions of the field research of Jansson and Kiala (2009) were that the members of Mozambique civil society are generally enthusiastic about the ODA and OFDI projects of China. The building of prestigious government offices gave good image of China and developed a growing appreciation on the Sino-Mozambique relations among the Mozambican population who is willing to learn Mandarin to bridge the cultural differences.

Bosten (2006) also inquire local Mozambique sources and noted that the population perception was that Chinese companies made mistakes on the early stages of their operations but they learn fast and are willing to correct them.

The ratio of expatriated Chinese to local people in Chinese infrastructure projects in Mozambique have well been criticized by civil society and labor unions, and international press appoint it as a negative contribution to employment since in these projects only 30% of the workers were from Mozambique. In 2008, The Ministry of Public Works and Housing change the country´s Labor Law, and institute a clause obliging foreign companies to employ 10 local workers for each foreign worker

Roque (2009) also found that some Chinese companies don´t have an ethic behavior on their activities, but they work together with local people, he mentioned that forestry is the most troublesome aspect of the Sino-Mozambique relations with Chinese companies making illegal logging in Zambezia, Cabo Delagdo, Nampula and Niassa with the assistance of local people, as mentioned in p. 7 "*Mozambique is currently China´s lead supplier of East Africa, although most of the timber is illegally exported as unprocessed logs a strategy pursued with the assistance of locals*". Lemos &Ribeiro (2006) confirm this situation adding that Chinese timber buyers are acting together with Mozambique business people and some members of Mozambique government. These authors also raised the question of illegal fishing activities, saying that Chinese fishing boats are using gill nets and long liners that damage the plankton.

These problems raised by private Chinese entrepreneur's don´t seem to affect the perception of Mozambique government on the Chinese presence there.

In the interview of the Mozambique ambassador in China, António Inácio Junior, to Jornal Tribuna de Macau, we can read that he recognize that China has always been in Mozambique and was one of the first countries to recognized the independence, offering cooperation in traditional areas such as health, education, agriculture, now this cooperation is in another phase and can be characterized by partnership between the two countries, he mentioned that is due to China intervention in Mozambique that his country has today modern infrastructures, as the buildings of the Parliament, the Ministry of Foreign Affairs and Cooperation, the Centre of Conferences Joaquim Chissano in Maputo, the housing of National Defense officials, among others. He also mentioned that apart the traditional sectors of cooperation already mentioned, China offers cooperation in the tourism sector, in training Mozambican people in China and in OFDI, he mentioned that Mozambique needs to develop the agriculture and industry oriented to exports and needs China investment for that, he particularly mentioned the timber transformation process, saying that Mozambique want to export add value products of timber and not logs, he mentioned with satisfaction the example of a Chinese fishing company exporting to EU but he also added that Mozambique welcome the investment of Chinese enterprises in the building of infrastructures such as roads, water distribution and housing which is already happening.

Armando Guebuza the Mozambique President spoke out in the Economic Forum of Davos in 2006, that China is welcomed to Africa, affirming that "*We are very satisfied with the support offered by China at least in what respects Mozambique*" "*China sends help to projects against the absolute poverty, which affects more than half of 19 million Mozambique people" he also rejected the idea that China only is interested in benefiting from national resources for Asia Continent saying that bilateral cooperation `has been mutually benefic`"* (Diário Vermelho, 29/01/2006).

Also Henrique A. Banze Minister of Foreign Affairs and Cooperation, refer to IIM (2009) that "*China is very welcomed*" the interest of Mozambique people is guaranteed in the raw-materials exploration "*there are no motives for concern, in all the agreements there are clauses that are being respected and our main strategy is in first place the interests of Mozanbican*".

Mario Machungo affirms to IIM (2009) that "*the construction sector is the most notorious one the Chinese involvement in Mozambique economic development with structural effects and without the conditions that some Western development packages require*"…"*Many equipments imported from European markets or others in the world, on the past are now being replaced by imports from China*"

Conclusions

Chinese OFDI don´t conflict with Dunning general theory but cannot be explained only by it even after considering supplementary variables, such as the local investment in human resources, the exports and the inward FDI, the overseas network and knowledge building.

Buckley *et al.* (2007) researched if OFDI from China requires a special theory within Dunning theoretical framework, calling our attention for three potential arguments; capital market imperfections, special ownership advantages of Chinese MNEs and institutional factors

Capital imperfection could be found in China, as SOEs can access capital below market rates. Chinese low cost capital for Chinese firms mostly SOEs made available by market imperfections can explain that M&As is often chose as the mode of entering a new market, and the perception of risk is not as rigorous as it his for firms of industrialized economies. This turns on to be an ownership advantage of Chinese MNEs, being others the flexibility and the networking skills of the Chinese Diaspora. State direct or indirect influence over these firms is going to drive their decision of outward investment and its location pattern with criterions that are not profit maximization as in the general theory.

The conclusion is that Chinese government actively encourages their domestic enterprises to go global with the implementation of the "*Go Global*" policy, being Chinese companies encouraged to invest outward following its own commercial strategies. In last 30 years Chinese government passed from regulator to supporter of OFDI and we can even say to promoter within certain drivers.

In 2004 the State Administration Reform Commission and the EXIM bank published a guideline to promote OFDI, stating witch kind of OFDI was welcomed by Chinese government, namely“ *(1) resources exploitation projects to mitigate the domestic shortage of natural resources, (2) projects that encourage the export of domestic technologies, products, equipment and labor, (3) overseas R&D centers to utilize internationally advanced technologies, managerial skills and professional contacts, and (4) mergers and acquisitions that could enhance the international competitiveness of Chinese enterprises”,* Luo *et al.*(2010). OECD (2008), categorize Chinese OFDI in five types of projects; resource-seeking, market seeking, strategic assets seeking, diversification seeking and efficiency seeking.

Davies (2009) refer that one of the most well known motivations for Chinese OFDI is the resource-seeking investment to secure natural resources needed to fuel Chinese rapid economic growth. Although this is presently not the most important sector of OFDI, it received a lot of government backing including ODA programs.

Chinese presence in African countries is part of Beijing efforts to its “*go global*” policy and soft power diplomacy. This presence is being done following the principle of non-interference with internal affairs in line with the Beijing Consensus, which is very appealing to many African leaders. China is cultivating this type of relations with African countries by providing aid, technical expertise, investing and making business, on plus getting their support in international forums. In fact in last years China interests in Africa are quite comprehensive, from the desire to lead the Third World development to guarantee the access to energy supply sources, raw-materials and markets through ODA, OFDI, trade and diplomacy.

Within those countries, the Chinese government identified one strategic group worth to invest and cooperate with, the Portuguese Speaking African Countries which are linked through a network of language and culture between themselves and also to other geostrategic economic spaces; to Europe via Portugal, to Latin America via Brazil and to Asia via East Timor and Macau. These African countries have high expectations on the Chinese investment for development.

The main drivers of Chinese OFDI in Africa are market-seeking and resources-seeking oriented, while resource-seeking projects are developed by large Chinese SOEs, market-driven projects are driven by far more than 700 SMEs, that operate in sectors like trading, wholesale and retail, manufacturing and other services.

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African countries with strong energy and other strategic resources supplies receive a lot of ODFI infrastructures projects financed by Chinese ODA programs and mainly developed by Chinese constructors. Resources-seeking projects exploitation appears as a compensation for the infrastructure projects developed by Chinese companies in these African countries and financed by China ODA programs and preferential credit loans, and the African market for Chinese constructors is pushed by the Chinese government itself which imposes them as conditions in these concession loans and grants as well as the supplies of labor, equipment and goods.

We can conclude that China´s ODA programs has been aligned with its OFDI policy, and it is part of the soft power policy of China in international arena being used as an instrument with the objective of gaining access to strategic natural resources and international political support for China Agenda in international forums like the United Nations. In recent years the economic and commercial reasons are increasingly determining China ODA, each time more fuelled by the "*going out*" policy of Chinese government and instrumentally acting as a complement of Chinese OFDI seeming both strategically planned to successfully achieve these policy objectives.

This research focused Mozambique as the empirical case; Mozambique is a member of the Portuguese Speaking African Countries. China and Mozambique have very good political and diplomatic relations, dating back to the years 60 when China supported FRELIMO the independence movement leading the civil war against the Portuguese, and China was the 1st country to recognize the independence of Mozambique. From 1975 on, the independence year, till the 90´s the Sino-Mozambican economic cooperation was enhanced and much fostered after the 90´s. After FOCAC 2000, the presence of China in Mozambique was intensified with loans, foreign direct investment, technical cooperation, contract projects and grants for public works

China started to invest in Mozambique in 1990, although the economic cooperation had become earlier in the form of ODA projects. During the period of 1990 till 2007 Chinese OFDI in Mozambique totals US$ 148 million, in 2008 China became Mozambique second largest foreign investor, after South Africa, and its second development partner. Over 40 Chinese companies are registered in the Mozambique and is estimated that they create around 11214 jobs. Macau Forum cooperates with CPIDCC and CPI work to foster trade and investment between the China and Mozambique.

Statistics from the Embassy of China in Maputo show more than 30 projects developed by China in Mozambique, comprising ODA projects with focus in construction sector, followed by agricultural processing and manufacturing. Chinese ODA and OFDI are intermingled in

Mozambique public works infrastructures projects, transport and communication, water distribution and irrigation channels, housing and agricultural projects.

The construction sector is considered by Mozambique government as one which is contributing more for Mozambique economic development, having structural effects, also is well seen the fact that investments are made by China following the Beijing Consensus (non-interference in African affairs) by opposition to similar investment from Western countries that follow the Washington Consensus (conditional aid to Africa).

In the last six years the bilateral trade between Mozambique and China registered an important development although with negative Terms of Trade for Mozambique that exports mostly raw-materials, namely timber, agricultural products and minerals and imports from China manufactured products with higher add value. In fact at this stage Mozambique industry don´t produce sufficient goods in quantity and quality to export. This means that the expectation that China invest in Mozambique in industry export oriented, transfer technology and import products with more add value is not yet fulfilled. Anyhow in the industrial sector some important projects from Chinese investors are already approved by CPI.

China´s contribution to Mozambique human resources development can be seen in cooperation and investment in medical, agricultural and education systems in terms of employment China has been accused of employing only 30% of local people in their infrastructures, but the new Labor Law will correct that by allowing only one foreign for each ten local workers, anyhow the Mozambican population consider that Chinese investors are learning fast and the mistakes done on the beginning are being corrected.

Another important conclusion is that Chinese OFDI and ODA are in general welcomed by Mozambique people and government, even if occasionally some problems arise, as illegal cut and exports of timber and illegal fishing, this type of problems are considered to be raised by private business people both Chinese and local and it don´t affect the perception of Mozambique government on the Chinese presence there. The Mozambique government considers that the interest of Mozambique people is being respected, China is helping in projects to reduce the absolute poverty of half of Mozambican population and the bilateral cooperation has been mutually benefic.

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