

# The role of China in the Portuguese speaking African countries

## The case of Mozambique (Part II)

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**RESUMO:** *Due to the Reform and Open Door Policies initiated in 1978, China has since recorded rapid and sustainable economic growth, turning it into the world's second largest economy. With an export oriented economic model, strongly supported by foreign direct investment, China became world's number one exporter when it overtook Germany in 2009. Presently China has the world's largest foreign exchange currency funds, 50% of which is being applied in American bonds while the remaining supports Chinese health and social security systems, Chinese banks' solvability, internationalization of the Chinese economy, outward foreign direct investment (OFDI) and Chinese official foreign aid (ODA) to other developing countries. Although the Chinese OFDI fluxes are nowadays more oriented to mature economies, the bulk is mainly directed to partnerships with other developing countries like African countries; more specifically, the Chinese government identified the Portuguese Speaking African Countries as strategically important for cooperation and investment. These countries have high expectations of this Chinese investment and cooperation and our research questions are: (a) Should this investment be considered ODA or OFDI?; (b) How far can Chinese finance fluxes 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? Our empirical research concentrates on the Mozambique case in this paper.*

**Key words:** China, Outward Foreign Direct Investment, Official Foreign Aid, Beijing Consensus, Portuguese Speaking African Countries, Mozambique.

### TÍTULO: O papel da China nos PALOP: o caso de Moçambique (Segunda Parte)

**ABSTRACT:** *Devido às políticas de Reforma e Porta Aberta iniciadas em 1978, a China registou, desde essa altura, um rápido crescimento económico sustentado, tornando-a na segunda maior economia do mundo. Com um modelo económico orientado para a exportação, altamente apoiado pelo investimento directo externo, a China tornou-se no maior exportador mundial, depois de ultrapassar a Alemanha em 2009. Presentemente, a China tem a maior reserva do mundo de divisas estrangeiras, 50% aplicada em títulos do Tesouro americanos e o restante nos sistemas de saúde e segurança chineses, na solvabilidade dos bancos chineses, na internacionalização da economia chinesa, no investimento directo da China no exterior (IDENE) e na ajuda pública da China ao desenvolvimento de outros países (APED). Embora os fluxos de IDENE da China estejam hoje em dia mais virados para as economias maduras, a sua maior percentagem ainda se*

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*dirige a parcerias com outros países em desenvolvimento, como por exemplo os países africanos, e dentro destes o governo chinês identificou um grupo estrategicamente importante para cooperar e investir, os Países Africanos de Língua Oficial Portuguesa (PALOP). Estes países têm grandes expectativas no investimento e cooperação com a China e as questões que pesquisamos são: (a) Deve este investimento ser considerado IDENE ou APED?; (b) Até que ponto estes fluxos financeiros contribuem para o desenvolvimento desses países em termos de emprego, exportações, transferência de tecnologia?; (c) Este investimento é visto como uma ameaça ou uma oportunidade pela população local, está ele a corresponder às expectativas criadas ou não? Neste artigo iremos focar a nossa pesquisa no caso de Moçambique.*

**Palavras-chave:** China, Investimento Directo da China no Exterior, Ajuda Pública da China ao Desenvolvimento, PALOP, Consenso de Pequim, Moçambique

## CHINESE OFDI MOTIVATIONS AND CHARACTERISTICS

Liu (2009) considered seeking resources, markets, technology or strategic assets and capabilities to be Chinese companies' motivations for investing abroad and identified M&A as the main mode of entry. In fact, in 2004 the State Administration Reform Commission and the EXIM bank published a guideline to promote OFDI, stating which 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) categorizes Chinese OFDI into five types of project; resource-seeking, market-seeking, strategic-asset seeking, diversification-seeking and efficiency-seeking.

As China needs an enormous amount of natural resources to fuel its economic growth, the government considers this a national strategic issue; it backs State Owned Enterprises (SOEs) with preferential loans, soft loans or grant programs to obtain these resources while also developing intense diplomatic relations with countries rich in natural resources, even offering them official development assistance (ODA) programs when required. The Chinese government frequently offers these governments infrastructure projects in exchange for deals on the acquisition or exploration of natural resources. Davies (2009) refers that resource-seeking investment to secure natural resources required to fuel Chinese rapid economic growth is one of the best known motivations for Chinese OFDI. Although this is presently not the most important sector of OFDI, see Figure 6, it has received a lot of government backing including ODA programs. This sector of activity represented 48% of the total

Chinese OFDI in 2003, but accounted for only 10.4% in 2008, mainly in projects for oil and gas exploitation and non-ferrous metal extraction. Resource-seeking OFDI is dominated by a few large SOEs such as: CNPC – China National Petroleum Corporation, CNOOC – China National Offshore Oil Corporation, Sinopec – China Petroleum & Chemical Corporation, Sinochem, Baosteel and China Minmetals among others that have access to huge loans from state-owned banks.

Another changing trend can be seen in business services, now the most important sector of Chinese OFDI (38.8), banking (25%), and transport (4.8%); these sectors accounted for less than 3% of this type of investment in 2003. Wholesaling and retailing continues to be a key sector of investment for Chinese enterprises in foreign markets with 11.7% of the total. This trend can be explained by Chinese firms' needs for distribution channels in foreign countries and services like shipping and insurance to support their exports. Recently many Chinese enterprises have also been investing in production units and supply chains to enhance their competitiveness in foreign markets. Nevertheless, market-seeking projects are not considered crucial by the Chinese government and are therefore normally developed by small private firms without much official support.

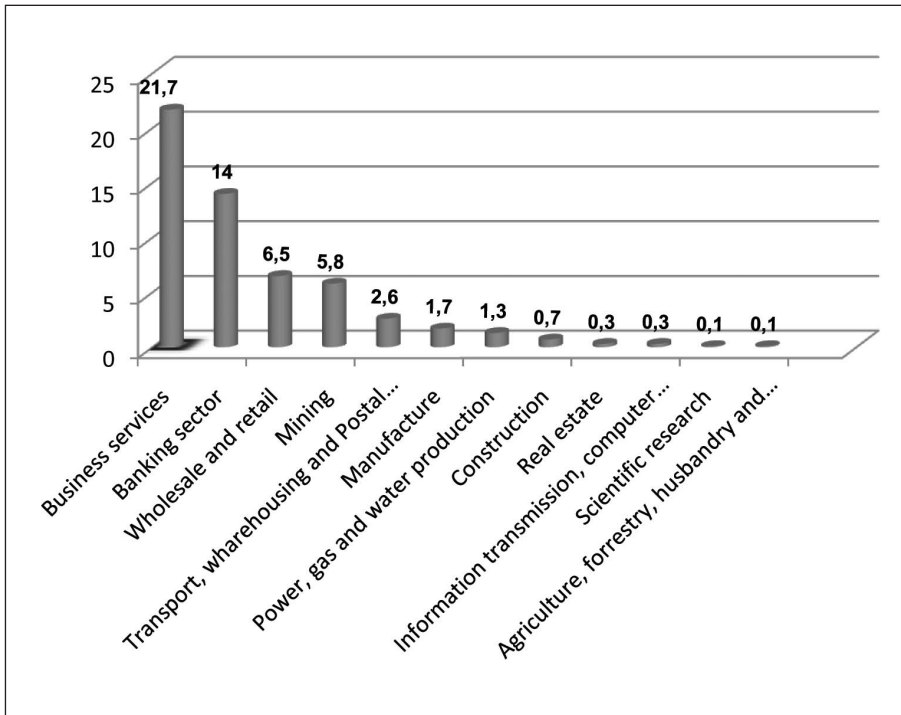
However, in certain circumstances these projects prove to be strategic asset seeking projects when it is Chinese companies' needs for strategic assets like state-of-art technology, global brands, customers networks and international marketing know-how that is at stake. Chinese multinationals believe that the acquisition of foreign international enterprises is a quick way of obtaining these strategic assets and are doing this through M&As; good examples of this strategy are the Nanjing Auto's acquisition of MG and Rover or Lenovo's acquisition of IBM personal computers unit. Preferential loans from Chinese state-owned banks such as EXIM bank and China Development Bank (CDB) are offered to this type of Chinese company for M&A transactions. Shanghai Auto, for example received 66% of the funds to acquire Ssangyong Motors in this way (Lunding, 2006).

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

As Chinese enterprises move up in the value chain, those that are most internationalized look for efficiency-seeking projects by investing either in labor intensive markets or 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 Guangdong, Shanghai and Zhejiang among others, justifies the investment of Chinese companies in ASEAN and African countries, but this represents only 3.2% of Chinese OFDI. We can also find research centers belonging to Chinese companies like Glanz, Konka, ZTE, Huawei and Haier in developed countries e.g USA, Sweden and Germany, or in some specific technologic geographic clusters like Bangalore in India.

According to OECD (2008), the three former types of project have been strongly influenced by Chinese government intervention, while the latter two are more commercial oriented; for instance, state-owned oil companies accounted for nearly 50%

**FIGURE 6**  
**Chinese OFDI by sector of activity in 2008**



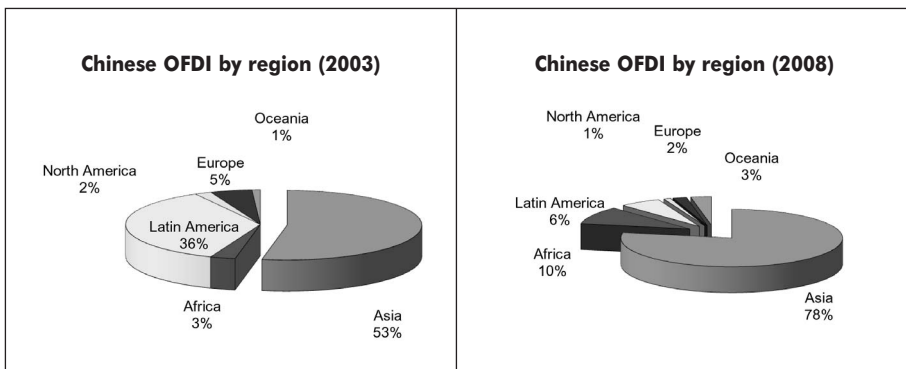
Source: Statistical Bulletin of China's Outward Foreign Direct Investment, Ministry of Commerce (2008)

of the outward Chinese M&A in 2005, implementing Chinese government energy policy (Lunding, 2006).

The trends in the geographical destination of Chinese OFDI reflect the evolution of the above mentioned investment drivers, reinforcing the weight of Asia which received 78% of Chinese OFDI in 2008, Figure 7. More than 50% of this investment is made in Hong Kong (and a part then reinvested in China or in other Asian countries); the rest is mainly applied in Chinese production units in Southeast Asia countries with the aim of lowering production costs and increasing its market share in countries like Japan, South Korea, Singapore, Thailand, Malaysia among others. China is increasingly in the final stage of the production value chains of Chinese or foreign MNEs. The importance of Southeast Asia is recognized by the President of the World Bank, Zoellick (2010): “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”.

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

**FIGURE 7**  
Evolution of Chinese OFDI by regions (2003-2008)



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

## AFRICA'S IMPORTANCE TO CHINA

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 the ODA program to African countries as well as in the organization of the summits of the Forum on China Africa Cooperation (FOCAC). According to its official website, the Forum 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 every three years – in Addis Ababa in 2003, Beijing in 2006 and Sharm El Sheik in 2009.

At the FOCAC 2006, more than 2500 commercial agreements were signed and 48 senior officials from 53 countries were present in Beijing. These agreements covered different areas such as politics, health, education, science, technology, culture, security, student interchange, and the qualification of human resources among others. In FOCAC 2009, the Declaration of Sharm El-Sheikh provided the guidelines for China-Africa cooperation over the next three years; it 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 to advance Africa's development agenda. This included new partnerships, action in climate change and agriculture, science and technology transfer, medical assistance, trade (more 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); China also promised to provide US\$ 10 billion in concessional loans. The 3<sup>rd</sup> Entrepreneurs' China-Africa Conference in 2009 set economic cooperation and technology transfer as a priority; Wen Jiabao stated that together with the construction of infrastructures in African countries, China would offer more financial support to those countries in areas like agriculture, education, health, water treatment and the development of human resources.

FOCAC is recognized as a key component 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 globalization train 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 and Ilhéu, 2009).

## STRATEGIC NETWORK OF PORTUGUESE SPEAKING COUNTRIES

Following the Beijing Consensus, Chinese planners are pushing for partnerships with African countries. Notably, the Chinese government identified the Portuguese Speaking African Countries (PSACs) as a strategic group for investment and cooperation; these countries are linked through a network of language and culture both internally and also with other geostrategic economic spaces i.e. to Europe via Portugal, to Latin America via Brazil and to Asia via East Timor and Macau.

In fact, these African countries (Angola, Mozambique, Cape Verde, and Guinea Bissau) 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; it is currently one of China's largest economic partners supplying oil and other raw materials and food products and it also opens also the door to the American continent. Angola and Mozambique, members of the Southern African Development Community (SADC), are China's important economic partners in Africa; in 2008, Angola was China's largest single oil supplier, acquiring an increasingly strategic role in China's external relations. Cape Verde is located close to the European Union and West Africa; China supports the economic development of Cape Verde and Guinea Bissau and has maintained good bilateral relations with these countries. East Timor is an oil supplier near Indonesia and Macau is China's strategic platform for dialogue with these countries. In 2003, China led the initiative to create the Forum for Economic and Trade Cooperation between China and Portuguese-Speaking Countries. The Forum is based in Macau and aims to promote trade relations between these countries and develop and implement common projects in various domains. Qin Gang (2009) stated that "Macao plays a unique and constructive role in promoting economic and trade cooperation between the Chinese mainland and Portuguese-speaking countries".

The PSACs have high expectations of Chinese investment and our theoretical research was inconclusive concerning the contribution of Chinese OFDI to the economic development of these host countries. As it is also questionable whether Chinese operations there should be classified as ODA or OFDI projects, our empirical survey aimed to determine: a) if Chinese investment in these countries takes the form of ODA or OFDI; b) how far Chinese cooperation either through ODA or/and OFDI can contribute to the development of these countries in terms of employment,

exports, technology transfer; (c) if this investment is seen as an opportunity or a threat by local people and whether it fulfils expectations?

In this paper our empirical case studies the perception of the Mozambique government on the Chinese ODA and OFDI in the country; the conclusions were reached by analyzing the opinions of senior Mozambique government officials either publically expressed or resulting from their answers to media inquires. We also seek information on the population's perception on China presence in Mozambique through secondary data.

## **CHINESE OFDI AND ODA INTERRELATION**

The main drivers of Chinese OFDI in Africa are market-seeking and resource-seeking oriented. Whereas resource-seeking projects are developed by large Chinese SOEs, (with strong government support) like CNOOC, CNPC and Sinopec, market-driven projects are promoted by over 700 SMEs operating 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 infrastructure projects developed by huge Chinese SOEs like China Overseas Engineering Corporation, China Roads and Bridges Corporation, China Railways Corporation and China Complete Plant Import and Export Corporation (COMPLANT); these two types of project are normally related.

China ODA programs to African countries consist of grants, zero rate loans and concessional loans, normally with a flexible payment schedule; as mentioned above, China also provides technical assistance, student scholarships, medical missions and human resources cooperation. From the 1950s to May 2006, Chinese assistance to Africa totalled US\$ 5.7 billion in 800 projects; FOCAC 2006 itself provided US\$3 billion in preferential loans, US\$ 1 billion in buyer credits, a US\$ 5 billion development fund and the cancellation of African debt (OECD 2008; Shelton 2009; Hon et al., 2010).

Many OFDI infrastructure projects are found in African countries with strong supplies of energy and other strategic resources; they are financed by Chinese ODA programs and mainly developed by Chinese constructors.

The predominance of Chinese construction companies in these projects is easy to explain: not only are they imposed by China concessional loans and grant terms but



these companies also have a comparative advantage over their competitors from the developed countries because they have access to both cheap finance sources provided by Chinese State Banks and also to a relatively low-cost labor force and equipment and materials available from China.

In short, resource-seeking projects exploitation appears as a compensation for the infra-structure projects undertaken 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 a condition in these loans and grants together with the supply of labor, equipment and goods. To facilitate Chinese OFDI in Africa, the Chinese government also launched the CAD Fund to support the investment of Chinese enterprises in Africa.

We can conclude that China's ODA programs has been aligned with its OFDI policy; it is part of China's soft power policy in the international arena and is being used as an instrument to gain access to strategic natural resources and international political support for China Agenda in forums like the United Nations. China's ODA has been increasingly determined in recent years by economic and commercial reasons, fuelled more and more by the Chinese government's "going out" policy and instrumentally acting as a complement to Chinese OFDI; both seem strategically planned to meet the aims 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 became increasingly involved in OFDI projects and trading business on a profit oriented basis ranging from the construction of railways, water conservation 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, notably those that have been in Africa for many years like England, France, USA and Portugal. They contest the way these ODA linked OFDI programs are developed and ignore human rights abuses and corruption in some of these countries in contradiction of the Washington Consensus (conditional aid to Africa) Shelton (2009). They also accuse China of unfair government subsidies to Chinese enterprises, poor environment and social protection, lack of transparency, poor utilization of local labor force, insufficient technology transfer, failure to respect labor rights and to invest in the development of local workers' skills.

## **SINO-MOZAMBICAN POLITICAL AND DIPLOMATIC RELATIONS**

The presence of China in Mozambique dates back to when Mozambique was a Portuguese colony and many Chinese immigrants worked there first in the plantations and later mostly in commerce. A Chinese community of around 20000 people was well integrated in Mozambique; they had their own club, school, temple, shops, restaurants, and were well accepted by the Portuguese. Many chose to become Portuguese and moved to Portugal or Macau when Mozambique became independent in 1975; the Chinese population in Mozambique is now estimated to be around 2000 people.

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

Between 1975 and the 1990's, the Sino-Mozambican economic cooperation was enhanced through the provision of credit lines for the purchase of 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, China's presence 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. Chinese 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 for which the Chinese government offered US\$55 million. Other contributions made by the 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, built by the Chinese enterprise Sogecoa (IIM 2009; Hon et al., 2010).

## **CHINESE ODA AND OFDI IN MOZAMBIQUE**

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

According to Hon et al., (2010) although China started to invest in Mozambique in 1990, economic cooperation had begun earlier in the form of ODA projects. Between 1990 and 2007, Chinese OFDI in Mozambique reached US\$ 148 million. In 2008 China invested US\$ 76.8 million, thus becoming Mozambique's second largest foreign investor after South Africa, Macauihub (2009) and its second development partner. Over 40 Chinese companies are registered in Mozambique's Investment Promotion Center and it is estimated that they create around 11 214 jobs. Chinese companies' interest in Mozambique is in obtaining mineral resources and natural commodities, and involvement in agriculture and retail businesses.

The rise of Chinese OFDI in Mozambique is fuelled by the Center for Investment Promotion Development and Trade of China (CPIDCC), established in 1999 by MOFCOM, and Anhui Foreign Economic Construction (Group) Co. (AFECC). CPIDCC invested US\$ 12 million in the initiative; its head office is in Oriental Plaza – a 16 storey building in Maputo, with a hotel, restaurant and supermarket built by AFECC, just in front of Mozambique Investment Promotion Center (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 also in cooperation with Macau government. For instance, during the Macau Forum meeting in Maputo in 2007, the then Prime Minister Luisa Diogo referred to the event in his speech as a win-win event, and in 2009 MOFCOM and the Macau government co-sponsored a trade fair in Maputo and took a delegation of Chinese companies from Mainland China and Macau. Also in 2009 Maputo received the visit of a 35 enterprise Delegation coming from Hubei Province looking for new partnerships with Mozambique. A number of projects were submitted to CPI in fields such as solar energy, acclimatization, wood processing and civil construction.

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

These construction projects notably include the expansion of Maputo airport financed by a concessional loan of US\$75 million from the EXIM bank and undertaken by AFECC; the construction of the 42 000 seat National Soccer Stadium of Maputo's Zimpeto which received a Chinese fund of US\$ 72 million and was also developed by AFECC with around 600 workers on site, one third of which are Chinese; the Chicamba Water system project being built by China Henan International Corporation Group (CHICO) in Manica a US\$ 44.7 million project co-funded by the governments of Mozambique and the Netherlands; a housing pro-

ject 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 being developed by CHICO; the refurbishment of Maputo water supply system completed in 2008 by the China Metallurgical Construction Group (MCC) with an estimated cost of US\$ 145 million; and the five star Hotel Polana Serema being modernized by Sogecoa Mozambique owned by Chinese private investors. The construction of the new office of the Auditor-General was also developed by the Chinese companies COMPLANT and Nanjing Construction CCM; a US\$ 40 million project, it received a concessional loan from the Chinese government and there were 250 local and 100 Chinese laborers on site. CMM and COMPLANT have other projects in Mozambique funded by the 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 like maize, rice, vegetables and fruits seeds and try them in the Mozambique climate.

But the Sino-Mozambican cooperation in agriculture is not confined to this center and includes other projects and organizations. For example, in 2008 the Chinese government offered a loan of \$US18 million to fund the Zambezi Valley project, Mozambique's future centre for rice production, although other crops can also be developed. Moreover, an investment plan of US\$ 800 million was presented in 2008 for the modernization of the agriculture sector of Mozambique, increasing the 100 000 ton rice production to 500 000. China is looking for huge plantation and breeding cattle fields to be managed by Chinese companies in Zambeze Valley in the North and Limpopo in the 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, the construction of irrigation channels is foreseen as part of their activity including a channel linking the Malawi lake to rivers and dams in Mozambique. In 2009 the EXIM bank conceded a credit of US\$50 million to the Cabinet Planning for the Development of Zambezi Valley (GPZ) for agricultural projects in the Valley; around US\$ 20million will be utilized to import agricultural equipment and trucks from China and the remaining US\$ 30 million by industrial units in Tete, Zambezi and Manica.

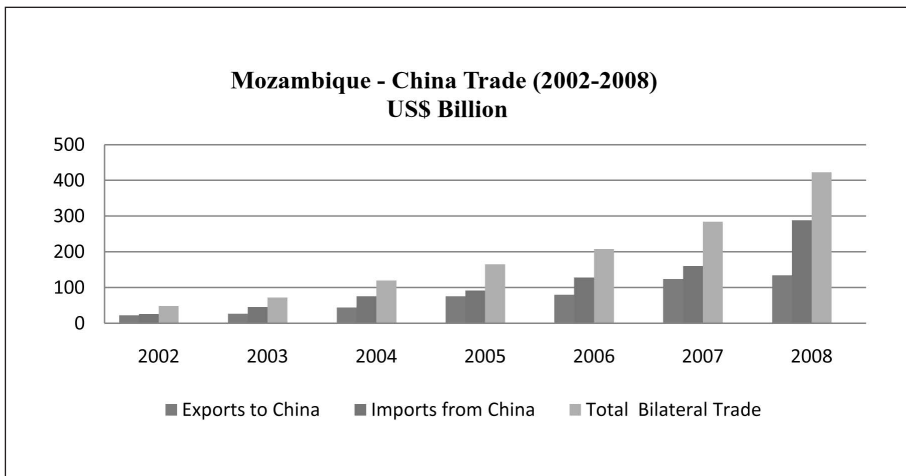
In the industrial sector, CPI have already approved some important projects from Chinese investors, namely the Marracuene cement factory with an investment of US\$ 90 million funded by CADFund, an investment of US\$ 72 million for a decoration materials factory in Maputo, a US\$12 million agro-processing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

**BILATERAL TRADE DEVELOPMENT**

In the last six years, there has been a marked increase in bilateral trade between Mozambique and China with an average annual growth rate of 43%, reaching \$US 422.78 billion 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, Figure 8.

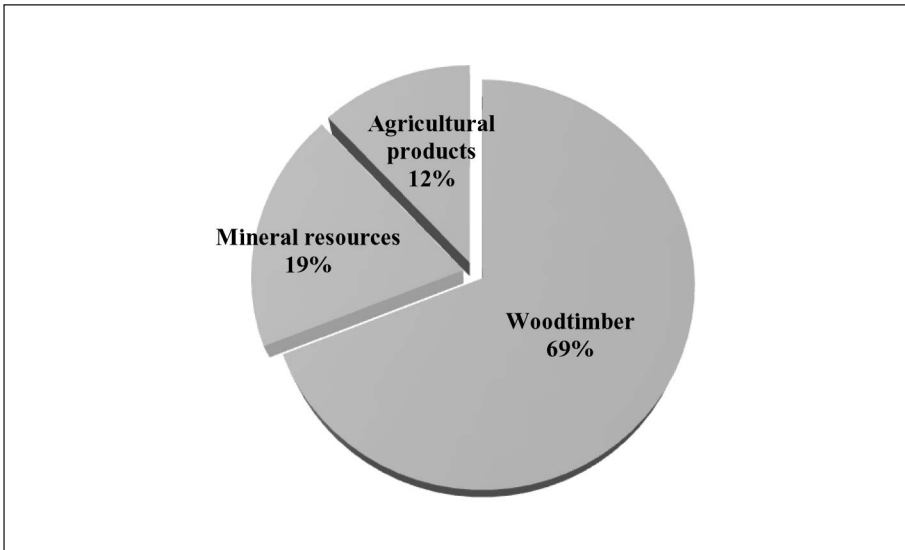
According to the Chinese embassy in Maputo, several Chinese companies are doing research in potential mineral reserves but as yet nothing substantial has been developed. Nevertheless Mozambique’s main exports to China are minerals and natural resources, namely sawn wood, oil seeds, cotton, vegetables, and minerals like chromium ore, titanium, niobium ore and precious stones; textiles, fish and seafood are also exported in small amounts Figure 9 (see p. 54).

**FIGURE 8**  
Evolution of bilateral trade relations



Source: World Trade Atlas; MOFCOM

**FIGURE 9**  
**Composition of Mozambique exports to China (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, the production of Mozambique industry is insufficient in both quantity and quality for export. This justifies the expectations of the Mozambique government towards the OFDI in China as the president of Banco Internacional de Mozambique Mário Machungo referred: “the installation of Chinese industries in the country and the technology transfer is the expectation of the future” (IIM, 2009, p. 86).

### **CHINA’S CONTRIBUTION TO MOZAMBIQUE HUMAN AND SOCIAL DEVELOPMENT**

Chinese medical, agricultural and engineering teams are providing aid to African people from building projects to treating malaria and AIDS and other diseases. China’s contribution to the development of Africa’s human resources can be seen in

its heavy investment in educational systems by sending teachers to these countries and also by offering scholarships to African students. This support to the education sector improves China's image in Africa and not only provides China with the required kind of workforce to expand its projects there but also helps China in build valuable political and business networks (Thomson, 2004). China established this kind of cooperation in Mozambique a long time ago. For instance, medical teams have worked in Mozambique hospitals since 1976 and over 17 teams have served two year terms. At present, a medical team of twelve is working in Maputo Hospital and another in Mavalane Hospital. China also supplies free medication to Mozambique. Chinese agricultural technicians are working on government farms; China donated an agricultural demonstration center worth US\$ 55 million which is being built in Maputo's Boane district and another agricultural research centre is planned for the Moamba Technology Park.

Mozambican students are studying in China on scholarships offered by the 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 contributed US\$700 000 to each school. In addition, 438 Mozambican professionals from different fields were trained in China by the end of 2008 (Hon et al., 2010).

### **MOZAMBIQUE GOVERNMENT PERCEPTIONS OF CHINESE ODA AND OFDI**

IIM (2009) concluded that the Chinese are in general welcomed in Mozambique. Despite occasional conflicts, the positive references predominate and Mozambican people are 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's civil society are generally enthusiastic about China's ODA and OFDI projects. The building of prestigious government offices have given China a good image and developed a growing appreciation of the Sino-Mozambique relations among the Mozambican population who are willing to study Mandarin to bridge the cultural differences.

Bosten (2006) also studied local Mozambique sources and noted that the population's perception was that Chinese companies made mistakes in 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 has been strongly criticized by civil society and labor unions, and

international press note it as a negative contribution to employment since only 30% of the workers in these projects were from Mozambique. In 2008, The Ministry of Public Works and Housing changed the country's Labor Law and instituted a clause obliging foreign companies to employ 10 local workers for each foreign worker.

Roque (2009, p. 7) also found failures in the ethical behavior of some Chinese companies although they work together with local people; he mentioned forestry as the most troublesome aspect of the Sino-Mozambique relations with Chinese companies doing illegal logging in Zambezia, Cabo Delgado, Nampula and Niassa with the assistance of local people, "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 and 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 entrepreneurs do not seem to affect the Mozambique government's perception of the Chinese presence there.

In a *Jornal Tribuna de Macau* interview with the Mozambique ambassador in China, António Inácio Junior, we can read that he admits 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's intervention in Mozambique that his country has today modern infrastructures like the Parliament and Ministry of Foreign Affairs and Cooperation buildings, the Joaquim Chissano Conference Center in Maputo, the housing of National Defense officials, among others. He also mentioned that apart from traditional sectors of cooperation already mentioned, China offers cooperation in the tourism sector and in training Mozambican people in China; in OFDI, he mentioned that Mozambique needs China investment so that it can develop agriculture and industry oriented to exports particularly in the timber transformation process as Mozambique wanted to export added value products of timber and not logs. He reported with satisfaction that a Chinese fishing company was exporting to EU but added that Mozambique welcomed the investment underway by Chinese enterprises in the building of infrastructures such as roads, water distribution and housing.



The Mozambique President, Armando Guebuza stated at the Economic Forum of Davos in 2006 that China was welcome in Africa: “We are very satisfied with the support offered by China at least in what respects Mozambique” “China sends help to project against the absolute poverty which affects more than half of 19 million Mozambique people”; he also rejected the idea that China is only interested in benefiting from national resources for Asia Continent saying that bilateral cooperation ‘has been mutually benefic’” (Diário Vermelho, 29/01/2006).

Henrique A. Banze, Minister of Foreign Affairs and Cooperation, also stated 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 Mozambicans”.

Mario Machungo told IIM (2009) that “the construction sector is the most notorious for Chinese involvement in Mozambique’s economic development with structural effects and without the conditions that some Western development packages require... Much equipment imported from European markets or others in the world in the past are now being replaced by imports from China”.

## CASE CONCLUSIONS

Chinese presence in African countries is part of Beijing “go global” policy and soft power diplomacy. This presence is following the principle of non-interference with internal affairs in line with the Beijing Consensus, making it 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, as well as giving their support in international forums. In fact in recent years China’s interests in Africa have become quite comprehensive, from the desire to lead the Third World’s development to guaranteeing the access to energy supply sources, raw-materials and markets through ODA, OFDI, trade and diplomacy.

The Chinese government identified the Portuguese Speaking African Countries as a strategic group in Africa for investment and cooperation and one which is linked internally by a network of language and culture but also to other geostrategic economic spaces.

A large share of China’s OFDI in Africa is concentrated in resource extraction and in the construction of infrastructures projects which are being undertaken by huge Chinese SOEs.

In recent years, China's ODA has been increasingly determined by economic and commercial reasons becoming more fuelled by the Chinese government's "going out" policy and instrumentally acting as a complement of Chinese OFDI; both seem strategically planned to successfully achieve these policy objectives.

This research focuses on Mozambique as the empirical case. China started investing in Mozambique in 1990, although the economic cooperation had begun earlier in the form of ODA projects. In 2008 China became Mozambique's second largest foreign investor after South Africa, and its second development partner.

Chinese ODA and OFDI are intermingled in Mozambique public works infrastructure projects, transport and communication, water distribution and irrigation channels, housing and agricultural projects.

The Mozambique government considers these projects as positive contributors to Mozambique's economic development with structural effects; the investments made by China following the Beijing Consensus (non-interference in African affairs) are also well seen unlike similar investments from Western countries that follow the Washington Consensus (conditional aid to Africa).

In the last six years, there has been marked growth in bilateral trade between Mozambique and China; however, it is negative in Terms of Trade for Mozambique which exports mostly raw-materials, namely timber, agricultural products and minerals and imports manufactured products from China with higher added value. In fact, at this stage the production of Mozambique industry is insufficient in quantity and quality for export. This means that the China's expectation of investment in an export oriented industry in Mozambique, transferring technology and importing products with more added value has not yet been fulfilled. Nevertheless, some important projects in the industrial sector from Chinese investors have already been approved by CPI.

China's contribution to Mozambique's human resources development can be seen in its 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; however, the Mozambican population considers that Chinese investors are learning fast and early mistakes are being corrected. The new Labor Law will also correct that by allowing only one foreign for every ten local workers.

Another important conclusion is that Chinese OFDI and ODA are in general welcomed by Mozambique people and government despite occasional problems like ille-

gal cutting and exports of timber and illegal fishing. This type of problem are believed to be caused by both Chinese and local private business people and do not affect the Mozambique government's perception of 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 beneficial.

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