

China's economic involvement in Mozambique and prospects for development - an analysis of the processes and impacts of major recent investments

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Declaration

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Abstract

The great intensification of China's engagement with Africa in the beginning of the 21st century has brought about an equally vast body of literature concerning the general motives and features of the engagement. The broad nature of such literature begs for more focused and localised analysis that are able to complement and inform the ongoing debate. This thesis aims to better understand how China's policy towards Mozambique affects the latter's economic development. With this objective in mind each of the four empirical chapters provides a fresh view over some of the most salient dimensions and recent processes related to China's involvement with Mozambique. The following is analysed: China's trade and investment with Mozambique; the Asian power's economic involvement in Mozambique's agriculture sector; the participation of the China-Exim Bank in the Mphanda Nkuwa dam negotiation process; and finally the participation of Mozambique in the China-sponsored multilateral organisation of the Macau Forum. The methodology used is primarily reliant on the analysis of secondary material supplemented by a small number of informal interviews. The core secondary material includes government investment agencies statistics, analysis of official documents, policies and analysis of material such as NGO reports, studies and media reports. The analysis corroborates the view that it mostly depends upon Mozambique's governance actors to make China's engagement work towards its economic development and that there is not a static set of monolithic neo-colonial tendencies overriding China's commitments towards the African country.

Opsomming

Die versterking van bande tussen Sjina en Afrika aan die begin van die een-en-twintigste eeu gaan gepaard met 'n oplewing in die akademiese literatuur oor die motiewe en kenmerke van daardie bande. Oor die algemeen is daardie akademiese literatuur baie breed. Dit noodsaak ontleding wat baie sterker gerig is op die plaaslike toestande waaronder Sjina bande met die Afrika-vasteland smee. Hierdie studie poog om beter begrip te kry van hoe Sjina se beleid jeens Mosambiek laasgenoemde se ekonomiese ontwikkeling beïnvloed. Met hierdie doelwit in sig, fokus elk van die vier empiriese hoofstukke op die belangrikste komponente en die jongste prosesse rondom Sjina se betrokkenheid by Mosambiek. Dit behels 'n ontleding van die volgende: Sjina se handel met en beleggings in Mosambiek; die Asiese land se betrokkenheid in Mosambiek se landbousektor; die deelname van Sjina se Exim-bank in die onderhandelinge rondom die ontwikkeling van die Mphanda Nkuwadam; en Mosambiek se betrokkenheid in die deur Sjina geborgde Macau-Forum. Die metodologie wat in die studie gebruik word steun veral op die ontleding van sekondêre stof, wat aangevul word deur 'n aantal onderhoude. Sekondêre materiaal wat ontleed word, sluit in beleggingstatistiek vanuit die owerheidsektor, amptelike dokumentasie, beleide, verslae en studies deur nie-regeringsorganisasies, en persberigte. Die ontleding toon dat Mosambiek se ontwikkelingsvooruitsigte veral beïnvloed sal word deur die optrede van die land se eie amptenare, en dat Sjina se beleid jeens Mosambiek nie gemotiveer word deur 'n stel onbuigsame of neo-koloniale doelwitte nie.

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Acronyms and abbreviations

ADB – African Development Bank

ADF – African Development Fund

AFRODAD – African Forum & Network on Debt and Development

AGOA – African Growth and Opportunity Act

APRM – African Peer Review Mechanism

AU – African Union

CNPC – China National Petroleum Corporation

CPLP – Comunidade dos Países de Língua Portuguesa (Community of Portuguese Language Countries)

EITI – Extractive Industries Transparency Initiative

FAO – Food and Agriculture Organisation

FDI – Foreign Direct Investment

FOCAC – Forum on China-Africa Cooperation

FRELIMO – Liberation Front of Mozambique

GDP – Gross Domestic Product

HCB – Hydroelectric of Cahora Bassa

ICBC – Industrial and Commercial Bank of China

IMF – International Monetary Fund

IRN – International Rivers Network

MDC – Maputo Development Corridor

MEND – Movement for the Emancipation of the Niger Delta

MNC – Multinational Corporation

MOFCOM – Minister of Commerce of the People's Republic of China

MoU – Memorandum of Understanding

NEPAD – New Partnership for Africa's Development

NGO – Non-Governmental Organization

OECD – Organisation for Economic Co-operation and Development

PARPA – Plano de Acção para a Redução de Pobreza (Plan of Action for Poverty Reduction)

PRC – People’s Republic of China

PSCs – Portuguese Speaking Countries

RENAMO – Mozambican National Resistance

SADC – Southern Africa Development Community

SAP – Structural Adjustment Programme

SAPP – Southern Africa Power Pool

SEZ – Special Economic Zone

SINOPEC – China Petroleum and Chemical Corporation

SMEs – Small and Medium Enterprises

SOE – State Owned Enterprise

SPFFBZ – Serviços Provinciais de Florestas e Fauna Bravias (Provincial Services for Wild Forest and Fauna)

TRALAC – Trade Law Centre of South Africa

UNCTAD – United Nations Conference on Trade and Development

UN – United Nations

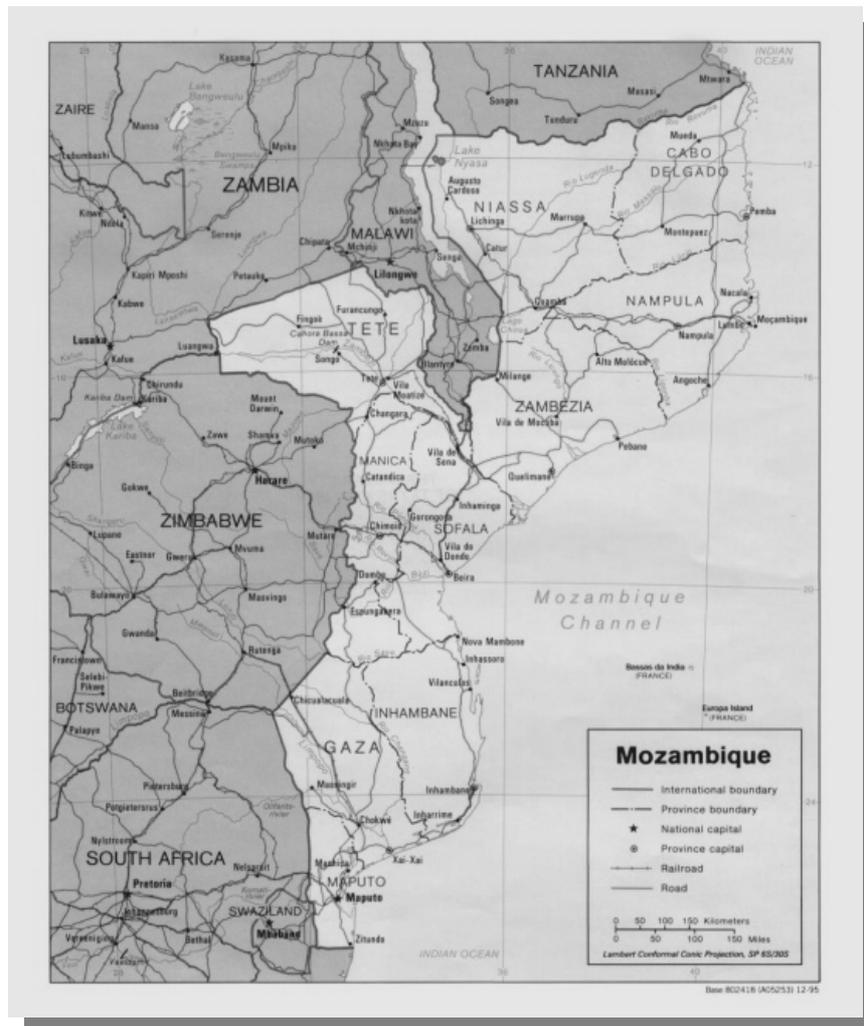
UNDP – United Nations Development Programme

US - United States

WB – World Bank

WTO – World Trade Organisation

Figure 1 – Map of Mozambique



Source (CCAfrica)

Chapter 1 – Introduction

1.1. Background

The peculiarities in China's engagement of Mozambique mirror the complexity of the China-Africa debate. It is precisely into the essence of this complexity that this study aims to zoom in when looking at Mozambique. Hopefully obtaining a better grasp of what the nature of the relationship between China and Mozambique is and how it informs the ongoing conversation in the International Relations and "China in Africa" bodies of literature. While old and emerging powers grapple with present and future uncertainties it has gradually become clear that, in the case of China, its economic development and diplomacy are set to pass through the African continent and countries such as the one being analysed - Mozambique.

Diversity in Africa's political dynamics, systems and economies is vast and China's engagement with such diversity will invariably be varied and nuanced. Given this, there is extensive room for an improvement in systematizing the deeper theoretical debates on China in Africa. To the effect, this thesis will review the literature on China in Mozambique by reverting to Chris Alden's typologies characterizing such literature as that which sees China as: a development partner; a colonizer; an economic competitor. This typology will also help inform and frame each empirical case from Chapters 4 to 7. China's involvement has stood out recently in its form and pace when compared to the engagement of traditional major powers with Africa. According to some authors, China has significantly displaced and shaken comfortably installed interests of Western economic and diplomatic engagement (Goldstein et. al. 2006; Guttal 2008). Others argue in alternative that China's arrival constitutes an opportunity for new possible synergies, not only for Africa, but also for different international partners interested in the economic development of the continent (Tjonneland et. al. 2006; Chidaushe 2007). The significance of understanding the competitive and/or stimulating nature of China's engagements is therefore central for informing effective policymaking and action.

Most importantly, there is a glaring need to move way from a bad-China vs. good-China debate which fosters distorted and unproductive written work and debate. In fact, the greatest gaps in the literature are currently located in: the availability of more in-depth empirical data on the impacts and prospective impacts of China's engagement in specific sectors, countries and regions; comprehensive compilation of the theoretical approaches to China-Africa/China-Mozambique and how these relate to each other, exposing the key uncertainties left to particular stakeholders¹; and more comprehensive

¹ This study will give primacy to those stakeholders involved in Mozambique's economic policy-making both on the Chinese and African side.

exchanges between the theoretical premises of different China-Africa schools and particular case-studies, inter-sector analysis and empirical data.

This study will be directly addressing this gap by mapping out the current trends from the perspective of Mozambique. By so doing it will attempt to contribute to the theoretical debates concerning China's engagement, illustrating the overall argument with four of the most significant examples of the engagement: the breakdown of China-Mozambique trade and investment; China's cooperation in the agro-forestry sector; the Mphanda Nkuwa Dam project; and Mozambique's place within the China-sponsored Macau Forum. In the context of present-day China-Mozambique ties, these four examples constitute respectively: in the case of trade and investment, the most visible and quantifiable phenomena; arguably the sector with the greatest significance and potential development-impact in Mozambique (agriculture sector); the largest and most potentially innovative investment (Mphanda Nkuwa Dam); and evidence of how Mozambique's development through China also encompasses initiatives at the level of international institutions (the Macau-Forum). Overall analysis will be located within the body of literature concerning International Political Economy, International Relations theory and writings on China in Africa.

As China's involvement in the African continent flourishes, actors in the private and public sector affected by this engagement, including traditional western partners already with a stake in Africa and other emerging partners², are invariably taking great interest in what this engagement means for the economic development of Africa. Another motive why China-Mozambique relations were chosen as a case study is because they have been relatively under-researched as a whole. At the same time they represent one of the relationships which have been deemed most strategic and privileged by China and an African partner.

Mozambique has received much attention, resources and programmes spearheaded by western donors and their development policies. There is therefore a considerable amount of raw data and information in the form of statistics, government briefs and media reports to be explored and contextualized within an academic discourse. It is also particularly important to think about the practical options of the actors involved so that an optimization of this engagement towards development becomes possible.

In the current process of global rebalancing, China's engagement is challenging the traditional moulds of Africa's international relations, eroding the institutions and the development-models of the Washington Consensus (Barma & Ratner, 2006) and bringing more complexity and diversity to the diplomatic and economic options of African governments. Hu Jintao's 2007 visit to Mozambique, part of his Africa tour, represented a landmark in the recent importance of the engagement of China with Mozambique. Now that all signs point to a greater strengthening of the ties between the

² These include those belonging to European countries, the United States as well as partners from emerging economies such as India, Brazil and from the Middle East

countries it becomes imperative that a constructive and informed academic debate takes place so that the engagement is understood and well-managed. It is for these reasons that mapping and breaking down China's engagement of Africa, in this case looking at Mozambique as a country-study, becomes significant. In effect, it is now widely perceived that the effects of China's trade and investment in Africa are context-specific. By adopting an analysis adapted to this reality this study will attempt at reaching more nuanced insights of the engagement.

For the purposes of limiting the research focus, the evolution of China-Africa relations and of Mozambique's political economy will be analysed within the 2000-2008 timeframe as a guide, with periodic references to past period of relevance. This particular epoch was chosen because it matches the time of the re-engagement of China with Africa in general and with Mozambique in particular. It is also the time for which there is most information and data available and when literature on China in Africa has generally started re-emerging.

1.2. Problem Statement and Rationale

The guiding question in this research is: "What are the dimensions of China's economic involvement in Mozambique as reflected in major recent processes and what conclusions could be drawn on their possible effects on Mozambique's development prospects?" This is a key question that has not yet been fully answered in the existing scholarship nor satisfactorily contextualized in the current debate regarding China and Mozambique.

Emmy Bosten (2007); Bila (2007); AFRODAD (2007); Horta (2008); Morrissey (2006); Morrissey (2006); and Mackenzie (2006) are those who have contributed a useful starting platform for this project. There are however some significant limits to their work, not least because their writings have pretty much just introduced the current debate regarding China's relations with Mozambique. The problem statement above matches some of the problems guiding the work of these authors, particularly those tackled in an AFRODAD report which also directly pertains to China's impact on Mozambique's development. There remain however, as mentioned, some gaps and limitations to be addressed as well as important issues raised in the body of literature pertaining to China-Mozambique relations worthy of further exploration. For instance, according to an AFRODAD report on China-Mozambique relations "recent studies available are a kind of impact prognostic at sub-regional or regional level" (2007:22). Without wanting to disregard the importance of such exercises, these reports can be further complemented at three levels:

- at the level of their theoretical contextualization and of their theoretical self-awareness and place within the ongoing China-Africa debate;

- in terms of the depth and the thoroughness of their analysis, which usually consists of descriptive analysis describing problems and issues which still have room to be more deeply explored; and
- by presenting important analytical interrelations between the issues they tackle and a more holistic approach bringing agriculture, infrastructure and economic diplomatic channels into the same country-focused analysis.

For example, Bila's paper is essentially descriptive and limited to using a uni-dimensional understanding of what China's engagement is, extrapolating all his analysis from there. Emmy Bosten's work in turn is heavily focused on the construction sector and not particularly thorough while AFRODAD's final report has an overly technical approach to assessing China's impact on Mozambique's development. Its assessment analyses, above all, how China's engagement fits Mozambique's development path programmed in PARPA I and PARPA II. Loro Horta in turn has carried out some significant journalistic work, contextualising insightful views of the China-Africa diplomatic corridors with some of the general literature. Catherine Mackenzie's report shows evidence of comprehensive field-work and privileges the practical problems of the agro-forestry sector in Mozambique, effectively opting for, as does Loro Horta, to leave out the wider theoretical debates.

There are therefore still questions and key aspects related to China-Mozambique relations that can be more and thoroughly answered and, most importantly, contextualized with the ongoing theoretical debate both in the China-Africa and International Relations discourses. The interaction between the four empirical examples and the theoretical discussion comprises an attempt at a more comprehensive overview of China-Mozambique relations.

1.3. Aims of the study

The central challenge of the problem statement is to bring together three spheres of analysis comprising: trends in China's international relations and more specifically its engagement with Africa and Mozambique; the course of Mozambique's economic development; and lastly, the internal, regional and international context of Mozambique's economic development. This thesis aims to better understand the relations between these factors and how China's policy towards Mozambique affects its economic development.

With this objective in mind each empirical chapter will provide a fresh view over some of the most salient dimensions of China's involvement in Mozambique. Chapter 4 focuses on trade and investment and will try and provide as accurate and broad a picture as possible of the evolution of China's FDI and trade with Mozambique from 2000 onwards by also contextualizing it within overall figures for China's engagement with the continent in general. The objective of Chapter 5 is to discuss the opportunities Mozambique can explore with China regarding its agriculture sector and also to assess

what has been China's involvement in the forestry sub-sector. The engagement dimension presented in Chapter 6 is that of the infrastructure sector, more specifically the Mphanda Nkuwa Dam project. The aim of this chapter is to look at the story of the negotiation process and understand to what extent the investment model it embodies presents new signs of Chinese pragmatism that Mozambique can explore for its development. Lastly, by observing the evolution of the Macau Forum as an institution and Mozambique's presence within its structures, this study aims to understand what potential opportunities this China-sponsored multilateral institution presents to Mozambique's economic development.

1.4. Secondary Research Questions

A group of sub-questions detailing the main problem will be important to consider as the research progresses. These secondary questions are not new, but expand on the problem statement. An attempt to answer these will be made before broader conclusions about the effect of China on Mozambique's development can be drawn. These questions are:

1. What has been the nature and the evolution of the: a) economic; b) socio-political relations between China and Mozambique for the period between 2000 and 2008?
2. What has been the evolution in volume and breakdown of China's trade and investments with Mozambique as reflected in import and export statistics, foreign direct investments, and sectoral patterns?
3. What motivations underlie China's economic engagement with Mozambique and what are the implications of these?

The list of motivations will also be differentiated according to the type of actors referred to within China's engagement. Ranging from private entrepreneurs, government officials, officials from state-owned enterprises, bureaucrats from multilateral organisations as well as small and medium level private entrepreneurs, the engagement of all these Chinese actors is being instigated for reasons that are unique to them. There is however another set of motives common to them all, of which for example the limited availability of resources at home and will expand to the international level are some of them.

4. Does China's engagement constitute a hindrance or an asset in the economic development of Mozambique?
5. What particular evidence and signals can be drawn when it comes to informing how China's engagement can impact on Mozambique's development path?

All the chapters will serve to enrich the descriptive answer provided to sub-question one and interact to draw the evidence for sub-questions three, four and five. The more

general chapter on trade and investment will provide a broader understanding of the main sectors being affected by China's investment. It also shows how this trade and investment fits the full picture of Mozambique's investment and trade, addressing sub-question two. The agro-forestry sector will provide important insights for two reasons. First an analysis of China's engagement in agriculture can shed light on how its engagement can most directly affect the issues of grassroots development, which in Mozambique remain traditionally tied to this sector. Second, the logging sector has been particularly problematic and is where China has drawn most considerable criticism in Mozambique. In this regard, the evolution of China's involvement in the sector will prove to be particularly decisive in the future. Lastly, the Macau Forum case study will provide insight into how Mozambique and China project themselves in an international setting, something that has very tangible consequences in defining the dynamics of their relationship with each other and consequently in understanding how Mozambique can or cannot tap into China's engagement for its economic development.

1.5. Theoretical Framework

The central theoretical framework used is the wider literature of International Political Economy and International Relations in which topical literature of China in Africa can be generally included. In chapter two this literature is reviewed and analysed in greater detail. The literature on China's engagement with Africa has been organised not chronologically, but according to the typology of each author's writings, into how they fit within Chris Alden's framework dividing China-Africa writings between those understanding China as: a colonizer; a development partner; and an economic competitor. Such "boxing" is however not absolute and represents a particular informed reading of each authors' work. It is used for practical and organizational reasons, to allow for a simplification of the debate and more clearly identify the different broader strands of the debate. A stance has been carved which seeks to make use but also go beyond these typologies since some aspects of the examples explored below do not always fit into these "boxes".

Literature on Mozambique will encompass an extensive collection of factual information on China-Mozambique relations regarding trade, investment and other commercial deals, originating from international and local media sources, namely Reuters, Jornal de Notícias de Moçambique, Xinhua and Macauhub. Such data is extremely important for the empirical case chapters and will be analysed against more academic work on the set of relations, including several reports by NGOs and government institutions that assess specific sectors or projects.

There is also a comprehensive section presenting China in Africa through the perspective of some of the major International Relations schools in Chapter 2. This is a particularly useful exercise which provides insights into the deeper philosophical foundations of IR and their explanations for the nature of China's engagement. The analysis will thus encompass a better understanding of the theoretical and philosophical

processes underpinning the engagement and subsequent debates. In doing so, this thesis is not aiming at simply selecting a framework but instead to expose the particular strengths and weaknesses of each “lens” and “why” and “how” some of the frameworks seem to be particularly appropriate to explain China’s engagement in Africa.

This theoretical framework, exercised in two steps, will be useful for the analysis in that it will allow a better interrelation and contextualization of the material on China-Mozambique relations. It will also pinpoint the most obvious points of dissent in the debate and also present an overview that is as balanced and all-encompassing as possible. Contributing to the theoretical debate, providing a more comprehensive picture of China-Mozambique relations and discussing practical improvements and opportunities for policy-making are the main objective of this study. The details and the particular insights and interpretations present in the case studies and theoretical formulations will hopefully enrich the China-Africa narrative and constructively feed into the ongoing debate.

1.6. Methodology

The methodology to be used will be focused in time (in the period between 2000 and 2008), exploratory in nature, qualitative and reliant on the analysis of secondary material such as government statistics, analysis of official documents, policies and analysis of material such as NGO reports, studies and media reports. This method of research will also be used for the empirical examples adopted. Chapter 4 on trade and investment in Mozambique is based both on official data from the government and investment agencies of China and Mozambique as well as on reports released in the media concerning relevant trade and foreign investment figures, both public and private. The data will be divided into data pertaining to China and Africa in general and then to China and Mozambique in particular, so that a contextualization is possible. Such data will then be analysed comparatively against evidence of China’s greater investment strategy in the continent which starts to rely on various Special Economic Zones (SEZ) as privileged hubs for its engagement. Chapter 5 on the agro-forestry sector will bring together two sets of data, first a collection from local media and Chinese sources compiling the characteristics of different specific instances of China’s engagement in Mozambique’s agriculture sector. Such data will be contextualized within the general state of the agriculture sector in the country and how its strategy can be made to adapt to latest new engagements as well as with literature covering the potential lessons China’s agriculture development experience holds for Mozambique. The analysis of Mphanda Nkuwa will rely on official government reports and other previous academic work and reports on the dam and the energy sector of Mozambique. Such evidence will be compared with evidence from previous similar projects involving China and China Exim-Bank in the continent such as in the Merowe Dam in Sudan. Finally, Chapter 8 concerning the Macau Forum will be built upon literature on the onset of hybrid actors in international relations of which Macau is an example. The opportunities offered and

characteristics Macau as a hybrid actor that is also influencing China’s economic engagement can be tapped into by Mozambique for its benefit. In addition, this framework will allow the study to better analyse and contextualize the particular instances where China-Mozambique cooperation has already been exercised through the channels of this multilateral institution created in 2003.

Supplementary informal and unstructured elite interviews of some of those involved in the study and practice of relevant policy processes have been conducted in Lisbon as seen on Table 1 below. An email exchange was carried out with an interviewee based in Beijing and participant in the Macau Forum, who however expressed wish to remain anonymous (Interview A). Another academic who has observed the Macau-Forum from the inside has also expressed the same wish to remain anonymous (Interview B). The interviews were informal and unstructured in nature. The interview with Dr. Moisés da Silva occurred in the context of a public lecture at the Portuguese Ministry of Foreign Affairs. Finally, the other three occurred in international conferences such as CPLP’s “Dias do Desenvolvimento” (Victor Bernardo, June 2008) and Instituto Oriente’s China in the Development World (Loro Horta, June 2008).

They consisted of short conversations on issues such as the internal affairs of the Macau Forum, the agro-forestry sector or the construction of the Mphanda Nkuwa Dam. The purpose was, in the case of the Macau Forum, to provide greater insight into the processes occurring within the organization and for the case of Mphanda Nkuwa to enquire and confirm both the status and due importance attached to the construction of the dam by government officials. These interviews proved to be particularly useful for Chapter 7 on the Macau Forum where proceedings remain somewhat under analysed given that it is a very recent creation and little work has been done about the topic.

Table 1 – Interviews

	Interview A	Interview B	Dr. Moisés Fernandes
Date	March 2008	May 2008	May 2008
Institution	Investment Agency of a Macau Forum member	Social Sciences Research Institution	Lisbon Confucius Institute/ Macau Specialist
Position	Director / Macau Forum delegate	Researcher and Macau Forum observer	Director
Duration	n.a.	1 hour	2 hours
Format	E-mail	Informal/face-to-face	Informal/face-to-face
Topic	Macau-Forum	Macau-Forum	Macau-Forum
Place	Beijing	Lisbon	Lisbon

	Dr. Loro Horta	Victor Bernardo
Date	June 2008	June 2008
Institution	Nanyang Technological University, Singapore	Government of Mozambique
Position	Analyst	Deputy Minister of Planning and Development
Duration	2 hours	15 minutes
Format	Informal/face-to-face	Informal/face-to-face
Topic	China and Mozambique's agro-forestry sector	Mozambique Infrastructure and Mphanda Nkuwa
Place	Lisbon	Lisbon

More broadly, the research concerns macro-organizations (states and groups of states) and respective institutions. Although this thesis also explores issues of trade and diplomatic relations at the macro-level, however, it is important to remember that any generalization is no substitute for a detailed analysis of the impact of trade regimes and sets of bilateral relations of particular countries, communities or sectors. This is one of the main reasons why this study has adopted a method which extrapolates from different illustrative examples of China's engagement with Mozambique to complement the theoretical analysis. In effect, using empirical examples allows for theory to be better integrated and contextualized as they illustrate particular phenomenon that remain under-analyzed and allow for greater attention to be assigned to specific effects of China's engagement.

1.7. Limitations and Delimitations

The study will be looking at a selection of cases from China's engagement with Mozambique. Such selection will further focus the initial choice of Mozambique as a particular geographical area and political unit. It has been the case that so far, "only specific Government sectors have contact with Chinese capital issues" (AFRODAD 2007:22). This statement puts into evidence how the availability and dissemination of information and data on China in Africa and China in Mozambique is not yet optimal. Also, to keep the study focused, some engagement dimensions which would also have been interesting to look at with greater depth were put aside not because they were irrelevant but in fact because the four specific dimensions that were chosen (trade and investment, infrastructure, agriculture and China's new diplomatic channels) present a more compelling and accessible array of evidence for answering the research questions.

1.8. Thesis Structure/Layout

This first chapter has introduced the methodology, motivation and limitations of this research, presenting the key subjects studied. The second chapter will outline the theoretical framework and survey the literature on International Relations, Political Economy and Development. This chapter will also review the relevant literature on China. The third chapter will be the background chapter; it will provide the setting of China's engagement in Mozambique as well as explore the evolution of China's foreign policy and the story of Mozambique's development challenges. The fourth, fifth, sixth and seventh chapters will solidify the analysis and argument by including an analysis of the China-Mozambique trade and investment profile plus other three cases. Chapter 5 and 6 will look at the Agriculture sector of Mozambique and at China's recent involvement in the Mphanda Nkuwa Dam respectively. Finally, Chapter 6 analyses Mozambique's participation in the China sponsored Macau-Forum, a multilateral institution which brings together China and Lusophone countries.

Chapter 2 –Literature Review and Theoretical Framework

2.1. Introduction

This chapter contains a more extended review of China-Africa relations in the context of the predominant theories of International Relations and International Political Economy. The framework will underpin the analysis of the examples in the following chapters and clarify the theoretical premises of the sets of answers to the research questions. This will enable the study to incorporate the specific set of Mozambique-China relations into a theory so that one can understand and explain its place within a larger structure of events. In the process, it will be possible to put forward a set of useful concepts of development and the assumptions being made for the purposes of the argument. It is usually a desirable premise that “there are no innocent definitions or starting points (Brown 2001: 17)”. Given this, a set of the major theoretical frameworks will now be put forward in order to better understand the research focus.

Literature on China-Mozambique will be divided into that understanding China as: a coloniser, a development partner or an economic competitor. Bringing the core arguments of International Relations to the China-Africa debate will offer an additional insightful set of perspectives. Neo-Realism tends to be suspicious of China’s political intentions in Africa. Cox’s (1996) and Susan Strange’s (2004) frameworks also provide warnings about China but for different reasons. Neo-Liberalism in turn, points to some important dangers of the engagement, but also hopes that potential economic benefits will push China to constantly adapt its behaviour.

2.2. Historical Reviews of China-Africa relations

Philip Snow (1988) was one of the first historians who tried to come to terms with China’s engagement with Africa. His work does not fit any of the specific contemporary understandings of China. Snow essentially narrates China’s engagement from its beginnings in 1955 and throughout the Cold War eras. In similar way, authors such as Gavin Menzies (2003) and Jackson (1999) have been working towards documenting the history of China’s engagement with Africa. It is to these historians that Garth le Pere and Garth Shelton (2007) turn, tracing back China’s current engagement and defending their perspective that there is a significant normative framework behind China’s engagement of Africa, thanks to which there is then a significant experience of shared history.

2.2. The economics of China's engagement

Alden (2007:5) divided writings on China's relations with Africa into three different ways of understanding China's engagement:

- as a development partner – commitment to transmit its development experience to the continent;
- as an economic competitor – short-term “resource-grab” which takes little account of local needs and concerns;
- as a colonizer – part of long-term strategy aimed at displacing traditional western orientation of the continent.

These conceptions are all general ideal types, but remain useful. These typologies in particular will be used as the backbone for compartmentalizing the rest of the literature on China in Africa. The author goes on to differentiate China's engagements with another group of ideal types, this time categorizing African governments (Alden 2007:60-72). Chris Alden divides China's engagement into two different strands according to the characteristics of the African partner: engagement with states characterized by pariah and illiberal regimes and weak democracies, to which China is seen as a benign source of stability; engagement with democracies with diversified economies, to which China can be both a strategic partner and a threatening competitor.

Kaplinsky and Mike Morris' work (2006; 2007) in turn has tried to show how China presents above all a challenge to Africa and is in essence, a direct economic competitor of Africa's labour intensive industries such as textiles. Along this line, Cheru (2007:11) argues that African leadership and strategy is lacking to balance the clarity and pro-activeness of Beijing, but that “opportunities should outweigh the threats if managed correctly”. The author believes that the lack of collective African response towards China poses a number of risks: security risks; environmental risks; governance risks; and economic threats. NEPAD is then proposed as a mechanism through which Africa can have a more concerted, regionally-based response to China. Cheru is essentially asking for Africa to “become a proactive risk manager” through a reinvention of NEPAD. On the downside of China's development model for Africa, its critics claim that its engagement can potentially undermine NEPAD as well as EITI (Rocha 2007: 25).

According to Ndubisi Obidurai, the most negative aspect of China's paradigm is that it can “justify the adoption of state-led economic policies coupled with intensified political repression”. When it comes to its Multinational Corporations (MNC) and State-Owned Enterprises (SOE), “China's lack of domestic political criticism” arguably frees its government and companies from some ‘reputational risks’ “(...) but as global branding becomes more important this might change” (Ndubisi 2007: 45, 49, 51). In support of this, John Rocha (2007:32) suggests that it is a distorted international system that is facilitating the export of raw materials but inhibiting the trade of processed

goods. As Chris Alden (2007: 105) notes, “the attractiveness of the Chinese model of development, which enabled rapid development to occur without challenging single-party rule, is undeniable for these autocrats”. Goldstein et al (2006), claim that the trade patterns between China and Africa are actually very similar to those Africa experienced earlier with other partners, while Guerrero and Manji (2008:3) point to how China is simply making the most of the opening up of Africa’s market, the fruit of decades of Structural Adjustment Programmes (SAP).

The notion that China has been pushed to Africa by virtue of market competition, utilising the channels of international capital as well as international financial and political institutions is implicit in much of the literature and will be made more explicit in this study. Coincidentally, Shalmali Guttal (2008) chronicles how China has been making the most of its World Bank and Asian Development Bank membership, how it has simply been playing a game previously set out and encouraged by Western traditional donors. This view is also shared by Ndubisi Obidurah when he claims that “China exports the capitalism it knows” as Western investment made the China of today in its image (in Alden 2007: 112). At the same time Chinese capitalism seems to be a “better fit” for Africa than Western liberalism has been.

When it comes to international financial institutions, Guttal (2008) goes on to claim that Chinese officials have tended to disregard inputs from civil society agents outside the channels of African government. The author constructs an argument that is more supportive of the view that China’s engagement tends to be increasingly underpinned by severe economic competition. It is understood that because Africa opened its doors to China’s competition that exploitation sometimes occurs, but in these views this exploitation is more of an economic than a political nature. Dot Keet (2008:84-85) in turn worries about the actual “softness” of soft loans and that these can potentially accumulate into a new wave of debt burden for African economies. African agency should also be supported by institutions such as the African Development Bank and the United Nations Economic Commission for Africa. Africa needs to be aware of such problems at the same time that the flows of investment keep growing. These are the central authors viewing China as a fierce economic competitor.

The work of Garth Shelton, Garth le Pere, Martyn Davies, Lucy Corkin, Christopher Burke and Sanusha Naidu tend to complement views that China is in some very specific sectors an economic competitor with other international actors in Africa while in other sectors it arrives as a dynamic stimulant. This is evident in a study of China’s presence in Africa’s infrastructure sector (Corkin et al. 2007) as well as in a study looking at how China delivers foreign aid to Africa (Davies et al. 2008). The argument is that China is first and foremost a development partner with great potential while its behaviour is framed within what the authors call “coalition engagements”– a collaborative state-business approach to foreign policy. Under this approach private resources from China’s MNCs and SOEs are put together with the political and diplomatic clout of China, resulting in an effective and innovative model of engagement which is flexible

yet decisive in its nature and constitutes the central model of China's strategic economic engagement with the continent.

According to these authors, China's foreign aid forms an integral component of this paradigm. China's approach has been one of mutual respect, also awarding small African countries with relatively little economic or political significance, with aid and investment support – Mozambique a case in hand. Meanwhile, debt relief is, along with low-interest loans and large-scale infrastructure projects, one of the incentives used by Beijing to develop and nurture close ties with African states (Davies et al 2008:12). To these authors one must add the work of Firoze Manji, who argues that “China has much to offer in areas such as rural development and intermediate technology” (Manji 2007:7) and of Tjonneland et. al. (2006) whose report argues that China is actually abiding to the United States' domination and seeks, also in Africa, a peaceful rise through cooperation, playing by the rules of international political economy and riding the wave of globalisation.

In similar fashion, Obiorah Ndubisi (2006; 2007) demonstrates some alarm in regards to specific instances of China's engagement but welcomes this engagement overall as being beneficial for Africa on economic and geopolitical terms. Ndubisi, however still points to the risk of China's disregard for democratic values due to its economy-before-politics approach. China has had the “experience of linking new ideas of science and technology to a homegrown path of reconstruction” (Chidaushe 2007: 122). This Chinese model of development can hold, according to those who see China as a development partner, another important lesson. It can allow Africa to learn: how to organize trade policy; move from low to middle-income status; educate for quick pay off (Chan-Fishel 2007:139).

A look at China's official discourse on development can be insightful. China claims that its model is non-prescriptive, presenting a language of no-strings-attached, equality and mutual benefit. It emphasizes the collective right to development over rights-based approaches based on individual rights, constantly stressing political stability and internally-driven development. Its economic diplomacy promotes a sovereignty-based order as it separates business from politics in its non-intervention approach. (Chan-Fishel 2007:160). At the end of the day, as Ndubisi Obiorah (2007:38) puts it, “China represents that another world is possible in which bread comes before the freedom to vote”. Chinese firms have the potential of becoming catalysts and models that can offer incentives for some of the wealth to return to a capital-starved region (Brautigam in Alden 2007:129).

A conference report by the Swedish Institute for Security and development observed that the word “donor” is now consciously avoided by China (Marklund & Odqvist 2008:9). It also recognized that there is a need for more civil society involvement and that China can learn from the EU and US in terms of how to help regulate markets and on “how to regulate the shortcomings of market principles” (Marklund & Odqvist 2008: 20). While Sweden, and to some extent the EU have been focusing on soft issues, China

is understood by some as having privileged hard issues (Marklund & Odqvist 2008: 11) as “China dislikes broadness and instead wants to concentrate on tangible actions plans”. At the same time there are very strong arguments to be made concerning China’s reliance on soft power, evidence comes from recent initiatives that comprise medical assistance, student exchanges, Confucius Institutes, film and cultural performances, radio stations and the presence of Xinhua news agency in Africa.

The authors conclude that China’s engagement has on the whole empowered Africa and given it more choices. The importance of corporate culture and improvement of corporate responsibility was put into evidence (Marklund & Odqvist 2008: 21).

Jian-Ye’s analysis is particularly interesting as the author goes beyond analyzing the impact of trade in strictly merchandise terms. The author acknowledges that, as the engagement becomes more complex, studying China needs to go beyond analyzing the role of central government (Wang 2007:1,12). He contributes to this by identifying four major reasons for China’s recent surge in Africa: government policies; markets for each other’s exports; Africa’s demand for infrastructure; and China’s differential approach to financing. Fu Tao (2008) in turn, stresses how civil society in China has also gone through a marked evolution and is much more pro-active and increasingly able to affect the behaviour of Chinese enterprises abroad. In similar lines, Peter Bosshard (2008) has also been arguing in favour of the importance of civil society having a prominent role so that the story of China’s engagement has a happy ending, but sees China’s engagement as more of an economic competitor than a development partner. Xu Weizhong (2008:73) in turn draws attention to a gap that there is in the exchange between China and Africa which is the one of cultural exchange and knowledge between the masses and the wider population of the two actors. As such the author contends that the so-called civilian diplomacy will be important, that which occurs informally through private sector exchanges. The author also asks for China to transform its current preference for bilateral relations into a more multilateral-based engagement. All these authors have tended to see China increasingly as a development partner.

Lastly, there are those who understand China as a new coloniser of Africa scrambling for political clout. This understanding is sometimes characterized by one-sided “China-bashing” such as that witnessed sometimes in the media. An example of such instance was how in the 2007 EU-Africa summit, parts of the European media used expressions such as “China bulldozer policy towards Africa” (SIC Notícias 2007), followed by shadowy suggestions that China was practically taking hostage some African states by means of locking them into deals that stripped them out of their commodities. Also, in the academic world, China is sometimes portrayed as an imperial power that should be unwelcome in Africa. This is the case with the views of Stephen Marks (2007) and Margaret Lee (2006) who express great concern over China’s colonizing tendencies in Africa and blame them on aspects such as the arrival of neoliberal tendencies at home. A softened version of this understanding of China as a colonizer can be also notably found on an EU resolution proposed by European Parliament Minister of Parliament Ana Gomes (2007) and approved in 2008. In this

report, Ana Gomes uses “scramble” vocabulary describing China’s impetus in Africa as being caused by the country’s “bulimia”. More gravely, it underestimates different degrees of autonomy and the unique characteristics of the wide range of actors that compose China’s presence in the continent.

Regarding these understandings, Moreblessings Chidaushe (2007: 117) claims he is “doubtful this criticism is a result of genuine concern for African welfare rather than the jealousy of a competitor”. This viewpoint is also reflected in John Karumbidza’s (Karumbidza 2007:89) observation of how “whereas British Prime Minister Tony Blair and Bono see Africa as a ‘scar on everyone’s conscience’, the Chinese see Africa as a business opportunity”. In fact, the views of two big critics of the understanding of China as a colonial power and of the new scramble for Africa, Sautman & Hairong (2007), support the argument that such unfounded affirmations should be avoided for the sake of constructive debate. They point to the double standards, and selective memory of Western countries which are leading the criticisms. The development lessons China holds for Mozambique do hold paradoxes.

China’s growth in the last decades has, at times, been at the expense of high labour flexibility, regional inequalities and poor labour standards and lenience regarding environmental norms. It has been the case that, within China’s development systems, only when businesses and companies develop into a higher-end productive apparatus do they tend to start tackling and overcoming these issues (Moran 2002). The element of competition in these perspectives is seen as a symptom of colonialism and political dominance. A more negative perspective towards China engagement is also presented by Ali Askouri (2008). He brings attention to the mass displacement of people caused by China’s involvement in big infrastructure projects as well as to how China’s scramble is at times destabilizing the political stability of certain African countries.

2.3. China and Mozambique

There has not been a lot written exclusively on China-Mozambique affairs. In its four country profiling of China-Africa relations, which included Mozambique, AFRODAD researchers asked a question which is close to the objectives of this study: to what extent China’s development agenda for Mozambique suits the one Mozambique has designed for itself?

AFRODAD’s report provides, so far, the most comprehensive view on China-Mozambique relations. It starts by claiming that the drivers of China’s engagement of Africa are: the need for new markets and investment opportunities; resource security; the need for symbolic diplomacy, development assistance and co-operation; and forging strategic partnerships (AFRODAD 2007:1). The report portrays the several dimensions of China’s engagement with Mozambique, through loans, technical agreements and direct investments, describing how most of these tend to be designed and executed. The conclusions arrived at are basically that China has focused its engagement with Mozambique in the manufacturing sector and that its investments although not exactly

matching the suggestions of PARPA I and PARPA II (Action Plan for the Reduction of Absolute Poverty) for development-friendly investment, can have an overall helpful impact on Mozambique's development (AFRODAD 2007:25). There is also a stress upon the temporary and uncertain nature of China's investment, as it is an engagement that is characterized by a very recent boom and stakeholders on both sides are still feeling the ground and getting to know each other. At the same time the financial linkages and deals being brokered between China and Mozambique are said to have the potential to accelerate growth and the development of economic sectors which have been either stagnant or underdeveloped until now.

Emmy Bosten's (2006) overview, although providing a broad picture of China's engagement with Mozambique, has a particular focus on the impact on South African contractors of the arrival of Chinese businesses to the construction sector in Mozambique. In her piece, she sees China as a development partner with great potential but one that is at the same time increasingly taking up contracts that previously used to go to South African and European construction firms. China is thus an economic competitor, not of Mozambique directly, but of installed business interests from other foreign powers. China's engagement, although not without its downsides, is a welcomed arrival, at least in the construction sector since: it lowers the prices of the projects for the government; its city planning know-how used for its urban experience can be usefully transferred to other parts of the developing world like Mozambique; Chinese contractors are presenting cheaper building techniques and introducing Mozambique to new global value chains (Bosten 2006:10).

Alberto Bila (2007) also sees China as a new and valuable development partner for Mozambique. Bila brings up the issue of little conditionality in loans, investment and other forms of aid as a positive feature and claims that China assists in areas in which other donors and partners are not interested. Lastly, after going through some discrepancies between China's proposals and Mozambique's very own development agenda, the author calls for an organized vision from the government of Mozambique. He concludes that "Chinese assistance is still not a problem", but that attention needs to be given to some particular issues such as the loan conditions from China Exim Bank and the lack of allocation efficiency from government (Bila 2007:27).

2.4 Ways of approaching China-Mozambique relations - the International Politics of China's engagement

China's engagement with Mozambique can be understood as being underpinned by elements from at least four different traditions of International Relations: Neo-Realism, Constructivism, Coxian perspective on International Political Economy and Neo-Liberalism. A brief summary of the insights that each tradition can provide to understanding China-Africa relations will now be presented. This section will not extensively map every school of IR but will in fact present a selection of the elements from each tradition deemed as most relevant and useful for this specific analysis.

2.4.1. China-Africa through the lenses of Neo-Realism

The philosophical foundations of Neo-Realism and its predecessor, realism, go back to Thucydides, Machiavelli and Thomas Hobbes. These classical political theorists described the workings of political affairs as primarily tackling the fact that the nature of human beings is dominated by a survival-of-the-fittest ethos. The spin-off realist school of IR also has anarchy as a central tenet. It insists that relations between states are invariably competitive by transporting the idea of the state of nature (a condition without government) to international relations. The third image, the plane of international relations is a place where, just like in the domain envisioned in the state of nature there is no overarching “Leviathan”. Therefore states seek, above all, to safeguard themselves. Another important tenet is assuming the main actors of a political system, in this case states, as inherently rational actors that consistently make calculations towards maximizing their benefits vis-à-vis other actors in the system. This precept is known as the utilitarian dimension of Neo-Realism.

Under Neo-Realism politics and economics are seen as organically tied with economics being in the end subordinated to politics and state security. As the main proponent of Neo-Realism, Kenneth Waltz introduced a paradigm of International Relations that distinguished the ‘high politics’ of power and security from the dispensable economic and moral calculations of other approaches. States are the key and sole unit of analysis if one aims at systematizing the working of the international system. This particular understanding, also shared with Neo-Liberalism though in a softer tone, is in reality suitable for analysing China-Africa relations as these at a first glance remain a remarkably state-to-state affair. Indeed, “the state-directed nature of Chinese engagement in Africa is all about ‘coalition engagements’ across various sectors, which aligns to the long-term view of Beijing’s global aspirations and business expansion into the continent” (Davies et al. 2008:52).

In effect, China’s engagement can be considered a case in hand of how it is possible for rational egoists to cooperate even in an anarchical system (Brown 2001:49). These egoists are liable to cooperate whenever they perceive they can earn relative power gains. The greater intensity of the engagement is being driven by actors such as Chinese transnational corporations, small and medium enterprises and elements of civil society that play an increasingly important part. Neo-Realism however would understand the Chinese state and African governments as being the dominant actors in shaping and steering the relationship. In this perspective, China’s insistence in mutual recognition of each others’ sovereignty and non-intervention supports the idea that China plays by the “realist” rules that states rely solely on themselves to achieve security. Systematizing China’s engagement of Africa as part of a self-help system of international relations can lead to a claim that China is just carrying out short-term coalition building and power balancing. Because Neo-Realism is state-centric, it also puts on the international system the central responsibility for the inherent anarchical tendency of states and it does so in an approach that it deems as being rational and as complying with the scientific method

(Chernoff 2002). In opposition, what Neo-Realism is seen as usually struggling to account for, is progress and change as well as with recognizing that power is multi-dimensional and has therefore various sources and manifestations.

Under Neo-Realism, the main function of states is to provide for their own security and this is exactly what China may arguably be doing, fulfilling its newly found abilities and power in its engagement with Mozambique and Africa. Hence, China's presence in Mozambique can be understood as an episode in China's attempt at expanding and protecting its markets, empowering its own state and gaining power-share in the international game of zero-sum politics. The actions of China, Mozambique and other African states are bound, under a Neo-Realist rationale, to follow the indications of the international system and are subject to its inherently competitive nature. They are victims of a close juxtaposition of states which "promotes their sameness through the disadvantages that arise from failure to conform to successful practices" (Waltz 1979: 128).

Lastly, two different strands of Neo-Realism provide a final insight into how, even within a specific set of theoretical lenses, there is room for different readings. Under the first strand, offensive Neo-Realism, states will aggressively seek to maximize power to pre-empt challenges arising from peer competitors (Mearsheimer, 2003:22) which has led Ikenberry (2008:2) to claim that "Mearsheimer suspects China's economic growth will lead to conflict". In the second strand, defensive Neo-Realism, states will only pursue power as a means to achieve security, meaning that security is seen as "relatively plentiful among states and focused on the probability rather than the mere possibility of conflict" (Brooks 1997:447). Under this perspective there is room for a more relaxed and long-term cooperation between China and Mozambique. It fits within a more contained, yet still carefully planned, foreign policy. The main issue underlying cooperation remains power but security is the major engine of China's dealings with Africa. China, in a defensive Neo-Realist perspective, would not actually be pursuing an all-out approach to achieving maximum subjugation from other states in the system, only its own security.

2.4.2. Through the lenses of Coxian IPE

International Political Economy understandings in general and critical political economy in particular believe that "economic relations between states are as important, if not more so, than political and military relations" (Berry 2007:3). Critical International Political Economy for one had its genesis in radical social science.

Robert Cox (1996) draws from historical materialism in general and Wallerstein's writing in particular, by presenting a perspective of International Relations that rearranges world systems theory. He asks the question of what is going on inside society. Marxist influence is present as Cox also looks at production as being the one that matters the most in determining who benefits. He is also adamant in defending the importance of looking at the intersections between how states are organised, how

production is organised and the way international organisations are organised. According to Robert Cox, ideas are at a latter stage spread through hegemony in a subtle way and also produced through consent. He criticises the Neo-Realist split between politics and economics, claiming that this is not a real split as the state supplies the basic conditions to allow for capital accumulation. The realist balance of power is in this sense very superficial as sovereignty is in fact believed to carry out internal and external actions whereby economic issues become politicized and interstate relations allow for ways to explore labour internationally.

The author divides theory between problem-solving, that which tries to ascertain the best practice while accepting the basic premises of the tacit rules of international relations, and critical theory, that which focuses on the origins of power. Robert Cox understands the state as being an intermediate between the world order and social forces. His analysis is primarily materialistic but he also brings attention to how ideas have dialectical relationships with material conditions and institutions, meaning that these ideas also have an autonomy and agency of their own. This is important as it must be taken into account when those adopting Robert Cox's tools carry out his suggested historical approach for understanding the succession of arrangements of ideas, institutions and material capabilities (Berry 2007:13).

An analysis of China in Africa through a Coxian approach would look at the historical roots of how China is asserting its hegemony through consent and would make a claim for critical theory to be involved instead of that restricted to problem-solving. Robert Cox's dichotomy also helps inform the policy options that Mozambique's governance actors have when it comes to their engagement with China. The content of these options (transmission belt vs. facilitator for development) are further explored in the Chapters below, particularly Chapter 6.

2.4.3. Susan Strange's structural power

Susan Strange's structural power framework also fits the Critical theory school. Quite different from a direct and visible form of power-exercise, structural power works through shaping the framework within which states interact with each other. Structural power is hence not about the explicit use of force, but rather about the ability to set the agenda. The state, or group of states, who possess structural power, have control of the political agenda, and thereby substantial control of what issues will be objects of political debates and decision making (Strange 2004). Robert Cox also adopted Strange's notion of structural change. He argued that this change tended to take place whenever there was a mismatch between two types of ideas or ideational phenomena, that of intersubjective understanding and that of agent-specific ideas, i.e. between individual perceptions of "self" vs. "other" and collective, ideological perceptions of "self" vs. "other". A shift in structural power on a global scale can now be identified, as the developing countries have grown stronger and become more visible on the international arena since the 1990s. The developing world was not meaningfully

involved in multilateral trade negotiations before the launch of the Uruguay Round and the creation of the World Trade Organization (WTO). At this point the markets of the larger developing countries had gained enough significance for the developed world, and they were therefore brought into the negotiations (Mattoo & Subramanian 2004; Drapner & Sally 2005).

Under this approach China can be seen as now attempting to enforce a hierarchical structure in the capitalist world economy and leaving poorer African states dependent on it. Now the central question remains if there is indeed a relationship underpinned by a vicious circle dominated by declining terms of trade between China and Africa. If so, is it right to consider that China, as a new core, is extracting profits from Africa which is chronically in the periphery? In this perspective, China's embrace of the capitalist apparatus causes it to replicate the constant demand for the extraction of value from labour - a common feature of the dominant classes since the industrial revolution and a tendency which was re-interpreted by Wallerstein at the level of interstate relations.

2.4.4 Through the lenses of Constructivism

Constructivism presents a clear epistemological break with other more mainstream IR schools. Social facts, the object of study of international relations, can only be understood through the textuality of contextualization. This means that systemic theorizations, underpinned by the rationality of actors are flawed since this rationality is relative and socially constructed. So, from the moment that identity is considered as being at the core of every action, IR theory, and how you actually "think" the world becomes the all-defining exercise.

Adopting a Constructivist approach to the engagement would lead us to take note of the importance of identity and how this identity has supplied China and Africa with a bridge supporting cooperation (Ruggie 1998; Wendt 1999). Wendt accepts some premises of realist thought including the claim that states should be the adopted political unit of analysis but, contrary to the realist prejudice that states are inherently aggressive. Wendt believe states are actually bound to create social relationships between them and therefore can potentially create a set of specific rules and benign *modus operandi* between them. State identity and interests cannot be taken for granted. The idea of the state is a social construction itself and the power of ideas, culture and identity cannot therefore be discarded.

As an emerging superpower, China now has clear institutional and economic ambitions. In its rise, China sees its African engagement as strategic as it arranges and pushes for its political space in global politics. As a player active in international organizations it now craves for support for its actions as an agent of the global polity. Thus, one important dimension of its attempt at accumulating more power is that of the social and cultural. As Joshua Kurlantzich (2007) chronicles in his book on China's charm offensive, evidence of the potential of China as a socio-cultural magnet is already evident, particularly around Southeast Asia. China acknowledges that the way it

represents itself to others ends up having real and important consequences and is therefore stimulating varied forms of horizontal linkages that are transnational in nature. This fascination and attraction towards Chinese culture and China's model is now also being actively stimulated in the African continent.

2.4.5. Insights from Neo-Liberal elements of International Relations

“Realism is better at telling us why we are in trouble than telling us how to get out of it” (Keohane 1986: 198)

The classical origins of Neo-Liberalism and liberalism rest with authors such as Immanuel Kant, John Locke, Stuart Mill and Adam Smith. What the classic texts all have in common is basically the defence of reason as the only way to ensure survival, and that solving the necessities of individuals is the starting point to creating successful forms of cooperation and stable political systems.

It is now important to distinguish Neo-Liberalism as is commonly used in a detrimental fashion to characterize the failures of the economic model of the Washington Consensus and Neo-Liberalism as an IR school. Neo-Liberalism can hardly be understood as a stand-alone school given its wide number of strands and uses as a term. In this study, its conceptualization refers to a specific theoretical revision and re-interpretation of the tenets of IR first advanced by Neo-Realism. These first tenets consisted in a view which regarded the international system as anarchic, originating a version of the state of nature at the international level, and of states as individually rational actors. Neo-Liberalism emerged as fundamentally disagreeing with Neo-Realism when it comes to the room there is for cooperation in the context of relations between states of “selfish” rationality. Above all, this school of thought believes that absolute gains will tend to take primacy over relative ones.

Neo-Liberalism's central argument is that actors in the international system should actually be understood as having the potential to discuss and interact in a forum rather than invariably competing against each other in a “chess-board”. While in this forum, actors constantly recreate themselves, adapt and alter the rules of the game in contrast to the strict relative-gains rules of the realist game of chess. How you understand the reasons for states to behave in a cooperative way also has an important role in defining what your understanding of the nature of international relations is. A structural explanation of cooperation will be markedly different from a functional one. In a structural explanation, moves towards absolute gains will be seen as the independent variable while a functional analysis suggests cooperation is the result of rational-actor behaviour that minimizes information costs and curbs inefficiency.

These two different starting points are the different starting points that divide the neo-liberal spectrum between those closest to Neo-Realism and those rejecting the systemic attribution of anarchy and are closer to the more economics-based and functionalist version of Neo-Liberalism. The misconception over the notion of Neo-Realism as

remaining the most powerful theory to explain and understand how the international system operates is also one of the reasons why authors such as Carporaso (1993) came to realize that notions like multilateralism, that realism struggles to come to terms with, have been underrepresented in the academic world of IR. In the current conditions of the global political economy, interdependence is the central phenomenon that brings about a diffusion of power in international relations (Simmons & Elkins 2004). In this view, the global political economy might create a more suitable environment for multilateralism, the emergence of international institutions and cooperation by means of a socialization process of states through evolving norms, rules and communication.

Concerning China's engagement with Africa, given the recent nature of this wave of engagement, both actors are now starting to define what these norms, rules and forms of communication are. A small repertoire of what these specifically are will be advanced below and noted throughout the empirical examples. The neo-liberal paradigm improves upon the neo-realist one in that it privileges issues of time and trust as relevant factors in determining the success of norms and socialization at the international level and cooperation. Under this rationale, actors are less likely to free-ride or defect if they know they will lose out in the long run. It is in this context that the role of ideas and discourse comes about. One may agree with the notion that Neo-Realism "tells us a small number of big important things" (Waltz 1979:329) but that the things Neo-Realism tells us are indeed too small and need to be revised even if its parsimony and scope are to be praised. Given this, if Neo-Liberalism does accept "states" as the most basic and dominant unit of analysis for international relations, it also acknowledges the importance of non-state actors. This school accepts the pressures of the anarchical system in propelling states to rationally compete with each other in terms of power. This acceptance, however does not deny the possibility for mitigating this competition and of actually channelling it into new forms of institutional innovation and cooperation that goes beyond instinctive self-help.

Keohane (1984; 1989; 1994) basically fuses politics and economics in order to go beyond the limiting security obsession of neo-realists. Such proves to be particularly important for understanding the behaviour of important sub-state actors in our analysis of China-Africa relations. Because this study will be assessing development in a broad sense, the division that Neo-Realism makes between high and low politics will be rejected since the economy is seen as having a fundamental role in international relations. Also, Neo-Liberalism connects the domestic with the international sphere much more successfully, saying that it is not possible to speak of national interest and international politics without mentioning domestic politics. The case is that interdependence can mitigate attrition between states as long as there is the likelihood for stable trade benefits in the future (Copeland 1996:7). This leaves out only two options for states: either they close down on themselves totally or they internationalise themselves through international institutions.

Interdependence represents in this case a form of mutual dependence which is not accounted for in neo-realist premises and one that becomes very obvious in China's

international relations with Africa. This is the case because the impact of interdependence in the international system is one that opens up for the possibility of harmony and cooperation between states. Such is somewhat of a necessity as the political units (in this case the state) will not be able to produce everything they need by themselves. Interdependence brings about benefits and costs which are however not symmetrically distributed among the participants, meaning that more powerful countries tend to try and transfer the undesirable costs to the weakest states. This asymmetric interdependence sustains the neo-realist notion of sovereignty as states still impose themselves on one another and remain the supreme authority within their territories but does challenge the notion of states as autonomous units which invariably act towards one another in a rationale of self-help (Katzenstein 1976:8).

Also, this asymmetry is rather prominent in China-Africa relations in general and China-Mozambique relations in particular. China constantly insists in labelling its relationship with Mozambique and that with the whole of Africa as one of equals. The characteristics of their economic interdependence however tell a different story as the trade balance favours China and other aspects of the engagement make for an uneven relationship which is in turn not necessarily of an exploitative nature. Even though there is a state structure behind them, Chris Brown (2001:38) praises Neo-Liberalism for acknowledging that “the decisions and actions of non-state actors can affect our lives as much as the decisions and actions of states, if not actually more”. Support for this can be found both in the two levels of China’s economic engagement of Africa: the level of big business and state-led enterprises and that of more autonomous small and medium enterprises. Just look at the importance of institutions such as ICBC, China Exim-Bank and SINOPEC in this same engagement. These entities driving the high profile engagement, although not wholly detached from the PRC state apparatus, have progressively gained more autonomy and will tend to continue to do so in the future. Under Neo-Liberalism China’s accession to the WTO is seen as proof of how international institutions and the will to join international institutions can affect and alter the behaviour of states, in this case China. These international institutions have brought about reputation costs, allowed for issue decomposition and issue linkages, reduced transaction costs and information costs and brought some forms of enforcement measures.

China is growing while making active use of international institutions to promote the country’s development of global power status, as Michael Komesaroff (2008) shows in his paper looking at how China is now relying on the International Chamber of Commerce in Paris to safeguard its massive investments in the Democratic Republic of Congo. China also wants the protections that the systems’ rules and institutions provide (Ikenberry 2008). According to neo-liberals there are many cases in which institutions do matter. They can: provide information; reduce transaction costs; make commitments credible; establish focal points for coordination, and in general facilitate the operation of reciprocity (Keohane & Martin 1994). What Keohane & Martin defend is that states can functionally make use of the existence and good function of institutions to improve the

quality of information and optimize potential gains from cooperation. They also make more than, as Mersheimer criticizes, simply preventing cheating. Institutions have the ability to work as moderators and control to a certain extent “fears of unequal gains from cooperation” (Keohane & Martin 1994).

The idea of complex interdependence is particularly useful since there are multiple channels of access between the societies and actors under analysis, something that will become particularly evident in chapter 7 exploring the Macau-Forum. In addition, and except perhaps for the issues of arms trade and peacekeeping, *force has been of low salience* in defining China-Africa relations. At least when it comes to conventional military power-play, force has played a small role in defining the relations. Lastly, there has been a clear fluidity and variance when it comes to the matters of a *hierarchy of issues* in the relationship. Although Taiwan and the one-China policy have usually been number one in the diplomatic agenda, this issue starts to lose importance as other issues of economic interest, trade, resource security or other international diplomacy affairs become more salient and any “issue-area” might be at the top of the international agenda at any particular time (Keohane & Nye 1989:24). In this sense, Keohane’s Neo-Liberalism adopts what Carporaso (1993) terms a socio-communicative approach in that it updates the systemic “stiffness” of Waltz and focuses on the previously mentioned consequences of the practical rules and norms that multilateral institutions have brought, attributing some significance to aspects of communication, language and persuasion.

2.5. Conclusion

The previous theoretical discussion allows only framing the discussion and analysis but also to provide the tools with which to break down and analyse the examples below and with which to enter the ongoing academic discussion on China-Africa. Chris Alden’s ideal types were used as ways in which to understand the role of China in Africa to review and organize the literature. The literature analysing China in Africa has been boxed as: a development partner, economic competitor and colonizer but still these categories are not final. It is important to keep in mind that each author frequently reflects views from all three understandings.

The previous discussion of IR theories’ contribution to the debate started by describing the philosophical foundations of each school and what insights and tools each can provide to analyze China in Mozambique. All the schools described will provide different useful, often alternative, dimensions of the engagement.

Neo-Realism tends to see China as a competitor, striving towards colonialism and wanting to gain as much relative power vis-à-vis Africa and other international stakeholders in the continent. Susan Strange’s framework can be used to observe how China is now making use of its influence in affecting structural power. Coxian IPE can in turn be used to underpin the views of those who claim China is wishing to build and consolidate its power structures of economic dominance and submission.

Constructivism will in turn see China's relation with Africa as open-ended, defined by the evolution in nature of discourse between the stakeholders of the relationship. The tools of Neo-Liberalism show that there is theoretical room to understand China's engagement as either going down a path of harmful competition or of a development partner.

These frameworks are not always compatible but in the occasions where this happens, it will often be the case that a lack of consensus will put into evidence a specific uncertainty regarding China-Africa relations that is worth pinpointing and exploring.

China-Africa-Mozambique relations will be analysed not so much within the current discourse of the scramble perspective, seeing China as a new colonial power but rather will try to frame it within what we interpret as the nature of the contemporary global political economy and how this is influencing the China-Mozambique-Africa relationship. This does not mean however we discard all insights from the scramble-colonialism arguments. Rather a discourse that is more reactive to Africa's interaction with China is opted for. Adopting somewhat of a constructivist argument, while there may be certain inherent characteristics similar to the previous colonial scrambles, the discourse remains limited. The scramble argument is situated within a Western-centric framework which is in itself flawed since it takes as its main reference point the behaviour of Western powers vis-à-vis Africa. It would be easy for African political and economic elites to fall into the same trap of becoming overly dependent on China and India as alternate partners to the West. Instead it is cautioned that China plays by the logic of constituency-economics like all other sovereign states, which are seeking permanent interests and not permanent friends.

Chapter 3 – Background Chapter

3.1. Introduction

This chapter will look at the broad setting of the analysis. It will start by summarizing what the conditions in international political economy which are drawing China closer to Africa. Then, an exploration of the dynamics of China's rise is carried out in order to understand its actions in Africa. It will recount the story of the economic and political evolution of Mozambique with a particular focus on the period of 2000-2008 and describe the unfolding relations between China and Mozambique. Lastly, it will finish by investigating in more detail a few key actors in the engagement, namely China Exim Bank, the African Development Bank (ADB) and FOCAC. The description of these unfolding relations and actors will provide an historical and institutional framework to inform the analysis.

3.2. Historical snapshot of China in Africa

In many cases China's ties with African countries date back to its support for African anti-colonial struggles in the 1960s. Following the establishment of the People's Republic of China (PRC) in 1949, relations were founded with post-colonial Africa through "moral and material support for different generations of national liberation and independence movements" (Le Pere & Shelton 2007:18). China's first official ties with an Africa country began with Egypt in 1956. Since then, the intensity of China's engagement has been intermittent, coinciding with more or less favourable economic and political conditions at home, the trends in international political economy and the very political situation of Africa. This meant that there was a period of particular interest from China in Africa during the 1960s and early 1970s that coincided with China's venture into the power struggle of the Cold War occurring after the Sino-Soviet split. This period contrasted with the quieter decade of the 1980s when China was focusing on its internal affairs and organizing its recovery for a post-Mao era under Deng Xiao Ping (Alden 2007:9).

3.3. The role of the changing political economy

The international architecture of power is at a crossroads. United States power, if not waning, is at least visibly being challenged as downturns in the traditional power's economy are set to push China to look further into other alternative markets and economic partners. The growth of the BRIC³ countries, which include China, as well as the affirmation of the European Union as causing them to assume prominence.

³ Brazil, Russia, India and China

Simultaneously, the United States and China maintain an informal system of chain-gang economics through which China's economy has been closely interconnected to that of the United States and vice-versa, by means of China's purchase of American treasury titles and also simple trade (Bello 2008). Meanwhile, the systems of international finance and trade endure sturdy, save for the challenges of crisis, market corrections and the ambiguities of speculative capital. In a curious and very significant development, previously liberalization-friendly developed countries now tend to be protectionist, losing their traditional role of liberalizing leadership in the key organization that seeks to expand and uphold common rules for international trade – the World Trade Organization (WTO) and its trade rounds. American-led liberalisation of multilateral trade, witnessed particularly in the Uruguay round and during the 1980s and 1990s, has now come to a standstill. Lobby groups from uncompetitive sectors such as steel, textile and farming, important for the constituencies of those negotiating the deal, pushed the Americans and Europeans to put the “brakes on” liberalization and become more protectionist. Indeed, as Brazilian foreign minister Celso Amorim observed, “the proposals set forth by the G20+⁴, which Washington holds responsible for the meeting's failure to reach an agreement are 70 to 80 percent in line with the positions held by the United States at the start of the Doha Round” (IHT 2007). The European Union has gone through a very similar transformation, with the added detail that it is far more concerned with its own integration process with the East. Emerging powers like Brazil and China are in this context now part of a group of shifting alliances in the developing world who are pushing the most for liberalization in certain sectors in ways that developed countries are not.

3.4. More dynamic South-South Cooperation

Improvement of transportation and financial systems, supply chains as well as in information and communication technologies are other important vectors allowing for the scale of current engagement. In this context, the G20+ example comes about as an important example of South-South cooperation and of remarkable stance coordination for a variety of reasons. It was the first time that China assumed a more proactive and leading role. It also brought together very diverse regional powers, something that is notable not just in harnessing synergy in economic trade bargaining, but also in the symbolic underpinnings of the coalition and in the moral weight it carries, representing over half of the world population (Narlikar & Tussie 2004: 953). This picture gives the G20+ a window of opportunity to simultaneously lead international negotiation in trade and economic relations and invert the traditional bargaining stances. This switch has now put developing nations as leading promoters of broad trade liberalization with small adaptations, and rich countries resisting it. We are witnessing, in the words of Mario Marconini, former Brazilian Secretary of Foreign Trade, a “shift in paradigm”

⁴ It currently comprises Argentina, Bolivia, Brazil, Chile, China, Cuba, Ecuador, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Peru, Philippines, South Africa, Tanzania, Thailand, Uruguay, Venezuela, Zimbabwe

(IHT 2007). The telling story of how the G20+ maintained cohesion at Cancun despite many believing in the impossibility of it happening (Tussie & Narlikar:2004) is a rather encouraging example of how slowly developing countries are taking their development into their own hands.

On a different level, the Macau-Forum can also be understood as a tool designed in part to stimulate such cooperation, and is a telling instance of collaboration of such nature, one that will be analysed in more detail in Chapter 7. The organism was created to foment economic and political relations between China and Portuguese-speaking countries and although it has Portugal, a developed country from the North, as one of its members, it consists for most part in a group of countries from the developing world coming together and discussing issues that they are directly interested in. China has been using it as a multilateral platform for conveying political and economic exchanges that complement the more traditional bilateral channels. An important additional dimension as to why China has turned towards Africa at this particular point in time is that the African continent is experiencing increasing political stability and growth. These relatively more peaceful times have coincided with China's economic boom and an adjustment of the international economy from being pushed by the economies of mature developed countries to having developing countries' emerging markets (like China) as the major motors of growth. As this trend goes full circle, China's extensive and sometimes disorganized economic boom has witnessed a transformation of China's interaction with the international economy from reactive to proactive. Strategies are no longer devised in an ad-hoc manner, following pushes from international actors and investors wishing to take a piece of the pie of China's great economic potential but in fact, China now assumes the driving seat, becoming innovative and strategic trend-setters at the international level. China's presence in Africa is, in this context, one of several components of this pro-activeness in China's international relations strategy. This global trend shows how different aspects in the architecture of the global political economy have acted as "incubators" for China's engagement with Africa. The subsequent economic boom of these emerging powers has raised a strong demand to source resources and to find new markets for products.

3.5. A new era in Africa's renaissance

In contrast, the concept of constituency-economics can also be usefully put to use when looking at China-Africa relations. The inevitability of what can be understood as "constituency-economics", originally reflected in Putnam's two-level game theory (Putnam 1988), becomes evident when traders and investors allude to their home constituencies as having insurmountable interests they need to uphold and defend on the international stage. The term "constituency-economics" alludes to the persistence of a "zero-sum" game in the politics of international trade, something that Krugman (1997) also acknowledges. This is important on two levels. Firstly, it shows how crucial it is for developing countries, like China and Mozambique, to come together and coordinate their economic and political stances by forming coalitions and bandwagoning.

Secondly, it explains why, China has also occasionally been “shying away” from multilateralism and, in parallel to its South-South multilateral initiatives, been paradoxically pushing for bilateral and Preferential Trade Agreement Agenda when it suits its goals. The same can be said for the rule-setting of trade negotiations that underpin Mozambique’s stance and bargaining vis-à-vis China. In order for the negotiation dynamics and outcomes between the two states to effectively work towards the development of Mozambique, the GoM’s stance and economic diplomacy will have to be, to some degree, at par with the needs of the constituencies affecting this very development the most, namely trade unions, organizations in charge of the strategies of the leading sectors in the economy, farmer’s unions among others. Achieving a situation of optimal compatibility of the different constituencies, whose interests are projected in the international dimension of economic diplomacy, is not an easy, straightforward task but one that should first be acknowledged and then sought after.

3.6. General analysis of China and Africa relations

Issues of trade and investment between China and Africa will be analysed in more detail in Chapter 4 but a brief overview of continent-wide data is useful at this stage. Traditionally, private money has been sceptical about investing long enough in Africa to build infrastructure because of the risks and in spite of the high returns associated with such endeavours (Hughes & Brewster, 2003). This has meant that most investment in Africa’s infrastructure has come, in the last three decades, from aid/development funds and from institutions such as the IMF and the World Bank. Apart from the TAZARA railway linking Zambia and Tanzania, China’s flagship infrastructure project embodying China’s aid to Africa in the 1970s, no new railways have been built in Africa since colonial times. Although apparently not directly affecting Africa, purchases such as that which saw China buying a considerable stake in Blackstone (BBC 2007) can have important developments for the continent in the medium-term. First of all, a considerable part of the funds that Blackstone is set to invest are to be 'put aside' for more risky and development orientated goals. Second of all, and most importantly, Blackstone is not likely to be investing in China since a figure of around US\$1.4 trillion reserves would invariably appreciate the yuan, something the PRC government has been clearly avoiding at all costs. As long as China Central Bank maintains the peg to the dollar and continues to run trade surpluses, getting excess FDI, that reserve amount will grow and will be destined to remain outside China. This leaves Africa with great potential as a destination for capital looking for higher risk and return investments. As Chidaushe (2007:123) notes, “Chinese planners foresee an era where African minerals and genetic resources will be more worthwhile than US treasury bills”.

China has then recently turned to engage with Africa, and trade volumes with the continent have witnessed exponential increase over the latest decade with the value of trade between China and Africa increasing by an average 24 percent between 1995 and 2007 and total trade standing at approximately US\$ 74 billion in 2007 (TRALAC

2008). Oil exports dominate exports from Africa to China while the breakdown of China's exports to Africa, although having an important component of textiles and manufacturing, are more multifaceted and varied.

According to an April 2007 IMF report (2007), developing countries in general and Africa in particular are expected to keep growing strongly thanks to benign global financial conditions and high commodity prices. The purchasing power of Mozambique and that of the rest of Africa, except for South Africa, still remains minimal but the situation is slowly changing as is evident from recent economic reports about the continent (UNDP 2007). Nevertheless, given a parallel global recession, Africa's growth rate is still predicted to slow down over the coming years, albeit not significantly. With a growing population and rising consumer incomes, Africa can progressively offer the markets that China needs to vend its products, and its resources can also be explored more efficiently during peaceful circumstances.

The politics of China in Africa are of a great complexity. Migration has been an important dimension and gauge of the different intensities in successive historical periods of the engagement. Chinese migrants have been entering Africa in waves for decades that roughly vary with the intensity in economic and political exchanges between China and Africa. Corkin (2008:5) noted that "many Chinese communities were established in African countries before the latter's independence. Having settled for several generations, some of these migrants have naturalised and are a recognised minority group in many countries". Interestingly, the Chinese Diaspora in Africa is generally neither as deeply rooted as for example the Indian although there are a few exceptions such as in Gabon and South Africa where Chinese migrants are rooted since early 20th century (Corkin 2008).

In its engagement with Africa, China is in some instances challenging the sovereignty and the traditional moulds of inter-state relations, and in other instances cementing it. On the one hand, the challenge to sovereignty occurs for example when China focuses its engagement with private companies or particular stakeholders within particular regions within sovereign states. This is the case for example with the Niger Delta areas and the private oil companies operating in Nigeria as well as the example of the oil-rich area of Southern Sudan. In such cases, although China is on the side of the sovereign governments as it deals directly with the capitals (Abuja and Khartoum) its concrete interests sometimes reside in areas which have been in conflict with their central governments (Southern Sudan and the Ogaden region). China's expressed interests, involvement and investments make these areas ever more appetizing for central governments to hold on to, but at the same time it exacerbates the will of these groups that have been economically and socially oppressed by central governments and who engage in conflict to retake what they perceive to be rightfully theirs. The case of the Niger Delta region in Nigeria illustrates this point. The Movement for the Emancipation of the Niger Delta (MEND) sees no socio-economic dividends from the

oil revenue that is paid by MNC's to the central government be reinvested in improving social and economic conditions in the area.

In some of Africa's most politically fragile states, neo-patrimonialism, whereby leaders use the realist state template of the international order as a platform for sustenance by corrupt behaviour, is widespread (Herbst 2004). In such cases, China's strategies have adapted well to the workings of neo-patrimonialism. In a handful of African countries there are successive stories of political instability or of chronic autocracy that show how regime-seeker factions tap into a template of sovereignty that is discursive but also institutional. In patrimonial networks, resources flow from a top-down patriarchal-pyramid of hierarchy, on whom the rest of the networks are dependent. If these persons lose their resource bases or positions of power, large numbers of people are negatively and dramatically affected at once. The result is a situation of persisting structural insecurity and unpredictability (Vigh and Whyte 2003:148) that China now has to deal with. So far China has shown good skills at navigating these political waters, doing so with pragmatism but also an obvious willingness to take risks and that has given her an edge over other actors that are engaging with Africa such as India, Japan and Brazil. It is not clear to what extent the added importance that China's engagement brings to these sub-state actors. It does however give "food for thought" on how to understand the unit of the state, international relations and most importantly the meaning for Africa of today's acceleration in economic exchanges.

On the other hand, China generally prefers high level diplomacy to set up its aid, trade and investment. As a rule of thumb, the public and the "corporate" private sector are at times one and the same in the African state given the tendency for the appropriation of the state by patrimonial networks of patronage (Chabal & Daloz 1999). Indeed, because the use of the state as an instrument for the accumulation of wealth is particularly prominent in some African states, top private sector companies of those countries sometimes lack the efficiency and the will to seek markets and expand. China's engagement therefore tends in some cases to reify the sovereignty and the political leverage of patrons in the state apparatus. This connection between African elites and external actors via the international global economy puts into evidence what is a drastically different interaction of regions and states with the current accelerated processes of economic exchanges.

3.7. Knowing China to know China abroad

The reform and opening up of the Chinese economy started in 1978. In the 1990s China's option of reaching out to opportunities for foreign investment and resource security in the international arena became clear. After considerable growth rates in the 1980s, the Chinese economy began a truly thunderous and unprecedented expansion in the 1990s averaging around 11 percent GDP growth per annum. Any analysis of Chinese dealings abroad must be understood against China's internal background and refer back to it as a prime engine motivating Chinese international relations. The

economic boom provides China not only with indispensable capacity and leverage (for example in the ability to provide loans) but most importantly with the determination to seek out new or renewed markets, suppliers and allies.

The year of 1992 is a landmark in China's economic history. This was the year in which China went from being a self-sufficient energy producer to a country that is dependent upon external sources to meet its energy requirements. The fact that the country possesses so few natural resources relatively to its needs has put China in a position where the natural resources of other countries have become crucial to its continued economic development (Pamlin & Baijin 2007:24). So, while there seems to be no visible end to China's growth, its demand for energy is also going off the charts. China is now the world's second largest energy consumer with its consumption almost trebling since 1978 (RICS 2008). China's strategy now consists of diversifying its energy interests in different baskets. In the internal market, it recognizes the problems of dominant energy production through coal and will seek to have its Research and Development departments to, in the medium-term, find "greener" and more efficient options for coal production and alternative renewable energies. According to the "China Sustainable Energy Program" (2008), China has "established the world's most aggressive energy efficiency target, calling for a 20 percent reduction in energy intensity (which is a nation's energy consumption per unit of GDP) between 2005 and 2010". Externally it has no choice but to try and keep up with demand by securing deals in the Middle East, Central Asia, South America and Africa as its limited reserves domestically deplete. China's demand for raw materials has been rising over the last ten years. At the same time, demand for primary commodities is likely to remain volatile, as has been observed by the OECD (Goldstein et al 2006). This reality might engender strategies that over-rely on mono-commodity export and cash crops as an enduring threat for the future of African economies.

In effect, the success in the accumulation of capital by China in the last couple of decades has been tremendous. As Callinicos (2005:362) puts it: "where would the world economy be today without the prodigious accumulation process under way in China, a process that is made possible by a very tight set of linkages between the state, the banking system, and both publicly and privately owned firms?". In the early days of its growth China used to be in competition with Africa in much more direct way, as Chris Alden notes, "before it became a leading FDI exporter to the continent, China could be said to be a serious competitor for foreign investment in Africa" (Alden 2007: 127). In order to explain such ascension, Hussain et. al. (2006:56) identified three salient institutional features for the Chinese development: decentralisation, reforms of the rural economy and moving from old to new enterprises.

When the economic reform of China started, around 80 percent of Chinese labourers were active in rural areas. When privatisation of Chinese agriculture was introduced, its output was raised dramatically. As rural income was raised, the market for rural enterprises expanded and rural industrialisation came about to an extent unseen in any other developing country – village and township enterprises were important elements of

growth in the 1980s and in the early 1990s (Hussain et al 2006:65 and Chow 2000). Chow notes that “the secret of success of China’s economic reform is to allow the non-state actors to develop in the setting of a market economy” (2000:427). In 2001, the Chinese government initiated its ‘Going Out’ strategy whereby the corporate sector was encouraged to invest abroad (Kaplinsky et al 2006: 15). It has also been argued that one of the conditions that stimulate growth generally is the “experience of linking new ideas of science and technology to a home-grown path of reconstruction” (Chidaushe 2007: 122). The argument holds that this constitutes a model of development that holds a seemingly important lesson for Africa, and that China’s engagement provides an opportunity for Africa to learn how to organize trade policy, move from low to middle-income status and educate for quick pay off (Chan-Fishell 2007:139). Such a lesson can however be markedly double-sided; China’s growth in the last decades has at times been characterized by high labour flexibility, regional inequalities, initial low labour standards and lenient environmental norms. In the case of China’s development of businesses and companies, the Chinese State has begun to address and overcome these issues only when they developed into a higher-end productive apparatus (Moran 2002). Africa needs to be aware of such problems as the flows of investment keep growing.

3.8. The importance of China’s political layers

When it comes to China’s political dimension, it is important to remember that China as a state is not a closed, uni-dimensional entity and is in fact extremely multi-layered particularly when it comes to its economic dimension. It has been notable for example how its different provinces holding considerable autonomy courtesy of a central government which actively fosters economic competition between regions for better economic performance. At the time when the government “releases” its “Chinese champions” (The Economist, 2005) in the international arena, equipping them with all sorts of economic incentives and government back-up, these companies have already gone through a careful process of creative destruction that selected the most competitive and profitable companies that have previously proven themselves in China’s internal and inter-regional economies (Zeng & Williamson, 2007).

The difference in diplomatic behaviour towards Africa can also partially be explained by looking at its dynamics as an extension of its understanding of the workings of its internal politics. In China political reform has been carried out primarily through inner party democracy (*dangnei minzhu*) while China’s political structures of “soft and modern authoritarianism” (Shelton 2005:87) puts into evidence how the regime gives precedence to economic growth over political reform. This *modus operandi* reflects itself in China’s engagement of Africa showing China as less demanding when it comes to governance and as offering a viable and friendly alternative development model. It has notoriously led African states to re-evaluate and question the premises of traditional western-style diplomatic engagement.

3.9. China and international civil society

As was witnessed in the literature review, accounts of the Chinese engagement with the African continent are rife and contradictory. Notions of benign engagement with mutual benefits often put forward by African leaders are contrasted with fears of a new era of colonialism and scramble for resources by the “Yellow Peril of the East”. In 2008 Beijing faced serious criticisms over the Tibet issue and its engagement with the Khartoum regime over Darfur. These tensions are being played out in the global public space by international civil society groups calling for a boycott of the Olympics, which China hosted in August 2008. Such global domestic opinion has seen China face a serious public relations backlash that impacted on the Olympic torch relay which was marked by controversy and had very bumpy ride around the globe (Taylor 2008). It also brought into focus some of the issues that China has to deal with regarding investments in domestically unstable environments in Africa where there is intra-state conflict. Conversely, China is, for example, not the only country that is economically active in Sudan. In 2003, India’s Oil and Natural Gas Corporation, Videsh Limited, acquired a 25 percent stake in Greater Nile Petroleum Company, a conglomerate also including CNPC (Beri 2005:13). Biswas (2007: 8) notes that “the Government of India went for the deal and helped the Government of Sudan develop its oil industry in spite of threats from Sudanese rebel groups, on the one hand, and United States sanctions against Khartoum over the crisis in Darfur, on the other”. In effect, not much is reported on India’s investments in Sudan nor is there any criticisms levelled at Delhi for doing business with Khartoum. Perhaps it is China’s permanent Security Council status that puts it in the firing line because it has to be responsible. But this is not a good indicator of global responsibility as demonstrated by the United States invasion of Iraq or Washington’s own strategic interests in Sudan, or Russia in Georgia.

Furthermore, Sudan is an important producer of gum Arabic, supplying more than half of world output of this commodity used to make food stuffs, pharmaceuticals and sodas, of which the most well-known is the soft drink Coca-Cola (Cecil 2005). The United States currently imports gum Arabic from Sudan worth several billion dollars each year. Moreover, more than half of the oil that China extracts in Sudan is sold on the international market (Downs 2007). Hence, the Sudanese oil is sold to many of the countries that criticise China’s presence in Sudan. The above examples seek to contextualise the critique against China. The aim is not to excuse the behaviour of any superpower, but to understand the current debate and ‘call a spade a spade’ (Alvarenga, Jansson, & Naidu, 2008 incoming).

3.10. China’s engagement and the importance of symbolism

For China’s diplomats, symbolism is absolutely central to any concrete or material set of diplomatic moves (Alden 2005:140). In fact, China’s engagement with Africa has been described early on as a “charm offensive” (Kurlantzick 2007) and noted as a

constructivist-friendly way of analyzing China's engagement. Getting Africa on its side through gestures, history, ideas and symbolism goes a long way. Such symbolism does in fact hold an important historical dimension, as it is history that "imbues the language and approach of China-Africa relations use of an interpreted shared past, seen in ritualistic symbolic and instrumental forms" (Large 2007:156). The benefits of China's warm relations with Africa will be evident at the formal stage of international institutions (such as the UN and the WTO) but also in the informal affairs of international relations *realpolitik*, particularly when it comes to the Taiwan affair. These wider intents are materialized in the form of well orchestrated donations such as those that comprised the widely publicized gestures by China of offerings or partial (financed) offerings to Mozambique: the parliament buildings in 1999 (US\$ 5 million); the Ministry of Foreign Affairs in 2004 (US\$12 million); and the Chissano Conference Centre in 2003 (US\$3.9 million). It is in the context of symbolism and of a diplomatic charm offensive that for example the supply by China of material to Mozambique's newly integrated army (Alden 2005:141) must be understood.

3.11. Brief Institutional Profiles

This section on China Exim Bank, FOCAC and Africa Development Bank serves to introduce a few actors which are particularly important for this analysis of China and Mozambique's development. China Exim-Bank is a major channel through which China has presented Mozambique with investment and concessionary loans. FOCAC is the flagship institution through which China and Africa define the general lines of their political and economic relations. African Development Bank is a major development partner and influential policy-maker when it comes to Mozambique's strategies and visions to achieve sustained development

3.11.1. Review of China's Export and Import Bank (Exim Bank)

Exim Bank was created in 1994 and was by 2007 the world's third credit agency (Ellis 2007). On the receiving ends there have been projects such as dams, railways, power plants, mines and oil facilities. China Exim Bank traditionally works with loans, guarantees, bonds as well as miscellaneous credit. Together with China Development Bank, the two are the sole administering bodies of concessional loan financing. Exim Bank is in turn divided in two divisions overseeing financial outflow, a commercial and a concessional arm. Lastly, it carries out three major functions: 1) it is the official export agency looking after trade and investment guarantees, 2) it provides aid administration (i.e. evaluating projects) and 3) it acts as the policy bank that deals with foreign aid that comes to China (Davies 2008: 20 - 21). The policies of China Exim Bank are seen as being close to China's foreign policy. The bank is the most important broker through which both China's government and great quantities of quasi-private money flowing into Africa. This has meant that, in its way of operating, one has witnessed a tendency for loans to have conditionality that tie countries down to medium/long term obligations

in the provision of resources and raw materials. Literature from IRN by Peter Bosshard (2007) has looked at the bank as having a negative impact on governance, environment and the social fabric of African countries. On the other hand the project has been welcomed by government and drawn compliments by some private investors and Mozambique economic agents.

In their partnership with Justiça Ambiental, IRN dissected the particular case of Mphanda Nkuwa and the foreseeable impact of the dam. Exim Bank's financing and government dealings are in their report on the dam regarded as lacking enough transparency. In addition, the bank is understood as potentially becoming one of the main drivers of a new wave of debt in Africa. To this regard, the chairman of the African Development Bank provided a comment which is worthy of note and must be cautiously analysed. He argued that "Yes, debt sustainability is important but development sustainability is what we are after" (Kaberuka 2007). Improvement in Exim Bank's environmental, social and developmental standards are therefore likely to evolve slowly and take some time to reach the standards of most developed countries and its lending agencies. The interesting dilemma here is that although Exim Bank is of considerable size and no smaller than its other financing counterparts such as OECD, IMF and the European Investment Bank, its way of operating in the developing world is said to have yet to even comply with the environmental standards applied in China itself. This means that there still needs to be an adjustment process of Exim Bank with the very standards applied in China before it is taken to an optimal level. Domestically, China's environmental regulations are changing quickly as well but still lag behind some of the stricter processes and environmental protection measures put in place in developed countries.

In 2007 CNPC started claiming, at least in the rhetoric of Cheng Siwei (vice-chairman of the standing committee of the CNPC), that Chinese companies misbehaving in their environmental and social responsibilities abroad would face sanction at home (China View 2007) and Li Ruogo, president of the China Exim Bank, said he wanted "to put his institution on a sounder commercially oriented basis and, in so doing, reduce its reliance on state subsidies" (Alden 2007: 131). Exim Bank, a newcomer International Financial Institution, has been seeking to quickly gain experience in its practice by sending observers to agencies such as USAID, DFID and Millennium Challenge (Carriço 2008), at the same time it has not limited itself to replicating other lending models. It has presented an alternative channel to financing that is more flexible, less risk adverse and more responsive to African governing-elite needs (Alden 2007: 25). Finally, on 21 May 2007 a Memorandum of Understanding (MOU) was signed by senior managers of the Export-Import Bank of China and the World Bank with a particular focus on Africa. It was aimed at improving coordination and cooperation between the two organizations on matters of development (Davies 2008: 22). The involvement of Exim Bank in the Mphanda Nkuwa Dam and other big projects in Africa can be understood within the greater objective of Chinese push towards

consolidating itself as a major power through economic development but most importantly enhanced political influence.

3.11.2. FOCAC

The FOCAC (Forum for China-Africa Cooperation) meeting in November 2006 and attended by 48 African heads of State in Beijing was a grand milestone in China's strategy towards Africa. The inaugural ministerial conference that took place in Beijing in October 2000 was attended by Chinese and African ministers and representatives from international and regional organisations. During the meeting the Beijing Declaration of the Forum on China-Africa Cooperation was established, and since, two Ministerial Conferences have been held – in December 2003 and in November 2006. The next meeting is scheduled to be held in Cairo in November 2009. During the 2006 FOCAC meeting a substantial number of cooperation agreements were signed. China promised among other things to double its assistance to Africa by 2009, provide preferential loans to a value of US\$ 3 billion, establish a China-Africa Development Fund of US\$ 5 billion for the support of Chinese companies operating in Africa and cancel extensive amounts of debt owed by HIPC's (highly indebted poor countries) maturing at the end of 2005 (Marks 2007:2). FOCAC represents an important platform for China in its interactions with African leaders.

3.11.3. African Development Bank

The ADB meeting in Shanghai (2007) also constituted a landmark in China-Africa relations. The event was charged with symbolism and meaning, illustrating the growing ties between China and Africa but also the strategic importance attributed by both to their economic ties. ADB is an African financial institution concerned with state building, inter-state economic integration and region-encompassing economic development. It primarily finances big infrastructure projects which have region-wide impact. In 2007 it financed up to US\$4.7 billion in projects and is now set to continue expanding in the modalities and range of its loans as Donald Kaberuka, the head of ADB, seeks to merge its institution with the African Development Fund. It is of particular importance to understand and follow the activities of the ADB in this analysis as the bank has considerable clout in influencing the development policies of Mozambique. The ADB is an active participant in the design of the PARPA guidelines of the country – the strategic policy lines set out by the government of Mozambique to achieve development.

3.12. Profile of Mozambique – The governance of development economics

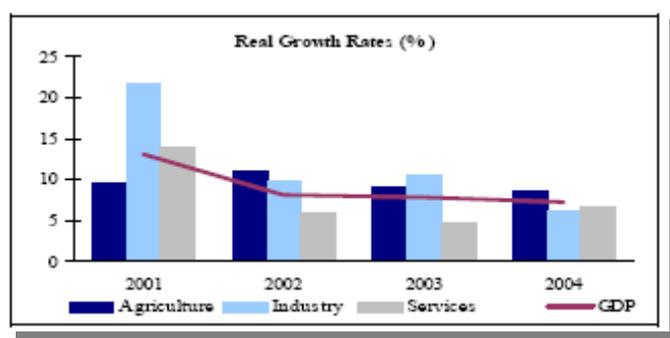
Mozambique's recent history is best known for its destructive anti-colonial confrontations and post-colonial civil wars. After a Maoist-sponsored anti-colonial war waged by FRELIMO, a socialist government with a centralized planning economy was

set up. After the civil wars there was no abrupt shift of this centralized economy into a liberal, market-led one but in fact this reform has been occurring in a progressive way. The country went from a state-party regime arguably into a multiparty democratic system. It has a two-party system formed by the organizations which fought against each other during the civil war, RENAMO and FRELIMO. Despite the bloody history of relations between the two organizations, the country is stable and political exchanges have been relatively constructive. Other general traits of the country are also worth mentioning, Mozambique has a population of around 19 million in 2008, of which a great part is very young, with 45 percent of the population younger than 15 and the median age at 17.5 years (ADB & ADF, 2006). Its economy is growing but regional economic ambitions and coordination are still somewhat limited and restricted to the sectors of transport, energy and water resources. As noted by a report by the ADB and ADF (2007:9), the economy still remains considerably inward-looking.

In geographical terms, Mozambique is in a strategic location. Its long 2.700 km coast gives it great potential for it to become a regional trade hub and have its neighbours conduct through its ports their trade outside and inside of Africa. Forty five percent of its land is arable and agriculture, though not the most productive sector, it remains the most dominant one, employing the most people (FAO/WFP, 2005).

Relevant literature on Mozambique can be sub-divided between that which looks at: the evolution of the country's economic structure; Mozambique's political system, government and governance (Carbone 2005; Galli 2003; Harrison 1999); and the country's regional and international diplomacy. When it comes to the economy, as can be noted in Figure 1 below Mozambique has averaged a growth of eight percent a year between 1992 (cessation of the 16 year conflict) and 2007. Paradoxically, Mozambique has found itself included on the UNDP list of least developed countries in the world, indicating that it is extremely susceptible to political instability and economic downturns which will result in visible decreases in economic growth. In addition, low inflation rates, stable monetary policies, slight improvements in agricultural productivity and the considerable economic impact of mega-projects all contribute to a positive overall outlook of the country's economic performance (Bila 2007: 3).

Figure 2- Real Growth Rate in Mozambique by Sector



Source (ADB and ADF 2006:3)

However, if one looks more attentively to the poverty indicators of the country, despite once again marked recent improvements with the incidence of absolute poverty going from 69 percent to 54 percent in 6 years, the situation remains bleak, with the country staying low down in the UNDP (2007) Human Development Index at the 172nd place. A closer look at the Gini coefficient also suggests that the country's economic growth has occurred simultaneously with widening inequalities. To be more precise, Mozambique's Gini coefficient went from 0.40 in 1996 to 0.42 in 2002 (World Bank 2008).

In effect, the growth rate can be misleading as: exports are very dependent on the existence of mega projects (such as Mozal smelter and Cahora Bassa Dam); the formal sector remains weak; and agricultural productivity remains considerably low. For Mozambique the path ahead is challenging and uncertain both economically and politically. With its political system stabilizing and the prospects of sweeping changes in its economic structure, Mozambique's policy-makers will be at hands with a great deal of important decisions to make and options to take. According to the Ministry of Planning and Development the trend is for Mozambique's economy to become more and more natural resource dependent. In addition, there is a great likelihood that Mozambique holds oil reserves set to add up to the already prominent electricity, gas and the aluminium economic sectors. This means that Mozambique's institutions and policy-makers in charge of crafting the governance of its political economy are set to be put to the test by the challenges presented by the so-called "resource curse" (Bucuané & Mulder 2007).

According to Mozambique's Ministry of Planning and Development, the economy is currently running the risk of becoming excessively natural resource-dependent. These claims are based on studies concerned with the governance implications of an eventual finding of viable oil reserves in the Northern Rovuma basin " (Bucuané & Mulder 2007). They also allude to the patent prominence of the gas, aluminium and forestry sectors in the economy. At the end of the day, Mozambique's policy-makers are now charged with formulating pre-emptive measures to counter the so-called "resource curse" (Auty 1993; Collier 2003; Le Billon 2006).

As already mentioned, in its interactions with African countries and Mozambique, China has presented itself as a collaborative partner with “no strings attached”. As such, it is supposedly challenging the traditional moulds of Western development cooperation. In the longer run however, as China’s engagement increases and matures, its investment preferences will gradually become more decisive in determining which sectors of Mozambique’s economy are consolidated. Traditional donors will also have to accommodate such changes. Two possible scenarios arise for the role that China’s investments might play. They can either exacerbate the “curse”, or alternatively, innovative investments in services, manufacturing and agriculture might help pioneer an alternative development path. In this regard, an example of a concrete issue that Mozambique must promptly address is the illegal logging occurring in the Northern Zambezia province by a handful of Chinese private companies. The agro-forestry sector will constitute one of the particular case studies assessed in Chapter 5. There is a group of actors and stakeholders on the Mozambique side whose actions will be of particular importance. Sub-government departments will become increasingly decisive and key as they become more autonomous from central government and tasks that used to be carried out by foreign donors become their responsibility. This is the case for example with the Ministry of Foreign Affairs and Cooperation (in charge of coordinating foreign aid, including China’s) and with the Ministry for Planning and Development (responsible for managing PARPA).

Mozambique also needs to improve in virtually every category in terms of providing a business friendly setting. The bureaucratic process for setting up a business is lengthy and inefficient, labour markets are restrictive and corporate judicial capability is unsatisfactory, not to mention enduring difficulties in accessing capital, energy and value-adding infrastructure. An important distinction to be made when it comes to Mozambique's employment structure is between formal and informal employment. The latter has witnessed a far greater expansion than the former with the number of informal employment in urban areas witnessing an increase of around seven to eight percent (ADB & ADF 2007:11).

3.13. China-Mozambique: the story so far

Contemporary China-Mozambique relations contain many of the recurrent trends, strategic options and unique nuances that China faces in its engagement with Africa. It also contains many of the common dilemmas that African countries face when trying to make this new engagement work towards their economic development. A brief initial snapshot of relations between the countries will now be provided. Relations between the two date back to the early 1960s, when the Chinese Communist Party politically and militarily supported FRELIMO in its independence struggle. Right after independence, on the 28th of June 1975, President Samora Machel proceeded with the formalization of diplomatic relation between the countries with the accreditation of the first Chinese

ambassador in the country (Bila 2007:5). From then onwards links intensified. In the last few years, Mozambique-China economic and political relations have experienced a tremendous acceleration. Bilateral agreements for technical cooperation in agriculture, education, health, and light industry were signed. Mozambique was one of the selected stops in Hu Jintao's 2007 FOCAC follow-up African tour as two-way trade tripled in only two years, making it one of the fastest growth rates experienced by any nation's trade with China. Among the "good diplomacy" events they took part in there were: the inauguration of a pilot project in the agricultural technology cooperation (Xinhua 2007). Together with aid, debt cancellation and lower trade tariffs, China has been investing greatly in Mozambican infrastructure. This investment in infrastructure fits China's wider strategy in the continent by enhancing the attractiveness of Chinese ventures to African governments and linking investments to tie-in projects. Such investments also improve the export efficiency of enterprises (Alden 2007:13), including agriculture and manufacturing.

Investments have included a stadium as well as several bridges and roads. Trade volume between the two countries has increased substantially. It almost doubled in two years from US\$119 million in 2004 to US\$210 million in 2006 (Mofcom 2007; Market Access Map 2008). China imported mostly agricultural and fishery products from Mozambique and it exported varied manufactured goods and machinery. A more detailed analysis in the evolution of FDI and trade exchanges between China and Mozambique is carried out in Chapter 4 below. In Mozambique, like elsewhere in Africa, China's use of symbolism in the form of well-orchestrated donations has been a routine trait in its diplomatic engagement. To this effect there has been a steady provision of gifts or partially financed gifts by China to the government such as the parliament buildings and the Ministry of Foreign Affairs. With the implementation of the first phase of the SADC Agreement on the 1st of January 2008, 85 percent of goods produced in Southern Africa can enter Mozambique tariff free, meaning that overall inter-regional trade is expected to pick up considerably. China's investment can play a key part in accelerating this process, boosting the pace and volume of trade, both through its role in infrastructure development and FDI. It has been reported that China is now Mozambique's sixth largest investor, having created as many as 11.000 jobs since 1990 (Macau Hub 2008) with figures for investment totalling US\$ 148 million, of which US\$ 69 million arrived between 2003 and 2008.

Lastly, Mozambique is part of the list of 77 countries that comprise the SINO, a group of countries in Asia, Africa and the Middle East that China has assigned as being of particular long-term strategic importance.

3.14. Conclusion

Besides providing important background information for the rest of this study, it has been noted in this chapter how, for Mozambique to tap into China for its development, it should make the most of China's overture. Mozambique should push its agenda in the

context of a surge in South-South economic and political cooperation. Mozambique needs to be aware of what is pushing China to engage with the country and China should in turn be aware of Mozambique's specific history of economic development and the current challenges it faces. These needs should be met in order for an actual win-win engagement to be established as much as possible, for Mozambique to effectively negotiate with China and channel its engagement in a coordinated and effective way and for China to make the most of its investments, loans and its diplomatic relations with Mozambique. Mozambique and China need to be aware of the economic and political tensions that underpin their engagement and the nature of the forces within their own constituencies pushing towards greater protectionism in opposition to those pushing towards greater openness and economic competitiveness.

The narrative of China-Africa relations tells a story of accentuated acceleration in the last decade and one that seems destined to keep expanding. It is at the early learning stage of this expansion and surge in engagement that policy-making and the guiding strategic decisions both from Mozambique's and China's side will have the greatest impact. It is in this sense important to carry out the dissemination and assessment of the first impacts of China's engagement in Mozambique's development.

In order to understand the specific nuances of China's impact on Mozambique's development it is also helpful to look at it in comparison with the engagement of other emerging powers such as India. Finally it is important to look at the background of a group of institutions such as Exim-Bank, FOCAC and the ADB which are of a particular importance in defining the nature and the strategic lines of the engagement as well as in how they can influence Mozambique's development.

Chapter 4 - China's Trade and investment with Mozambique

4.1. Introduction

This chapter will be looking at the broad dimension of China's general trade and investment with Mozambique. According to Kaplinsky et al. (2006:23) Chinese activities on the continent have three primary channels: trade, aid and FDI. These three are all interrelated. Trade is closely linked to the integration of African and Chinese investments into global value chains, and often Chinese aid offers are underpinned by extraction and market-seeking purposes. This chapter will provide a basis of the trade and FDI channels, laying ground for the cases that will be analysed in the following chapters. It will first scan the general figures and numbers of China's FDI in Africa as a whole, to then look at different suggestions and calculations of China's overall trade with the continent. Then, after analysing what general lessons these leave for Mozambique, this chapter will look at the particular figures of China's trade and FDI in Mozambique, finalising with an analysis of the different paths and challenges that China's FDI and trade might have in stall for the country. As mentioned, before moving into the specific figures for Mozambique-China trade and investment, this section will first take a look at the more general statistics of China-Africa so that a more contextualized analysis can be achieved.

4.2. General China-Africa FDI

It is the striking case in the beginning of the 21st century that:

“‘South-South’ FDI – investment from one developing nation into another—is growing at a rate five times faster than that of traditional North-South investments from industrialized to developing countries. Today, ‘South-South’ flows represent almost a third of all foreign direct investment” (Pamlin & Baijin 2007: 27)

It appears that a partial exit of TNCs of the “North” from the riskier investment areas of Africa opened up a window of opportunity “for smaller, more nimble investors able to serve local markets from a lower cost base” (Henley et al 2008:1). Looking at FDI is important because, while official economic exchange and assistance remains the order of the day, in the last few years, China's relationship has tended to assume a more commercial, private sector-led nature. It is therefore through private vehicles and enterprises that much of that engagement has been occurring after 2001, with FDI being a privileged “vehicle for carrying tacit knowledge as well as assisting enterprises at the frontiers of world technological learning” (Liu & Wang, 2003: 945).

Before the first estimates are advanced, some notes regarding the figures are worth mentioning. For instance, because China's private enterprises tend to rely on "retained earnings and informal arrangements rather than capital markets and bank borrowing for their investments" (Wang, 2007:11), FDI numbers have tended to go somewhat under-recorded.

According to a United Nations study (UNCTAD, 2007) total FDI holdings in Africa in 2005 were worth US\$96 billion. Of this, European firms accounted for 61 percent, US firms 20 percent, Asian firms eight percent and South African firms two percent.

Of the \$29 billion of FDI that went into Africa in 2005, the UN put Chinese investment in Africa at about \$1.6 billion in 2005, around 5.5% of total FDI to Africa. This is a figure close to Broadman's estimate of US\$1.3 billion by 2005 (Broadman 2008). Kaplinsky and Morris draw on data that suggests FDI in Sub-Saharan Africa reached a total of US\$1 billion by mid-2005, up by US \$125 million in the first six months of 2005 alone (Kaplinsky, McCormick, & Morris, 2006:15). In June 2006, Xinhua stated that direct investment into Africa has grown to US\$1.18 billion and there were almost 700 Chinese companies on the continent (Xinhua, 2006). Harry Broadman refers to this figure in his seminal work "Africa's Silk Road" (Broadman, 2006:11). Another report from Xinhua-China Daily announced that by the end of 2006, China had invested more than \$6.6 billion in Africa (Xinhua; China-Daily, 2007). These values remain however, as noted, still negligible when compared to FDI flows from the industrialised economies of the North which still account for a greater share (Guerrero & Manji, 2008:2). Africa, in turn, only accounts for about 3 percent of China's global outward FDI flows; these are calculated with 2004 figures (UNCTAD 2007). The report further estimated that between 1979 and 2000 93 percent of Chinese FDI in Africa was in manufacturing (UNCTAD, 2007:51-56). Although no definite sum can be concluded, China's total, non realized, estimated investment in Africa must now be well above the US\$5 billion after the Standard Bank and Congo multi-year deals which are worth US\$5.6 billion and US\$8.5 billion respectively (africanpress, 2008) and were agreed upon in 2007. It is perhaps appropriate to finish this section by looking at an excerpt from Barry Sautman (2006:8-9) already capturing these tendencies back in 2006:

There were 750 Chinese enterprises in Africa in 2005. While a growing presence, they account for a tiny part of foreign direct investment (FDI). In 2004, PRC entities invested \$135m in Africa and in the first ten months of 2005, \$175m (of China's \$3.6b and \$6.9b in outward investment). Africa's average annual FDI intake in 2001-2004 was \$15-18b, despite Africa providing the world's highest returns on FDI, averaging 29 percent in the 1990s and 40 percent in 2005. FDI in Africa jumped in 2005 to \$29b (of \$897b in global FDI), but China's realized FDI in Africa stood at only \$1b of Africa's \$96b, two-thirds of which is European (half British or French) and one-fifth North American. PRC Africa investment is also concentrated; in 2005, \$316m was in Zambia and \$230m in S. Africa. Based on planned

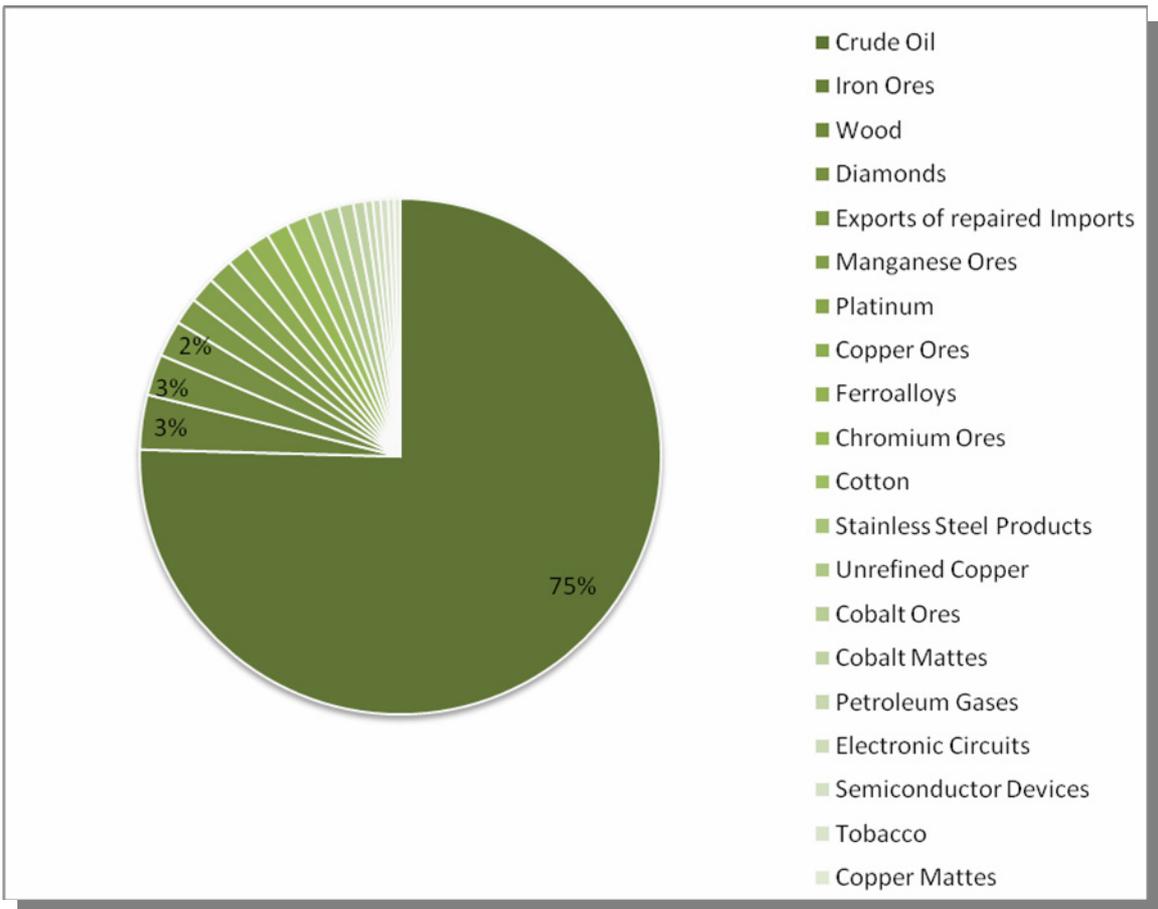
investments, however, China may become one of Africa's top three FDI providers in five years.

4.3. General China-Africa Trade

When it comes to trade between China and Africa, the figures have increased by an average of 24 percent between 1995 and 2007 with total trade now standing at approximately US\$74 billion in 2007 (TRALAC 2008). Mofcom confirms these figures, observing in November 2007 that trade between the two has just hit the US\$70 billion mark and is set to hit US\$100 billion soon (Mofcom 2007b). Before running the risk of overplaying its significance, it should be noted that part of the explanation as to why the numbers illustrating the growth of China's trade with Africa are so dramatic is because the development started from a low base. Nevertheless, looking at the historical records of the actors, the volume and pace are unquestionably unprecedented. For this purpose it is helpful to refer to visual aides and graphs as in the figures below.

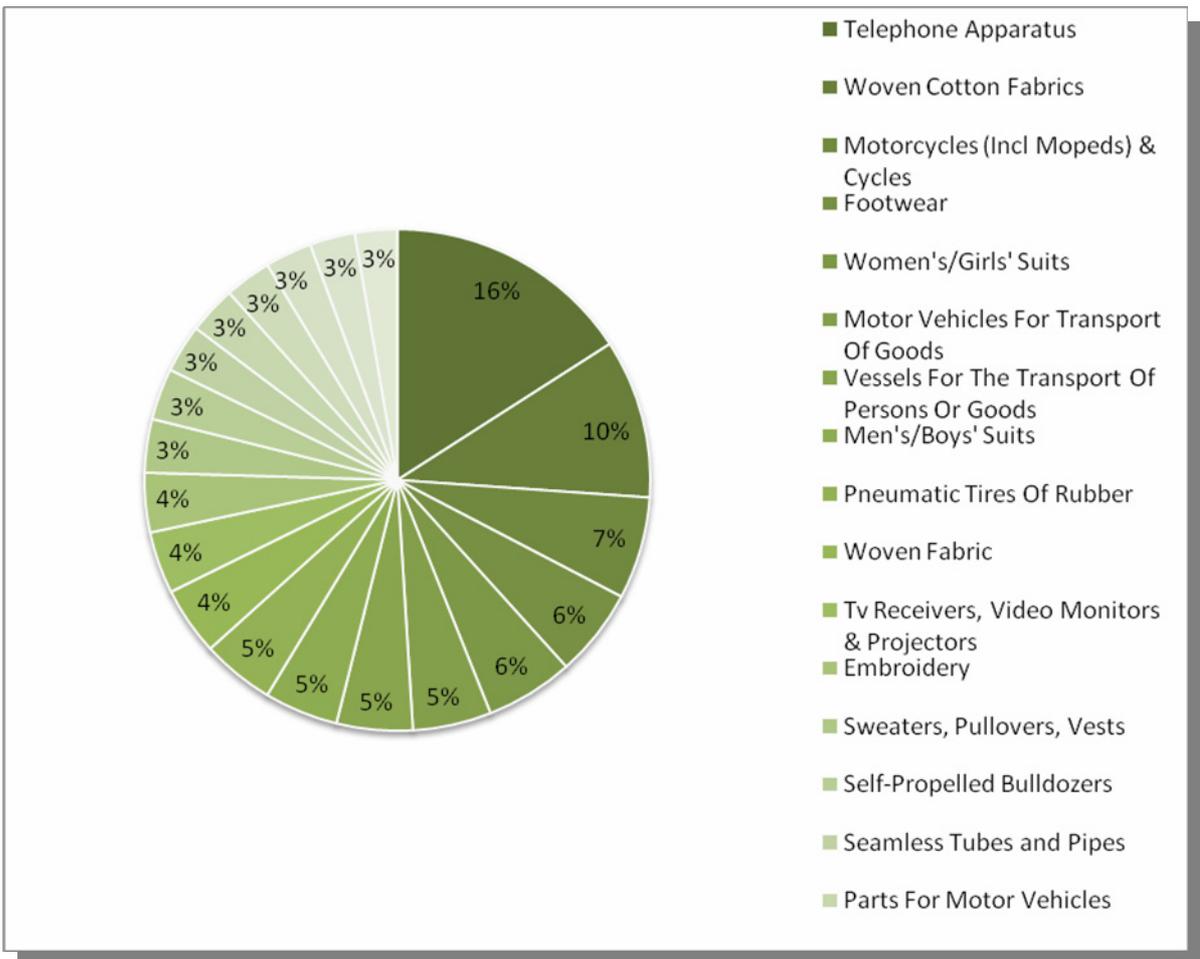
Having recognized the volume and pace of trade growth it is still noteworthy that investments by entrepreneurial family or kinship based companies such as small Chinese firms are rarely recorded as FDI. The reason for this is that most of the time these will not be registered as subsidiaries of companies in their home countries. Hence, their activities do not form part of the trade balance so often argued to be to Africa's disadvantage because of exports of non-processed goods and import of manufactured goods. They do however constitute a significant component of the trade relationship because of the impacts that they have on the micro economy of most African countries whether in displacing local producers, causing disruptions to supply value chains or providing African consumers with goods at cheaper prices. In fact, Mozambique consumers have already acquainted themselves with Chinese products, said by some to be "invading" the local market (Afrodad, 2007:17) but bringing, at the same time, cheaper and more accessible consumer goods. It is however important to note that FDI does not always directly affect the trade balance, one can invest and then explore the international market with no or little effect on the trade balance. But, of course, if small businesses settling in Africa import products from China it will have an effect on the trade balance. At the same time, some of them will probably also act as platforms for exporting Mozambique's products to China and also have an effect on the trade balance.

Figure 3 - China Imports from Africa 2007



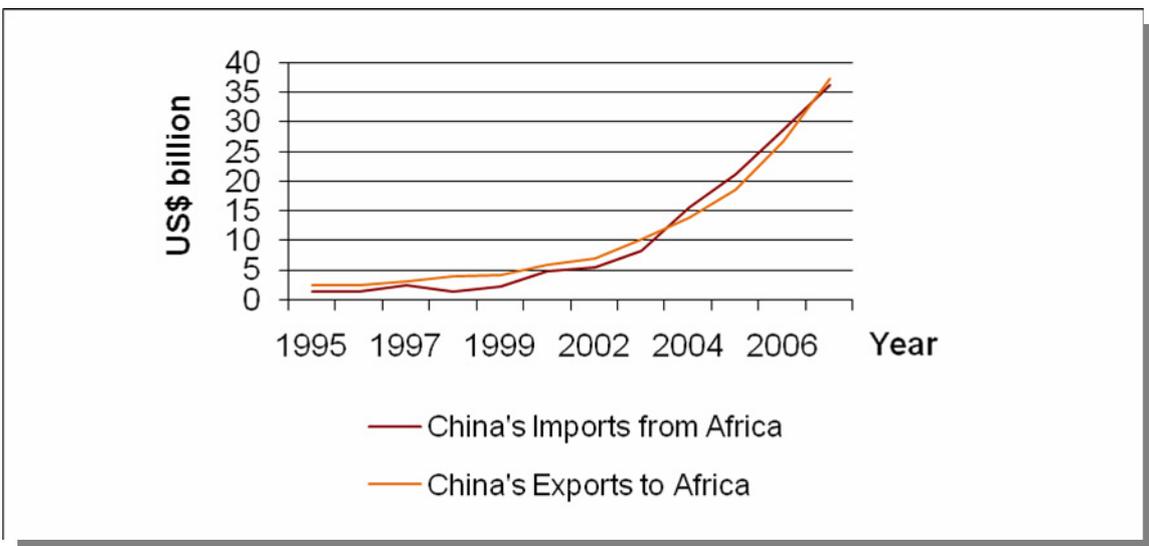
Source (World Trade Atlas)

Figure 4 - China Exports to Africa 2007



Source (World Trade Atlas)

Figure 5 - China trade with Africa



Source (World Trade Atlas)

While the boom in trade between China in Africa started in around 2001, the terms of trade have, since then, been improving in favour of the African side, much thanks to the rise in international fuel prices (Wang, 2007). From Figure 4 however it is also noteworthy how PRC's exports to Africa have actually been gaining pace since 2006. The share of trade between the two blocs compared to that of China and Africa with other parts of the world is still relatively small but the tendency is for this share to quickly rise not just in absolute terms but in relative terms as well.

From 1999 to 2004, Africa's terms of trade rose by approximately 30 percent, an increase far greater than for any other developing region in the world (Biswas, 2007). Kaplinsky et al (2006) discuss how China's trade can affect Africa. It can either be complementary or competitive. It is competitive in cases where African products compete with the export products of China, a situation which often affects African export-oriented industries. It is complementary when Africa's exports fit China's profile of import demand, or the Chinese goods function as part of a global value chain as intermediary goods needed in African manufacture.

Both complementary and competitive trade patterns can have either direct or indirect consequences. Direct consequences such as trade volumes and immediate job losses are easily quantified. Indirect effects are more difficult to measure, but have nonetheless important implications. Kaplinsky et. al. note that "there is a great danger of focusing on the present, the known and the measurable impacts" (2006:23), while the unknown remains more potent and can have much more embedded consequences. The authors have tended to have somewhat of a one-sided approach looking at the most negative impacts of China's trade. Their analysis focuses on the cases in which exports from China crowd out similar African products in third markets such as in Europe and the US while their dominance in regional markets of Asia would pose challenges for African supplies to penetrate. A complementary indirect effect on the condition for African trade might be for example when global prices for commodities rise as a result of increased Chinese demand. This demand in turn generates greater revenues for resource rich African countries, but again this is short-term and based on a highly volatile international commodities market as African countries experienced in the 1970s on the back of the oil shocks. Not only can industries in Africa be affected directly by the import of cheap consumer goods from China. Another indirect effect is on potential industries where competition against the establishment might have serious implications for African development. However, it must be remembered that direct effects such as job losses due to competition from cheap Chinese consumer goods can also come as a result of other intervening factors, such as for South Africa in 2005 when AGOA quotas were removed (Kaplinsky et al 2006:19).

In macro-economic terms, Africa has thus benefited from China's rising demand of exports. However, we know that revenues from extractive industries do not always translate into development for the broad masses. Kaplinsky et al note that "the benefits of this resource boom will not follow automatically – they need effective management" (2006:28). Riches in natural resources might otherwise strengthen authoritarian

tendencies and lead to instability or even civil war – the already mentioned ‘resource curse’ (Beri 2005:373). Solutions to the potential problems related to trade can be interpreted from various points of view. For instance, China can be encouraged to take responsibility for the impact that their exports might have for Africa and African countries can promote and formulate policies promoting a higher positioning of their economies in the value chain. Such can be done through the encouragement of joint-ventures, promotion of technology transfer as well as legislation and other incentives.

4.4. Mozambique General FDI

Between 2000 and 2007 foreign investments really picked up in Mozambique, although from a very low basis. Investments went from US\$20 million in 1990 to US\$550 million in 2007. In 2005, the tourism sector was the biggest recipient of such investments, followed suit by agriculture and agro-industry (US\$168 million), industry (US\$49.4 million), transport and communications (US\$32 million), other (US\$30.6 million), mineral resources (US\$15.7 million), construction and public works (US\$5.4 million), banking and insurance (US\$1.9 million) and aquaculture and fisheries (US\$900000) (Games 2007:11). These figures almost quadrupled by 2007. They saw FDI targeting industry mounting up to US\$19 million of the investment and for mining and energy to around US\$502 million, more than 91 percent of total investments for 2007.

Table 2 – Evolution of total FDI to Mozambique

Year	No. Projects	FDI in US\$ million
1990	31	20
1991	25	21
1992	27	77
1993	29	46
1994	123	136
1995	166	60
1996	270	97
1997	184	558
1998	209	207
1999	235	101
2000	179	230
2001	129	528
2002	128	559
2003	112	122
2004	105	122
2005	139	165
2006	157	162
2007	186	550

(Source - US Department of State 2007)

4.5. China-Mozambique FDI figures

It is first worth noting how, for the purpose of the provision of FDI, the Investment Promotion Centre of Mozambique has put out a requirement of a minimum US\$50 000 of initial capital investment. This has meant that a significant number of small Chinese businesses, many of them in trade (Afrodad, 2007:15) go unrecorded in the process of data registration and consequently, stay out of official statistics. Even if that is the case, when it comes to FDI figures for the period between 1990 and 2007, these show that US\$32 million in Chinese direct investment has already been realized out of a planned US\$108 million. From these, the most salient sectors are industry and manufacturing valued at around US\$15 million, followed by US\$8 million invested in agriculture, mostly in the wood industry in the north (Mofcom 2007; Market Access Map 2008).

The specific features of FDI from emerging markets, such as China are expected to reflect the social, political and economic history of the country of origin (Filatotchev et al. 2007), and for the case of China's investment in Mozambique this is no different. Until 2007, the figures FDI for Mozambique revealed a total of US\$108 000 invested by private Chinese companies, creating around 6500 jobs. The company employing singlehandedly the most employees was Formosa Textile in Maputo, with a workforce of 2,970. The largest single investment has been from a company in the forestry sector belonging to Liu Chaoying Jian, a project of US\$ 64,000 that comprises logging, exploration, transformation and commerce of wood. Comparing between investments in agriculture, services and industry, agriculture takes up the bulk of the investment with US\$85,000. Otherwise there seems to be a tendency for the industry sector to be the preferred destination of investments with the largest number of different investments, 17 in total (Mozambique Investment Agency, 2007). This previous estimate is larger than that of US\$48 million in Mozambique also for the year of 2007 advanced by Noticias newspaper (Manchiça, 2008).

Another important source of China's investment in Mozambique is that of state-sponsored investment in the infrastructure sector. Such investments are, as previously discussed, the fruit of China's recent tendency to offer "infrastructure packages" in order to charm African governments economically and diplomatically. Another example is the Incomati river bridge, 60 kilometres north-west of Maputo, which was delivered in 2008, one month before the initial date set out for the completion of the project. The bridge, valued at US\$8 million, and its construction was carried out by China Henan International Cooperation Group (CHICO) and verification was the responsibility of Ninhan Shand (Jornal Noticias Moçambique, 2007 A). Many of these projects make use of preferential loans from China, some of which are on display below in Table 3.

Table 3 - Chinese loans to Mozambique by project

Year	Funding Agreement Description	Amount	Repayment period/ conditions
2001	Any projects to be submitted and approved by the Government of China.	US\$3.9 million (loan)	2011 - 2021
2002	Funds utilized in building the Joaquim Chissano Conference Centre and the new Building of the Ministry of Foreign Affairs.	USD\$3.9 million (loan)	2013 - 2022
2003	Funds utilised in purchasing Police equipment.	US\$3.9 million (loan)	2013 - 2022
2004	Funds for building 150 houses for low income people in Zimpeto, Surroundings of Maputo.	US\$3.9 million (loan)	2015 - 2025
2007	Preferential credit protocol for renewal of Public Ministry Building and houses for its magistrates	US\$40 million (loan)	20 years of maturity plus 5 free years. Interest rate: 2%; Immobilization rate: 0.75%; Managerial rate: 1%. Total: 3,75%
	Technical cooperation protocol with the Ministry of Youth and Sports	US\$15 million (loan)	To be determined

Source – (Afrodad, 2007)

That being said, a large part of China’s economic involvement in Mozambique is manifestly private in nature, encompassing a wide range of business endeavours across a wide range of sectors. By 2008, China’s Projects and investments in Mozambique were estimated to comprising of the following, as exhibited in Table 4.

Table 4 - Estimated Chinese Projects and Investments in Mozambique by 2008

Roads	<p>More than 500 km nationwide, mainly along the road Number 1 that links the country from south through the north passing across more than six provinces. Over 1/3rd of Mozambique's current road construction programme, amounting to 600km roads, is carried out by Chinese road contractors.</p>
Bridges	<p>Over Rovuma River, in Cabo Delgado province, linking Mozambique to Tanzania - Cabo Delgado province.</p> <p>China Henan International Cooperation Group (CHICO) is to construct the Moamba Bridge over the Incomáti River in Maputo province, Mozambique - estimated at US\$8 million</p>
Energy and Water supply	<p>Maputo City (Maputo Province), Beira City (Sofala Province) and Quelimane City (Zambézia Province) total - US\$45 million (rehabilitation of the urban water supply systems of the main provincial capitals, namely Maputo - US\$30 million and Beira and Quelimane - US\$15 million)</p>
Under Negotiation	<p>Mphanda Nkuwa Dam - to be built 60 km downstream from the existing dam at Cahora Bassa. The public-private consortium that will build and operate the dam includes Mozambique's government-owned electricity company, EDM, Brazilian engineering company Camargo Correa and Energia Capital, part of the Mozambican Insitec group. The Export-Import Bank of China (China Exim Bank) is set to finance the US\$ 2.3 billion dollar investment.</p>
Buildings	<p>Preferential credit protocol for renewal of Public Ministry Building and houses for its magistrates - US\$40 million</p> <p>20 years of maturity plus 5 free years. Interest rate: 2%; Immobilization rate: 0.75%; Managerial rate: 1%. Total: 3.75%.</p> <p>(small parts are sometimes concessional loans)</p>
1999	<p>Mozambique parliament buildings - US\$5 million</p>

2003	Chissano Conference Centre
2004	Ministry of Foreign Affairs – US\$12 million
Under negotiation	Rehabilitation of Maputo International Airport – US\$50 million
Under negotiation	Renewal of Public Buildings – US\$200 million
Under negotiation	Building of a National Stadium – US\$100 million
Industry and Commerce	Soja processing plant: Owned by China Grains & Oils Group – CGOG - in Beira by Sojeco - US\$10 million
	Prawns production plant : In the Centre of the country, for which the infrastructure was also built by Chinese contractors - US\$12 million
	Industrial warehouses and a large shopping centre in Maputo
	1996 Agroalfa - investor: Tianjin Machinery, US\$1.7 Million
1999 Mozambique TV/VCD, investor: China L. Tian He F. Chemical Co, US\$3 Million	
2000 Iron & Steel Factory, investor: Li Huamin, US\$800 Thousand	
	Fábrica de Motorizadas e Bicicletas da Beira (Beira Motorcycles and Bike Factory), investor: He Jianping, US\$ 826 Thousand
	Mozambique L&H Wood Co, investor: Li Xiangdong E Yao Huis, US\$550 Thousand
2001	Honda Shoe Factory, investor: Hao Jingue; Hao Jinglan; Xu Dongshan; Han Baoxing, US\$50 Thousand
2002	Chinelos De Moçambique, investor: Shou-Ta Huang, US\$ 55 Thousand
2003	Khangelo Confections, investor: Xinle Cheng Garment, US\$824 Thousand

2004	Pharco-Moçambique, investor: Shanghai Desano Chemical Pharmaceutical, US\$1.5 Million
2005	Chen Chen Fundição, investor: Shengli Chen, Changli Chen, US\$50 Thousand
2006	Yuan Feng Investments, investor: Wang Yuan Dong, Huang Lin Feng, US\$ 510 Thousand
2007	Fundição de ferro e aço, Lu Xuhong, Tang Zhi US\$2 Million
	Fabrica de sapatos Hua Feng,(shoe factory) investor: Jiang Wang, Jing Li, Xugang Huang, Weiqing Lin, US\$100 Thousand
	Jiangsu Metals, investor: Ming Ho Lam, Chan Sze Him ERIC, US\$ 300 Thousand
	TYT, US\$500 Thousand
Under negotiation	<p>Special Economic Zones: A study was done for a Free Trade Zone in the surroundings of Nacala in the North of Mozambique by TEDA (Thengui Economic Development Agency) and another potential project was identified in Catembe, the outskirts of the capital Maputo – US\$200 million</p> <p>At the moment the investment costs are too high to qualify for donations for these areas which can potentially become Special Economic Zones, but in the near future direct FDI might become a realistic option, possibly jointly with a donated portion.</p>
Services	
2004	Hua Long, Chinese Clinic, investor: Zhongxian Yao, Cha, US\$52 Thousand
2007	Estudios Dragão, investor: Bo Zhang, Changhua Shan, Haiting Hao, Fengshan Li, US\$100 Thousand
Agriculture and Fishing	
1999	Zhong Na Mozambique, investor: Grain & Oil L., Animal Products Of A. M. Imp.Exp, US\$500 Thousand
	Hubei Liafeng Mozambique, investor: Hubei Province Liafeng Overseas Agriculture Development, US\$1.2 Million

	Prawn-Culture and fishing in Mozambique, investor: Weihai International E.& T. Co-operative, US\$12 Million
2003	Uta - União dos trabalhadores de África, investor: Tang Yu; Shen Tonghai, US\$1 Million
2005	Ccog Africa, investor: China Grains & Oils Group Corporation, US\$6 Million
2006	Xin Jian Companhia, investor: Xin Jian Zhang, Jing Xue Zhang, US\$200 Thousand
	Moz-Tai Aquaculture, investor: Su Hua Lu, US\$220 Thousand

Source (Mozambique Investment Agency, 2008; Noticias de Moçambique; Afrodad, 2007)

4.6. China-Mozambique FDI Analysis

Evolution towards greater economic development will, to a great extent, depend on the nature and future vitality of Mozambique's private sector. Generally speaking, when it comes to attracting FDI, Mozambique is able to combine low-cost electricity, with a good supply of raw materials, sea accessibility and competitive low wages. This gives for a group of factors that can potentially "act as a major catalyst for industrialization and export-oriented business" (Afrodad, 2007:11). At the same time, China and its investors must also contend with an investment environment which is high risk. In effect, particularly when it comes to sectors or industries that have only been very recently privatized there still exists a considerable number of investment "traps". An example has been the case of the Malaysian purchase of Mozambique's 'Banco Popular para o Desenvolvimento', which ended as a fiasco for the investors when government prevented them from getting the capital some government-linked individuals owed them. Chris Alden uses this example to show how most of the African countries in which the Chinese are investing still remain "locked into arrangements with local government elites that inhibit profit-making" (Alden 2005:144). China is observably subject to the same risks as other investors.

From the data above it seems that the bulk of investments are clearly concentrated in the manufacturing sector. Data above also suggest that the flowing Chinese investment is mainly small scale, seen from the angle of volume of capital. It is also important to note that, seeing that the dominant part of this Chinese investment is in the manufacturing industry, currently the competition with domestic investment is not so high, as domestic investment is mainly on agriculture and services. The one Mozambique economic cluster that has been affected and shaken by China has been the construction sector which has now been dominated by foreign companies including those from China.

Concerning the employment of local labour, figures show that, contrary to much popular belief, local workers are to a great extent being employed in Chinese-sponsored manufactures and other investments. Similar FDI data from Kenya and Ethiopia investment agencies show that more than 90 percent of the workforce employed in China's investment is local in nature (Kenya Investment Agency, 2007); (Ethiopia Investment Agency, 2007). There is no evidence to suggest that the situation is any different for the case of Mozambique, both given the similarity in the activities of the companies that are operating in the three countries and the general tendency and business-sense of Chinese companies that are keen to utilise, whenever possible, cheaper local labour.

Some arguments now emerge predicting a shift in the medium-term towards a higher share of value-added products on exports from Africa. A growing set of evidence has meant that such claims are now more than mere speculation and constitute an analysis backed up by important evidence and signs. With Africa's current population reaching around 900,000 million, the continent represents an important market (Mahajan, 2008). Although expendable income remains minimal this is a very similar situation to the domestic markets in which the majority of Chinese companies initially developed. As Ming Zeng and Peter Williamson have shown, such economies are an important intermediary as Chinese companies expand beyond China and prepare to enter European and North American markets (Zeng & Williamson, 2007).

For now, labour-intensive manufacturing firms based in Mozambique have struggled to compete internationally. Particularly when compared to regional competitors, local firms have insufficient skills, manufacturing techniques and overall productivity to be truly competitive. Manufacturing firms face high operational and transaction costs, mainly due to lack of infrastructure, labor market rigidity and bureaucracy. However this situation is not irreversible. Meyer and Estrin (2004) go back to basic economics to remember how "market-seeking FDI seeks large populations with rising incomes". As such, many African countries now fit this bill, even if there are still conditions in the local economies which do not offer the most inviting absorptive and institutional contexts. In similar lines, Geda (2008:13) notes that:

the long-term might hold a very different picture: the pace at which the drivers are changing the technological structure of their production and exports, rising costs of locating export oriented production in China, Africa's proximity to European and Middle Eastern consumer markets and a host of other factors might help Africa to become the next 'goose' in the long run. There are signs that such combination of factors have already began to appear

Although potential returns through investment in Africa also carry with them considerable risks, Chinese investors are willing to underwrite such risks since their presence in Africa's manufacturing sector is notable (Henley et al. 2008:5). Hence, in the near future we will plausibly see more economic integration arriving through localized hubs such as the Copper Belt in Zambia, southern DRC, Ethiopia and

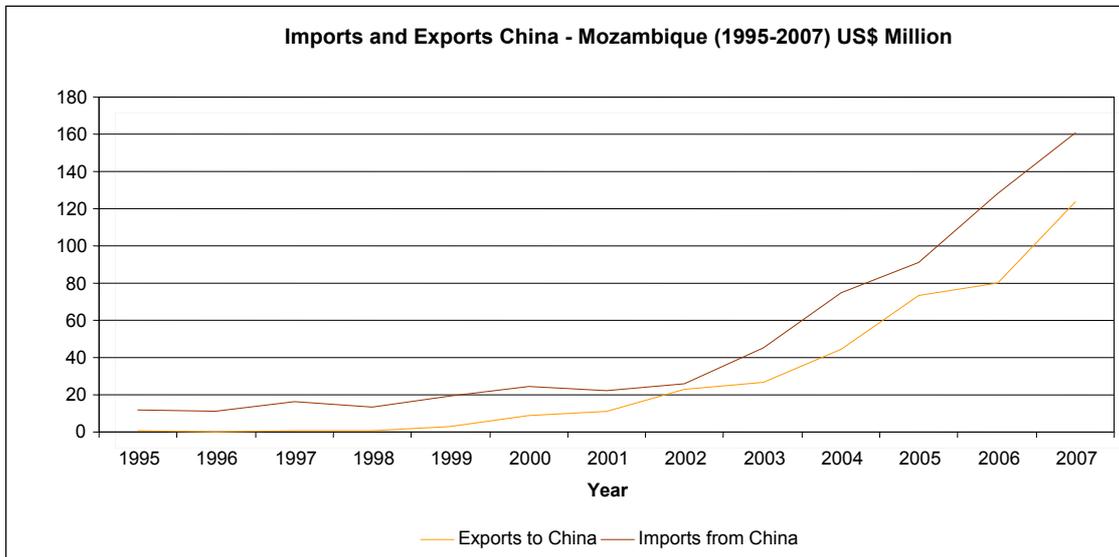
Nigeria's Niger delta as these are able to connect to the international value chain (Broadman 2008). Already the Special Economic Zones identified by the Chinese in Zambia (metals hub), Tanzania (shipping hub), and Mauritius (trading hub) are going to facilitate this process. In this note, Kaplinsky et al note that "there is scope for improving the productivity of existing industries, often by working with value chains (...) rather than individual firms or subsectors", actually suggesting that competitiveness could be improved via industrial policies (2006: 26, 27). China's long-term engagement with Mozambique will also depend on the success of the wider strategic move of China towards setting up such SEZs and to what extent they have the opportunity to flourish together with a new and vibrant private sector in Mozambique. It also might help that China is interested to test its new technologies in Africa (Afrodad, 2007:17). Michel and Beuret (2008:44) add to such opportunities when observing for the case of Morocco that "producing in Morocco, even if you are Chinese, gives you the possibility of selling your goods without any trade barriers to Europe, across the Atlantic and to other regions". All thanks to free trade and low trade barriers previously negotiated by Morocco with the West. Similar opportunities also apply to Mozambique's international trade deals. This shows evidence of China not only making the most of international supply chains that run through Africa but also of China and its companies trying to make the most out of the discriminatory opportunities crafted in the rules of international trade. The practice of making the most out of international value-chains and different sets of discriminatory international trade and economic legislation is one of the ways in which China advances its relative gains vis-à-vis other major international powers. A realist perspective can read this competition of Chinese companies, entering Western markets through Africa, as a form of circumventing the trade and economic constraints put in place by state actors also directly competing with China for relative power. The long-term presence of such strategies also serves to discredit views which would see China as a simple economic competitor of Mozambique in a short-term "resource-grab" spree. Africa and Mozambique are in fact part of a broader and wider longer-term strategy by China which does not discard economic partners with ease but in fact entangles them into a complex web of economic interdependence.

4.7. China-Mozambique Trade

Afrodad (Afrodad, 2007:7) refers back to official records by the Embassy of China in Mozambique showing that, by 2004, China-Mozambique trade flows had reached US\$ 120 million, already a 66.9 percent increase from 2003. By 2008, China's top import from Mozambique was wood in its various forms and types with a volume of around US\$50 million followed suit by iron and cotton at US\$12 and US\$10 million respectively. Imports to Mozambique from China are instead clearly topped by cells and batteries which amount to US\$15million (Mofcom 2007; Market Access Map 2008). During the first semester of 2005 recorded trade flows were of about US\$110 million, showing sound increase. The upward trend in the China-Mozambique trade volume is

evident from Figure 6 below. While the figures rise China has consistently retained the trade balance in its favour albeit not by a huge margin, currently having a surplus of exports over imports to Mozambique of around US\$40 million.

Figure 6 - Evolution of China-Mozambique Imports and Exports



Source (adapted from Mofcom, 2008)

Going back to Kaplinsky's (2006) framework for distinguishing between complementary and competitive trade, it appears that trade between the two countries seems to be complementary for the time being with China still having the better off with products of greater value-added being exported to Mozambique, reflected in the trade surplus it holds. China is sourcing from Mozambique resources it does not hold at home or, in the case of resources it does hold at home, such as the case of wood or prawns, China's tendency to sourcing them from Mozambique remains high due to attractive and rising levels of international and national demand. Meanwhile, Mozambique tends to import manufactured goods such as machinery and refrigerators as well as cheap goods such as footwear and textiles. These manufacturing products do not pertain to a situation which affects Mozambique's export-oriented industries. It is in fact complementary as Mozambique's exports fit China's profile of import demand. As for the potential development of Mozambique's manufacturing sector, also spurred by Chinese investment in the sector, the simultaneous arrival of Chinese manufacturing products to Mozambique must be understood within the mode in which Chinese goods function as part of a global value chain as intermediary goods needed in African manufacture, as previously discussed in the section regarding the potential of the new SEZs set up in Africa by China, as illustrated in Tables 5 and 6.

Table 5 - China Imports from Mozambique

China Imports from Mozambique (in Millions of US Dollars)		
	2001	2007
Wood	11.05	95.06
Oil Seeds & oleaginous fruits	0.00	9.79
Chromium ores and concentrates	0.00	8.14
Cotton	0.00	4.94
Wood sawn	0.01	2.86
Copper Mattes; Cement Copper	0.00	1.24
Niobium, Tantalum, Vanadium & Zirconium ore	0.01	1.02
Crustaceous	0.00	0.29
Binders for found molds; chemical products	0.00	0.27
Molluscs & aqua invert	0.00	0.11
Ores and concentrates	0.00	0.07
Coconut, abaca, Ramie, raw, tow	0.00	0.05
Lifting,, handling, loading & unload machines	0.00	0.01
Medical, surgical, dental or veterinary instruments	0.00	0.01
Precious & semiprecious stones, not strung	0.01	0.01
TOTAL	US\$11.19 Million	US\$123.88 Million

Source (adapted from Mofcom 2008)

Table 6 - China exports to Mozambique

China Exports to Mozambique (in Millions of US Dollars)		
	2001	2007
Motorcycles	0.08	8.52
Footwear	2.18	5.51
Primary cells & batteries	2.83	5.16
New pneumatic tyres of rubber	0.18	4.97
Portland cement, aluminous cement	0.00	4.29
Refrigerators, freezers	0.24	3.91
Travel goods, handbags, wallets, jewellery cases	0.36	3.78
Sodium hydrox; potass hydrox	0.77	3.45
Rice	0.75	3.37
Motor Vehicle for transport of goods	0.06	3,01
T-shirts, singlets, tank tops	0.08	2.72
Tv, Video monitors & projectors	0.08	2.65
Air conditioning machines	0.55	2.54
Woven fabric	0.95	2.50
Medicaments	0.07	2.47
Structures and parts of iron steel	0.10	2.34
Blankets and travelling rugs	0.00	2.31
Steel bars	0.00	2.11
Handtools & tools used in agriculture	0.35	1.93
Insecticides, rodenticides , fungicides, retail	0.09	1.89
TOTAL	US\$22.04 Million	US\$160.39 Million

Source - adapted from Mofcom 2008

4.8. Conclusion

The figures of overall trade and FDI are still not exact and there is considerable work that needs to be done in relation to the collection and calculation of FDI in particular. Nevertheless the numbers that have been put forward so far show evidence of a picture whereby China's investment is picking up tremendous pace and scope. This picture is no different for Mozambique where the range and intensity of trade has accelerated notoriously, particularly since 2001. FDI from China in turn is also composed of a wide number of Chinese stakeholders, with a couple of them having made particularly significant investments inroads, namely in the forestry sector and in manufacturing. While trade seems to be dominated by the forestry sector and prawn exports from Mozambique to China and machinery imports from China to Mozambique, FDI from China to Mozambique has had the most significant participation in the manufacturing sector. The case of Mozambique also seems to follow the rule of thumb in Chinese investments in other African countries that a great majority of the labour force is composed of local workers and not flooded by Chinese expatriate workers. Lastly, after looking at the evolution of trade and FDI figures, it would appear that the impact of China on the long term development of Mozambique will depend on the success of the wider strategy of China's SEZs in Africa, as well as its impact across the regions in which they are located. With prospects of an SEZ emerging in northern Mozambique, Nacala, in the future, it will be up to the government to actively seek to integrate its country's industrial strategy into China's engagement.

Chapter 5 - China's impact on agriculture and agro-forestry in Mozambique

“We’re in business. We’re not Jesus trying to save people. We do business, and when business is finished, we go away. Everyone has to live.”

Chinese timber buyer operating in Mozambique (Mackenzie, 2006:18)

5.1. Introduction

This chapter will encapsulate the key discussions regarding China's economic engagement of Mozambique within the dimensions of resource extraction and agriculture. When analysing China-Mozambique relations, agriculture and food security represents another dimension whose importance is likely to grow in the future not just for the particular case of Mozambique but for the African continent in general. In mid-2008, mealies was at its highest level in 11 years, rice and soya at their highest level in 34 years and wheat – like crude oil and gold – has recently touched its highest level ever (Evans, 2008:2). Mozambique's agricultural and fishing potential puts the country in a privileged position to tap into an eventual big move from China looking at complementing its agricultural reserves for food security in Africa. This chapter will start by taking a look at particular instances of such projects and at the challenges of China's presence in Mozambique's agriculture sector. Thereafter, the possible lessons from China's development history in the sector will be discussed followed by a closer look at two important sub-sections of the agriculture sector of Mozambique – agro-forestry and fishing sector. It seems to be the case that while timber might form a large component of exports to China, the figures are relatively low when considering the wider picture. The primary focus of this section is in understanding and characterizing Chinese agro-forestry interests in Mozambique, which seem to consist almost entirely of small scale logging operations operating on the very fringe of the formal economy and largely beyond the reach of *de facto* government control.

5.2. China and Agriculture in Africa – general lessons for Mozambique

The most important push factor for China's interest in Africa's agriculture is its internal move away from self-sufficiency (Roberts & Barrett, 2006). This push is of an historic and structural impact, making China, just like in the energy sector, dependent upon external purchases, trade and production. The move away from self-sufficiency is a by-product of China's internal rising demand, as well as a revolution in eating habits and the variety of food produce consumption. It also seems like the return of China's self-sufficiency is unlikely as conditions at home provide a limited amount of quality land and water (Roberts & Barrett, 2006:27). This reality now means that China pays extra attention to the issues of tariffs and trade and brings new challenges for Africa and

Mozambique. The WTO accession in 2001 brought pledges to reduce tariffs. China has since been trying to make the most out of international markets and trade and pushing in its rhetoric and agenda Neo-Liberal notions of economic absolute gains. In effect, Ni Hongxing, an official from the agriculture ministry claims that "we [China] have gained enough expertise to spread out". The official had earlier said that China had attained sufficient technological strength in the agriculture industry and has many high-quality technical personnel and enterprises (English People's Daily Online, 2008; Anderlini, 2008).

Developments in the beginning of 2008 show how Chinese companies have renewed incentives to invest in agriculture abroad, particularly in Africa and South America. This comes about after overseas land acquisition for agriculture becomes Central government policy (Anderlini 2008). Jiang Wenlai, of the China Agricultural Science Institute has even referred to the inevitability of "go-out" strategies of China's agricultural companies because of limited land resources at home and rising demand. Curiously, this term had been usually limited to the corporate global champions of manufacturing, energy and finance. China follows the steps of other wealthy but food poor countries from the South such as Saudi Arabia and Lybia which are financing agriculture initiatives abroad. This demonstrates a greater degree of importance attached by investors to the original sourcing of food products and the traditionally lower end of the production chain, whose quality, prices and reliability now has greater influence in making or breaking a company's strategy. So, China's push for agricultural security abroad happens within a broader international "rush" to do so. China's outward agricultural policy will face serious challenges and will be a sensitive issue for countries like Mozambique. Sensitive because agriculture still occupies most of the active labour of Mozambique and it is uncertain exactly how China's presence will affect the sector. The Financial Times (2008) however points to how agricultural investments are fixed assets, and beneficial in principle. The main risk is if "capital intensive cash crops are produced at the expense of labour intensive food" as happened during colonialism. In a nutshell, African governments need, through its trade policy and legislation, make sure that who controls the land does not immediately control the food and sovereign governments in Africa.

One of the greatest potentials for China's direct impact on Mozambique's development lies in how it can affect rural economic growth. In fact, China's own fight against poverty owed much to rural economic growth which accompanied urban economic growth of the country. Its model for rural economic growth was market-based and is a model which can now be introduced to Africa and Mozambique. China was able to link internal and external market demands to the production capacity of rural producers doing so through various forms of state incentives but also by allowing for some degree of organizational freedom for rural enterprises. The development experience of China showed just how important it is for rural agriculture to develop at an early stage so that the pro-poor component of a development strategy can work. For China it was the smallholders who were the most important "agents of change" (Ravallion & Chen 2007:

22). From there on the country quickly moved its focus to other sectors of activity, privileging services, manufacturing and the middle classes. It was however the initial reform of its agricultural sector and the “positive externalities favouring non-farm development” (Ravallion 2008: 20) that emerged from that reform, allowing for the massive leap out of poverty of more than 400 million of people. Mozambique cannot therefore afford to neglect the agricultural sector if it wishes to achieve balanced economic development and poverty reduction. Labour absorption is particularly important in this context as agriculture manages to provide a productive leeway for that unskilled labour which fails to make rapid transitions to manufacturing and services (Allaudin & Tisdell, 1995; Chatterjee, 2005).

5.3. China and Agriculture in Mozambique

The importance of the agriculture sector for Mozambique cannot be underestimated, it accounts for more than 75 percent of the country’s workforce and a considerable percentage of the GDP, around 26 percent (Rabobank: Economic Research Department, 2006). The great majority of agricultural activity (90 percent) remains small in dimension and essentially familiar in nature. With 36 million hectares of arable land, of which a great majority remains unexplored, more than 60 rivers, great biodiversity and a wider range of climates, Mozambique holds an astonishing potential for having a productive agriculture sector. Strikingly, Mozambique still imports 20% of its grain consumption which in turn still does not satisfy the country’s population in its totality as 44% still suffer from under-nourishment (FAO, 2008). In this scenario, Mozambique’s engagement of China in the agriculture sector holds great potential.

Sugar has been one of the key crops with Mozambique keen to start exploring the fall in trade barriers for its exports to the EU in 2008. China can really make the most out of this situation as was discussed in Chapter 4 on general trade and FDI from China. Besides sugar, other export crops comprise cashew nuts, cotton, sugar cane, sunflowers, tea and tobacco while, with lower levels of production, domestic crops comprise cereals, vegetables and cassava. Mozambique also holds great climatic potential for producing livestock but it has not done so effectively and it remains dependent on the exterior for its internal consumption. Rice also remains one of the most consumed food produce in the country but the setting for rice production in Mozambique still faces major constraints. These comprise namely droughts, poor maintenance, and lack of a coordinated rice policy, of small farm equipment as well as of effective workers organisations (International Rice Research Institute, 2007). In this context, even without massive projects and investment, small initiatives by China can have a significant impact in boosting the rice production sector. In fact, in 2006, following a visit from China’s Hybrid Rice Institute, China’s deputy Trade minister, Wei Jianguo found during his visit to the country a great degree of interest from Mozambique’s government in China’s experience as a rice producer. The Chinese Minister pledged to assist Mozambique increase its rice production and help the government fulfil its ambitions for the wet crops in Maputo, Inhambane, Sofala and Zambézia (Macauhub, 2008).

Having introduced the general traits of China-Mozambique agriculture sector relations it is now important to mention the PARPA (República da Moçambique, 2006) as a strategic document that is central to Mozambique's economic development. This is particularly so given the still great amount of aid from donors flowing into the government's budget. Such aid represents more than half of the total public budget (Hodges & Tibana, 2005:53). This aid directly depends upon how donors view the quality and also applicability of the PARPA framework. Included within the PARPA is PROAGRI, a donor-dependent program which directly presents measures for tackling the development challenges at the level of the agricultural sector. PROAGRI has been criticized for having offered very superficial initiatives which fail to provide "measures for law enforcement, sustainable resource management or development of the sector" (Mackenzie, 2006:26).

With a looming cereal crisis in mid-2008, China was the first option as Mozambique sought to safeguard itself from it. The Minister of Industry and Commerce, António Fernando, on behalf of the government, sought to buy rice from China in order to meet short term needs and compensate for market instability. This small episode whereby 2008 saw a shortage of 315 thousand tones of rice is telling of Mozambique's general situation in the sector (Macauhub, 2008). Paradoxically, Mozambique still imports every month 1700 tones of potato and 1000 tonnes of onion from South Africa. This is a localized dependency which does not apply to other products such as carrots and tomatoes for example but it is nonetheless illustrative of the difficulties the sector still goes through. (Jornal Notícias de Moçambique, 2007 C). Again, although holding great potential resources that can be tapped into in the long run, Mozambique's agriculture sector remains unreliable and under-explored in the short term. These previous characteristics also mean that the agriculture sector is vulnerable to short-term "resource-grab" activities that should be avoided as much as possible.

After characterizing the Zambezi valley as one of the most fertile regions in the world, Loro Horta (Horta, 2008) goes on to describe how Mozambique's authorities have been dealing with land distribution to Chinese agriculture entrepreneurs through leasing. He claims that China seeks to turn Mozambique into an important rice supplier whilst building infrastructure that facilitates the exit of the desired goods. The author suspects that the rice production in Mozambique will not be for internal consumption given Mozambicans preference for Cassava. Although he does not account for a possible change in diet, he does interestingly observe how China's implementation of zero-tariff for the imports of 400 different products from Mozambique (including rice) offers further incentives for an agriculture production that is export-based in detriment of one that responds to internal consumption needs⁵. Another interesting dimension introduced

⁵ With the inexistence of market barriers for specific goods, producers have greater incentives for concentrating their efforts and production in seeking profits residing in the added-value of exports. Thus, agricultural production at the national level can become more responsive to shifts in the demand of external importers than to the evolution of basic consumption needs at home.

pertains to the importance of local politics and the reaction of locality to the arrival of Chinese land entrepreneurs. As this study showed for the case of Mphanda Nkuwa, the author alludes to how, when it comes to the Zambezi agricultural policies, the region's story of autonomy from the capital means that it is not advisable for China to simply cut deals with Maputo while disregarding the very place they are actually settling which has important dynamics of its own. How important this will turn out to be in the future still remains to be seen. The potential problems faced by China with local communities are evidence of how local businessmen still do not see Chinese entrepreneurs as reliable benign actors contributing to the overall absolute economic gains of their region.

On a more positive note and also revealing the development partner nuances of China, 2007 saw Mozambique export more than 75 tones of agricultural products such as beans, corn, peanut and paprika, most of these originating from Nampula, a northern province of Mozambique (Zambézia, 2008). In August 2008 Nampula province started the export of some of its agricultural products to China, namely soja, peanunt and processed cashew nuts. This province is the biggest producer of cashew nuts of Mozambique with 75% of Mozambique's total production. (Zambézia, 2008) China has also provided 55.3 million dollars for the building of a centre for agriculture technological training (Jornal Notícias de Moçambique, 2007 B) and for the recovery of some infrastructures destroyed by floods. This has been one of the initiatives of the China-Mozambique Joint Commission for Economic Cooperation. Mozambique's was the first of 10 other planned centers around Africa to open such an institution. China sponsored the new Rural Development Schools in Vilankulo that opened in 2008, a branch of Eduardo Mondlane University. It did so through a partnership with Sichuan University and will present courses geared towards management, technical learning and productivity increase (Jornal de Notícias de Moçambique, 2008 B). On top of this, a recent curious development will see China help Nampula Region grow bambu for the first time. The bamboo produced will first be destined for family consumption but on a second phase it will also be used in craftsmanship, furniture and production of biofuel. For the purpose a team of Mozambican farmers went to China to receive training and observed that the climatic conditions of Nampula suited the plant (Jornal de Notícias de Moçambique, 2007).

A central component for Mozambique to be able to successfully reform its agricultural sector is then the ability to bring about a research and development component to the sector, China can play an important role towards this technology learning process. Indeed, "China would seem to be in a good position to help African countries build up their agricultural research and extension systems" (Ravallion 2008: 21). What can China's role be in helping a low income country like Mozambique to benefit from structural changes brought about by the crisis? China is likely to advance with its bilateral food supply arrangements, imitating those already in place for energy supply. Alternatively it can also start engaging international partners regionally, a move that would also depend on a concerted response to the problem by regional African organizations such as SADC and IGAD. As a report notes: "development advocates

may find that the emergence of food as a top-rank political issue provides them with an opportunity to form new alliances, new coalitions and new drivers for change” (Evans, 2008: 9,11).

5.4. China and Mozambique’s agro-forestry sector

One of the agriculture sub-sectors which has, for China, drawn much interest to Mozambique has been the agro-forestry sector. China’s companies have had a great presence in the sector with China importing up to 80% of Mozambique’s total timber exports and now being the world’s major importer of logs (Horta, 2008). In their constant push towards greater profit margins the companies have, however, at times been tempted to carry out illicit activities in the form of illegal and unregistered activities as well as over-exploitation of unauthorized areas and quantities of exotic wood. Mozambique holds very valuable reserves of tropical wood, with 19 million hectares and a capacity to export up to 500,000 cubic meters per year (SADC Review, 2007) including the umbila, jambirre, chanfuta and African sandalwood types. In 2006 China reportedly imported 94,000 cubic metres of logs from Mozambique. A phenomenon which started in the Zambezia has spread to Niassa, a rich and unexplored area next to lake Malawi as well as to other regions. It is also worth noting how the business of illegal logging often ends up going hand in hand with other illicit activities which include trading products of illegal hunting such as leopard skins and elephant tusks, illegal fishing and the smuggling of precious stones (Horta, 2008). The already mentioned coming into effect of a list of 190 non-tariff products to be exported from selected African countries to China has played a big role in fomenting the rise in African exports to China but, at the same time, many of the products in the list being somewhat irrelevant and not having a great potential for being exported from Africa to China. The list is however set to be extended to 440 as announced in the 2006 FOCAC meeting (Edinger, Herman, & Jansson, 2008: 15). Having said that, wood products are included in that list, making the export of such goods from Mozambique potentially much easier and potentially profitable.

Catherine Mackenzie’s report (2006) exposed the mechanisms of unsustainable economic processes occurring in the northern region of Mozambique which have been instigated by Chinese private companies. The report calls, and convincingly so, for policies that imply sustainable economic exploration of timber to be put into place as well as mechanisms in which to make sure that the business also brings about improvements in the economic development of rural areas. For such to happen, it proposes in practice for a moratorium on log exports to be set up. At its crux the report identifies a tension between the private and public interests of some government officials (Mackenzie, 2006:vi) to the point of describing a “timber mafia” which distorts legal frameworks for regulating agriculture and logging as well as statistical data. One of the first cornerstones the author advances as being important to push in the country’s forest governance strategy is to set up in-country processing of the woods. This should be an important concern for government so that the value-added of wood processing

that could stay in Mozambique does not flee in its totality to another node in the international production-chain outside Mozambique. The problem of petty corruption stands out in the story of how the illegal exploitation of logging pans out and, in this context, 2000 was a landmark year as it was then that such issues first came to the attention of the mass media after a series of scandals. As too many logs are being exported it has been witnessed, above all, an implementation problem as well as one of lack of transparency in the attribution of timber concessions. Although not without its flaws and problems, the law exists on the amounts and form of export in what regards forestry, it simply is not being applied effectively. For instance, although it is codified that the country should aspire to “reduce exports of raw timber and stimulate industrial transformation” in Mozambique’s policy paper entitled “Government Programme and the Policy and Implementation Strategy for Agriculture” (Ministério de Agricultura e Pescas, 1995), this in fact has not yet been realized in practice.

Catherine Mackenzie puts the problem in an international perspective going beyond China alone. It also notes how the unyielding demand from the US, Japan and EU to import from China cheap goods derived from processed wood products, further pushes Chinese companies to seek for essential primary goods with extra urgency (Mackenzie, 2006: ix). China is now in fact one of the world’s major leaders in furniture production (White et al 2006) and the largest wood importer by far, particularly after a partial logging ban was introduced at home in 1998. In the areas where forestry activities take place, local communities are often left outside the process, be it by Mozambican entrepreneurs from a different region or by actors external to Mozambique itself. This happens despite the valuable know-how they have for local forestry activities. Log exports were in 2006 the second most important export for Mozambique, after shrimps (Mackenzie, 2006:11). In effect, October 2007 saw Nampula authorities apprehending 531 containers of wood valued at 3.5 million of Euros which were about to be illegally exported to China (Zambézia, 2007). In December 2007, 7 Chinese firms were found guilty of exporting illegally from Mozambique (Africa Research Bulletin 17790, 2008, March 16 - April 15) but once again the very punishing mechanisms, i.e. fines of \$500,000, are rather lenient when compared to the potential profits that can be made from exporting the exotic woods. This report in the Africa Research bulletin suggests that the most effective mechanisms of surveillance against illegal logging should be set up in port areas where the products will necessarily have to go through. This whole problem of China’s presence in Mozambique’s forestry sector has many similarities with what is happening in Tanzania. Cross-border cooperation between Mozambique and Tanzania forestry governance institutions can, in this sense, be important to create a more effective legislation and practical response. It sheds light on how better than learning lessons in isolation, African states should keep sector-specific dialogue, and share technical experience and expertise when dealing with similar opportunities and challenges brought about by Chinese economic engagement. Such coordination can make sure that China is not just trying to displace traditional western orientation of the continent or simply grabbing easily accessible resources and is actually contributing to the development plans of African governments.

China's buyers have managed to get small operators on their side by providing a micro-credit service which was inexistent before, a credit that is in turn used to purchase small machinery and cover expenses for the actual logging activity. In fact, China's buyers create what (Warner, 1994) calls a "debt bondage with the sellers", a patron-client relation carrying according to the personal relations between the two and with varying degrees of dependency. Interestingly, the Mackenzie's report concludes that if "forest governance were improved, the majority would probably leave" (Mackenzie, 2006:17). There is an hiatus between how forests in Mozambique are supposed to be managed, how this management is codified in law and how they actually are managed. This together with serious reporting and statistical flaws in the past, where for example the main wood type of *Pau Preto* was simply omitted (Mackenzie, 2006:36) colludes to generate a context of uncertainty and lack of information which eases corruption and political manipulation for the circumstantial benefits of individual actors. Mozambique's agro-forestry law enforcing agency, SPFFBZ, has been struggling with supervising the number of licenses it issues every year. An area in which international partners can assist through capacity-building assistance and the provision of know-how. That being said, the environmental damage of forestry activities still fall short of the impact of household maintenance activities of rural families as they create charcoal for heat and over-exhaust agricultural fields. At the end of the day, the concession process needs to be reviewed by government, in practice these policies need to be subject to an analysis which puts into context policy formulation and application by the government with the pressures and actions of international actors, both private and public. Strikingly, SPFFBZ, has only one mobile unit for inspections and law enforcement, meaning that illegal procedures can pretty much go undisturbed. Meanwhile, there is no long-term post-logging strategy of recover in place and the greatest majority of the work is subcontracted to informal workers who are frequently paid below minimum wage (Mackenzie, 2006:48-49). It is for such reasons that Loro Horta describes the Zambezi Valley as China's first agricultural colony. He points to the changing eating habits of the Chinese who have markedly increased their food consumption in the last decades, arguing that such consumption is pushing China to seek its increasingly demanding food security abroad at all costs (Horta 2008; Personal Communication – interview Loro Horta).

As in the broader sector of agriculture, the forestry sub-sector can be a platform for development through absorption of low-skill workers and job creation. In 2003 it employed 2500 workers just operating "simple licenses" (Mackenzie, 2006:60). As the industry flourishes it is important for Mozambique entrepreneurs to have incentives to diversify and carry out more advanced forms and stages of forestry activity in the country. Namely in what comprises advanced processing of the two most precious kinds of wood in Mozambique, *Pau Preto* and *Mondzo*. As the great majority of foreign buyers in the forestry sector of Mozambique are currently from China, these entrepreneurs basically hold between themselves the ability to regulate the value of logging in the country. How this value is precisely defined rests with a variety of factors, from the international conditions of the market, to individual in-market

conditions in Mozambique as well as the individual profile and business record of their companies. Although buyers are also subject to a considerable amount of risk and there are some stories of business disasters, small “simple producers” and those selling their logs in the open market are in this sense subject to the China’s big buyers. These are who have the upper hand and the last say on the prices paid. The key point seems to be that small and medium-scale agro-forestry companies plant, grow and harvest timber while the Chinese actors present in Mozambique tend to be more focussed on extraction only with a few exceptions.

Outward investments in natural resources can support sustainable development in other parts of the world, if carried out in an appropriate manner and managed properly. There is, however, a limit to the amount of natural resources that can be consumed, and on a global level there already exists an over-consumption of natural resources. Chinese entrepreneurs have played a particularly concerning role in the illegal timber trade at the international level, African and Mozambican illegal imports to China are still relatively small when compared to those from South East Asia and Russia as noted in the Figure 7 below, but the volume in illegal wood-based products trade between Africa and China can easily grow into even greater levels.

Figure 7 - Illegal imports and exports of wood-based products to and from China



Source (Global Timber, 2006)

It is then important to ensure that countries avoid a “race to the bottom” in which investors and recipient countries are lowering environmental and social standards

(Pamlin & Baijin 2007:11). In fact, Xiaogang and Ding Pin (2008) bring attention to a particular development by which China is now starting to make use of the Equator principles⁶ to improve the environmental standards of its projects. They set out their argument by pointing to how in the long run loans will tend to seek out greater efficiency and be more capable to avoid risk and consistently re-adjust the industrial structure (Xiaogang & Pin, 2008:38). This will only be possible by means of more effective and transparent assessments of environmental and social impacts. There is however still a need for a wider deployment of means through which to check upon previous commitments under the Equator principles. For this to happen, lobbying from NGOs concerned with such issues needs to become more informed of the dynamics and the details of international risk, loan and credit management. The authors even suggest for some of the Equator principles to be written into the national law of some African states (Xiaogang & Pin, 2008:65). Using the theoretical framework of Susan Strange, these are initiatives which can help formalize and alter the tendencies of structural power defining so far Mozambique-China relations. A lack of control and precision in legislation as well as in environmental and labour principles has been tacitly explored by some of China's entrepreneurs. African countries and Mozambique need therefore to be able to bring into the top of the agenda as much as possible issues which directly affect their development paths and not be completely subject to the priorities of strategic decisions unilaterally taken by China or other partners. In fact, voiced concerns have already had an effect. In an important development in early 2008, the Chinese government implemented legislation aimed to ensure the incorporation of corporate social responsibility in Chinese agro-forestry corporations. The threat is to pull their licences to operate overseas if they do not comply. The focus of the legislature was on Chinese companies operating in Southeast Asia-Malaysia and Indonesia and it is yet to be seen how effectively they are implemented. However, the final outcome of such developments will have direct implications for the activities of Chinese agro-forestry firms entering Africa, including those with stakes in Mozambique.

5.5. Fishing and Aquaculture

Alex Evans from Chatham House envisages further increases in aquaculture and demand for fish produces in the medium run (Evans, 2008:4). As land and resources at home deplete, China will invariably tend to, again, look outwards for securing such produce.

Problems in the fishing sector are similar to those in the forestry sector. The two are linked as reasons for deforestation to be accounted for are economic and not just strictly environmental in nature. Mangrove ecosystems in coastal regions supply the basic habitat for shrimp, not just a central means for small business and many livelihoods in Mozambique but also one of the country's main exports. The destruction of such

⁶ The equator principles are a benchmark for the financial industry to manage social and environmental issues in Project financing

ecosystems can also have a negative impact on Mozambique's coral reefs, a great attraction factor for Mozambique's tourism sector.

The situation of the fishing sector has some similarities with that of agriculture. Although there are some cases of industrial fishing occurring, with China even being one of the main importers of shrimp, most of the production is carried out by small-scale fishermen. As in agriculture the potential is tremendous. Most of the industrial fishing is carried out by Mozambican companies in partnership with other international partners from Portugal, South Africa and Japan for example. In the last few years there have also been the first instances of aquaculture production. The government needs to keep promoting an increase in added-value activities in the sector and to keep creating adequate conditions for FDI. The interest of China in Mozambique's prawn production is particularly interesting. China is a prawn producer itself and one of the main exporters to large markets such as the US. Its companies have nonetheless been importing large quantities of unprocessed prawns from Mozambique.

5.6. Conclusion

China's very own path of agriculture development holds some potentially important lessons and experiences which are worthwhile for Mozambique to try and learn from. The development experience of China showed just how important it is for rural agriculture to develop at an early stage so that the pro-poor component of a development strategy can work: it was there that the process kick-started for China. At the end of the day, "efforts to develop policy levers to prompt more constructive Chinese engagement in Africa will have to proceed from China's economic interests" (Obiorah 2007:50) It will not, however be a function of Mozambique comprehensively copying the agriculture development path of China, not just because the socio-economic conditions of the two countries are completely different but also because the international conditions are markedly different with the a food crisis looming in 2008 and a different set of challenges and opportunities.

Overall, the engagement of China's entrepreneurs in the agro-forestry sector showed some liabilities for Mozambique's economic development so far due to a lack of capable institutional response by the government and Chinese entrepreneurs having acted as economic competitors and short-term "resource-grab" agents. This is something that, despite some cases of illegal fishing, has been less felt in the case of the fishing sector. In any case, besides needing to overcome its bureaucratic capacity deficit, Mozambique should also prepare itself to successfully manage China's new propensity for extending into Africa its push for food security.

The debate regarding China's involvement in the agriculture and fisheries sector in turn reflects many of the dilemmas of the wider debate. China and its entrepreneurs have however the potential to help those in the agriculture sector in Mozambique to more

efficiently identify their priorities. Much will also depend on the success of recent legislation in China pertaining to the corporate social responsibility of its agro-forestry companies operating abroad. The ability of Mozambican civil society and poorer constituencies to influence policy-makers and those stakeholders defining China-Mozambique relations will, in this sense, also be important. It remains uncertain to what extent China can help Mozambique when it comes to state building and state capacity.

Chapter 6 - Mphanda Nkuwa Dam - How Mozambique can tap into changes in China's engagement

6.1. Introduction

This chapter looks at a particular instance of an important dimension of China's engagement of Mozambique – that important dimension is the infrastructure sector and the particular instance is the Mphanda Nkuwa dam to be built in the Zambezi river.

The dam is a telling window into the intricacies of China's engagement of the country. Besides government documents, there has been little academic literature exclusively analyzing the political and environmental setting of the dam. This study will look at the former and not extensively on the latter. James Morrissey (2006) on behalf of Justiça Ambiental (in a partnership with IRN) has been one of the few who dedicated a whole report to the dam project. This lack of attention to the impact of the dam is particularly serious since the dam can potentially dislodge around 1400 farmers. Information has been lacking regarding how the changes in river fluctuations will affect river fisherman and others who depend on the river flow (IRN, 2006). By looking more closely at the political nuances of the negotiation process of the dam however hopefully some light will be shed on the dynamics behind the project as well as paving the way for more informed discussion and work regarding the environmental impact of the infrastructure project. Literature on local micro-political economy will be relevant to assess the prospected impact of the dam and contextualize what is also at stake when the exchanges of high level diplomacy concerning the building of the dam unfold. Literature concerning the impacts of mega-projects, economic development and the implications of the strategic options of the Mozambican government will be taken into account in the discussion. After providing a brief profile of the story of the dam, evidence from the dam will be analyzed when it comes to the signs the negotiation process sends that can be important in crafting Mozambique's economic policy-making as well as that of the Southern African region. The chapter concludes with a final extensive debate on how the dam can affect negatively and positively Mozambique's development.

6.2. The story of the dam – Geneology of Mphanda Nkuwa

Mphanda Nkuwa is on the verge of becoming the largest infrastructure scheme in Mozambique involving Chinese investment. The construction of the 1,500 MW capacity dam in the Zambeze river is expected to start in 2009 and to be completed in 2014. Its site will be in the lower Zambezi Area, 70 km south of the famous Cahora Bassa dam. A small profile of the Zambezi River is also relevant. It is one of the longest rivers in Africa and is already considerably damned with up to 30 dams in its basin that goes all the way from Angola to Mozambique. Two of the dams with biggest

dimensions are that of Cahora Bassa, already in Mozambique and the Kariba dam in Zimbabwe. The valley of the river is estimated to hold about 72 million people, from which about 80% are dependant on the river for agriculture and fishing. The total cost for the dam was initially estimated to be US\$2.3 billion, of which US\$1.1 billion are for the dam itself and US\$1.2 billion for the transmission lines. The initial promoters were the Ministry for Mineral Resources and Energy of Mozambique and NEPAD. Also at an early stage of the negotiation process, the European Investment Bank and the World Bank had expressed interest in the financing of the project but were let unsatisfied with risk-analysis of the 2001 feasibility study carried out by UTIP “Unidade Técnica de Implementação dos Projectos Hidroeléctricos” (Technical Unit of the Implementation of Hydroelectric Projects) (Meguigy 2002).

China is involved through the activities of China Exim-Bank that pushed for the building of the dam from the start and is set to become one of its major financiers in 2008. An MOU was even signed between the Mozambican government and Exim Bank in April 2007. The deal however has now been approved in parliament and the construction contract has been given to Brazil’s Camargo Corrêa with Electricidade de Moçambique and Energia Capital as partners. The first agreement between Mozambique’s government and Camargo Correa was signed in September 2007, after the MoU between the Mozambican government and China Exim Bank, while the composition of the consortium that will finance the project had not yet been finalised by mid-2008. The most interesting facet of the investment model however is that there will be no Mozambican public monies involved in financing the dam. It is up to Camargo Correa and its partners to organize for investors, so the responsibility for finalizing the story of the dam is now on the side of the Brazilian company. Camargo Correa is taking the project very seriously but, as an organization, is worried and nervous about managing an investment of such dimension, it is its first endeavour of such nature. The company sees Mozambique and Mphanda Nkuwa as its “proof of fire” (Lusa, 2008) to prove itself as a top multinational company. The project’s outcome will be determinant for the fate of the company's strategy in the medium-run, as Camargo is hoping that the project will take the company to a new level in its international presence and dimension.

The agreements about the model of financing and the details on the construction project have as a deadline to be finalized July 2009. By the mid-2008, Camargo Correa was looking for a big electrical operator, with Brazil’s Eletrobras being on the cards to assume this role and the tariffs being discussed between Camargo Correa and the government of Mozambique. Such negotiation will allow for the company to go on to present potential financial partners (including Exim Bank) with estimates of how profitable the energy production and exports will be in the long run for those interested. The decision over these tariffs are particularly important since they will have a major impact on the exports of electricity to South Africa and other SADC members, those that will be the major buyers of Mphanda Nkuwa's production.

China Exim Bank, as a financial partner which has been pushing with the building of the dam from an early stage of the project, is a very natural choice and the whole

process would not have arrived at this stage without its actions and lobbying. In addition, the World Bank is also expecting a request for partial funding (Soren Ambrose, 2008), meaning that the perspectives for a partnership between Exim-Bank and the World Bank in financing the dam appears likely. This might not seem very significant at a first glance but actually, the very fact that those two institutions are now open to the possibility of a partnership of such nature reveals a very significant shift in their Africa strategy. This is also the case when it comes to how two of the major financial institutions operating in Africa today perceive and relate to each other. Instances of cooperation and coordination between Exim-Bank and the World Bank can go a long way to putting financial resources to more effective use in the continent as well as exponentially increasing the know-how and capacity for large-scale financing schemes such as Mphanda Nkuwa. It would also set up a scheme of checks and balances between the two institutions, even if just in occasional projects, and keep a healthy, desirable and practical dialogue between China and the Western Actors represented by the World Bank when it comes to their relationship with Africa.

From the Mozambican government side, Luísa Diogo had expressed back in 2007 (Jornal Notícias de Moçambique, 2007 A) that negotiations should be left to take their time and that government will not rush the project. The Prime-Minister expressed some worry that a project of such dimension would consume the great majority of international investment interest in Mozambique and leave forgotten other projects and other areas. Despite the risk that the negotiation process over-extended across time, Camargo Correa has now been given *carteblanche* to take the negotiations to the last phase. So, some stakeholders, particularly Camargo Correa and Exim-Bank are interested in having a steadfast initiation of getting the process of constructing the infrastructure up and running. Armando Guebuza in turn, the country's head of state, sees Mphanda Nkuwa as an important step towards a fulfilment of Mozambique's energy production potential that the President claims to be of more than 12.000MW. Within the framework of this wider ambition, government has set up a technical institute responsible for training in the areas of supply, transport, distribution and administration in the energy sector (Jornal Notícias de Moçambique, 2007 B). This is an instance of how China's very interest in the infrastructure sector can also spur on Mozambique's governance institution to improve, reform and expand to make the most out of investment opportunities that arise.

Finally, it is also worth noting that there are three possible forms of ownership in the electricity industry: 1) direct ownership by the government; 2) government-owned corporation; 3) privately owned corporation (Yi-Chong 2004: 31). Along the same lines, there are four possible forms in the structure of the power industry: 1) vertical/horizontal monopoly; 2) purchasing agency model (allows competition in generation); 3) wholesale competition (competition in generation and distribution); 4) retail competition (competition in generation, distribution and consumers) (Yi-Chong 2004: 2).

The Mphanda Nkuwa Dam consortium incorporates a mix between government-owned corporation and privately owned corporation but is led, thanks to a governmental decision, by a privately owned corporation, Camargo Correa. This means that the project will tend to privilege the characteristics and concerns usually assigned to privately-owned corporations. When it comes to the particular structure of Mozambique's power industry, government has given room for wholesale competition to take place, with different companies applying for tendering in the construction of energy production facilities as well as for the building of distribution lines for the national grid. There is however no competition in retail, production and distribution since, "Electricidade de Moçambique" holds the monopoly of the consumer market.

6.3. Signs of Pragmatism from China's actors

A contextualized analysis of the story of the negotiation process of the dam shows a notable sign of pragmatism from the Chinese side. Elsewhere in Africa, China has been obliged by the absence of power infrastructure to supply herself similar engineering developments in order to cater for the implementation of key projects such as raw material extraction. So if China's initial interest in financing Mphanda Nkuwa follows the interests that were at stake in other similar projects in the continent, the way it goes around to advance them is different in practice. Looking at such projects like the Merowe Dam in Sudan for comparative purposes will allow for a better understanding of the extent to which the dynamics of China's interest and practices in Mphanda Nkuwa are an exception or not. Merowe is a classic example of Chinese practices in the continent. It is a US\$1.8 billion project whose negotiation, conditions and construction have some similarities with Mphanda Nkuwa. Merowe's construction has been carried out by a consortium of two European and two Chinese companies and financed by Middle Eastern entities in partnership with Exim Bank. The very dimension of the dam is similar to Mphanda Nkuwa, set to produce 1250 MW of power (Burke, 2007). As with the Nkuwa Dam, the political debates regarding Merowe have also revolved around the displacement of people as well as the reliability (and at times even existence) of feasibility studies. The Sudanese government is expected of having to organize the relocation of more than 50.000 people. In the negotiation process of the Merowe dam, China managed to win a second contractor for power towers to transport electricity to Khartoum and Port Sudan, Harpin-Jilin and CCMD joint venture respectively for US\$10 million. According to Askouri (2007:76), a "inside source said Sinohydro (engineering) told Zesco (Zambia Electricity Supply Limited) that they wanted to see a site assessment focused only on economic factors". This has been one of the similar critiques that Mphanda Nkuwa has been subject to, i.e. which is overly concerned with economic viability for the investors and disregards sustainability and environmental aspects.

It is apparent that, when carrying out a project like Mphanda Nkuwa, China often contracts its own domestic companies such as Sinohydro. However, Mphanda Nkuwa's case holds some particularities. First of all, although the opening of the Mozal II

aluminium smelter has increased overall industrial demand for electricity, Mozambique already holds an energy surplus that is more than enough to meet its meagre internal consumption, even if the consumption of families greatly expands in the near future. These circumstances are likely to continue until the majority of the population actually gains access to electricity and consumption picks up. Secondly, the Brazilian engineering company Camargo Corrêa has, as above mentioned, been attributed the task of carrying out the construction and organise for the financing of the dam. The economic diplomacy of Mozambique's government and the valuable know-how of the Brazilian engineering company have pushed China, or more precisely one of its key foreign policy-making actors, Exim-Bank, to adjust its traditional *modus operandi*. This time, the model followed has more similarities with the Merowe Dam scheme: China Exim-Bank has third party involvement in a kind of deal that is usually a bilateral agreement between two governments and relies upon Chinese financing of a Chinese-constructed project.

It is possible that this project could prove to be just an exception proving the rule that China's preference for vertical integration of its investments will not change. It does nonetheless send out an important sign that China's investment and loan packages are likely to become more flexible and innovative. There are two reasons as to why this development is not surprising: firstly, China has an unremitting tendency to be pragmatic in its foreign affairs and economic diplomacy, an inclination of which the Mphanda Nkuwa project is a good example; secondly, as its engagement with the international market increases, the business practices of China Exim-Bank will, just like the practices of other Chinese MNCs, tend to go beyond the most immediate interests of the PRC State Council and acquire a fluid and more autonomous dynamic of its own. Hence, the Mphanda Nkuwa case stands as a reminder that both the grand and the minor narratives of China's engagement of Africa are anything but static and can no longer be encapsulated in the maxim of "Chinese financing for Chinese-built and engineered projects". The process leading up to the construction of Mphanda Nkuwa has showed signs of pragmatism and flexibility on behalf of the actors defining and executing China's engagement with Africa from the Chinese side.

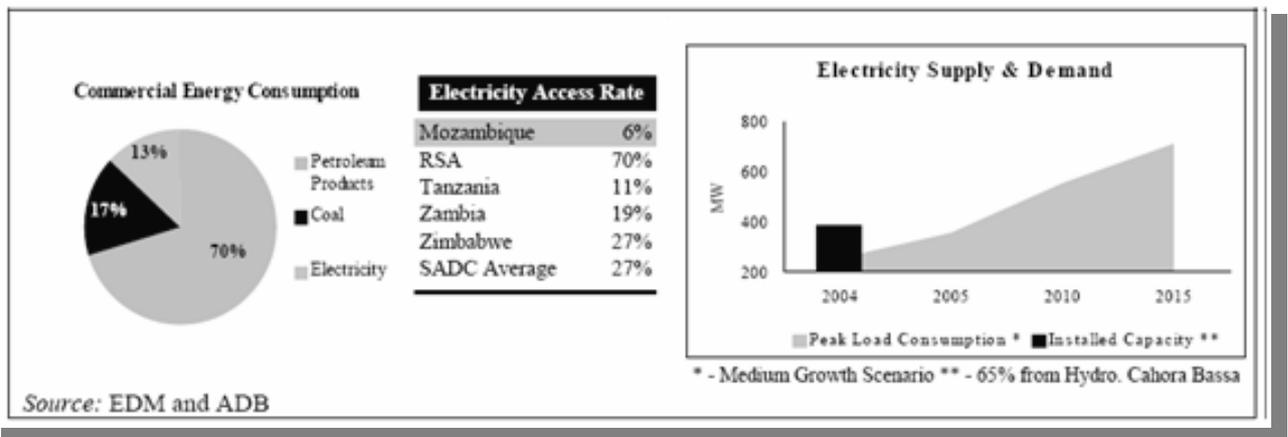
6.4. The regional dimension of China's strategic approach

The significance of the dam increases at a time of a major electricity crisis for South Africa, the major power consumer in the region. Its national energy company, Eskom, is struggling with its outward investment expansion strategy and is now negotiating to buy an additional 250MW of electricity per day from Mozambique's Hydroeléctrica de Cahora Bassa (HCB). South Africa even considers moving into two time zones for energy saving purposes (Yeld, 2008). The stage is set for the country to gradually become a "dynamo" for the Southern African region, and also for China to play a role. The output of the dam is closely tied to the reality of regional energy security. South Africa is set to be the main purchaser of the electricity produced by the dam while other countries in the region such as Malawi and Zimbabwe are also expected to purchase it.

The interdependence of the countries in the region when it comes to energy is so evident to the point that Mozambique is expected to come through as the leading supplier in the region (Engineering News 2008). Mozambique is in fact connected to the Southern Africa Power Pool (SAPP) through South Africa and Zimbabwe but at the same time Mozambique still faces serious difficulties in electricity distribution, particularly in rural areas. This is reflected both in an ADB report and in WB investment Climate Report (2006) about Mozambique in which “64% of the sampled companies have identified energy as being a major problem with 17 power cuts registered per month”. This shows evidence of two interlinked paradoxes: one between Mozambique’s energy production potential and the actual energy production/distribution; a second between energy revenues and the internal capacity of Mozambique for generalizing its benefits across population and businesses.

Considering other mega-projects in the region, a dam such as Mphanda Nkuwa seems like a considerable safe investment economically given the current regional setting when it comes to energy production and consumption. This is so because “electricity is not a normal good that consumers can pick and choose at a market where there is a free exchange system”, electricity is a necessity and its demand is inelastic vis-à-vis pricing (Yi-Chong 2004: 3, 327). It means that, even if there is an economic downturn in the region, as long as a wide distribution network remains in place, demand is still likely to remain at a considerably high level.

Figure 8 - SADC energy sector snapshot



Source - (ADB 2006:7)

Figure 8 shows that a great majority of commercial energy consumption in the region pertains to electricity in detriment of petroleum products and coal. It also confirms the low levels of internal energy consumption and access rates of Mozambique vis-à-vis other countries in the region. Notwithstanding that, the most interesting evidence from the graphs is how, in the medium term (2008-2015) currently installed capacity will need to increase in order to meet the predicted evolution in demand.

The Mphanda Nkuwa project shows, all things considered, evidence of how China is increasingly having a regional approach, even to its country specific investments. After

noting how China takes into account regional demand and dynamics when evaluating the economic viability of the output of the dam, one can extrapolate that there is a clear regional dimension to China's strategy, even in one-off projects. This is due to the fact that producing energy for internal consumption is not yet commercially viable but also that investors can make the most out of Mozambique being part of the SAPP. The regional dimension of China's involvement in the energy sector in general and in projects such as Mphanda Nkuwa in particular are instances of how China's engagement can comprise sets of relations fostering absolute gains for those involved. In this particular instance, by connecting its investments to the SAPP, its activities will contribute to the economic integration of regional blocs such as SADC, of which Mozambique is a part of. China is also promoting political and economic integration between Mozambique and its neighbours by means of spill-over effects borne out of the necessity of finding effective solutions for new challenges and opportunities.

6.5. How will the Dam affect Mozambique's development?

Mozambican politics have been characterized between 2000 and 2008 by the hegemony of decision-makers in the capital over those in local government. Local government has however, historically, often worked around a *de facto* incapacity from the authorities in the capital to effectively apply decisions taken by central government all the way to isolated peripheral regions (Cuereneia, 2001). This makes it important for a closer analysis of the dynamics between central and local government in the Zambeze region, the region where the dam is set to be constructed.

Given this, the area surrounding the building site of the dam is prominently rural, often with isolated families and villages living spread out around the mountainous areas labouring in local subsistence agriculture, cattle herding and traditional crafts such as carpentry and pottery. One must however understand that the sets of local political relations as being organized around a simple subsistence agriculture economic dynamic is somewhat oversimplifying. In fact, there are considerable inner-group and inter-group power inequalities which add another problematic dimension, locking some of the subsistence farmers into forms of dependency (Morrissey 2006). The presence of a project of such dimension and nature contrasts sharply with the immediate picture of the local micro-economic dynamics. This contrast is an ironically fitting allegory of the challenges Mozambique's macro-economic structure faces. Mozambique's government has previously been accused of claiming credit for almost "miraculous" growth rates which are sometimes overwhelmingly dominated by the contribution of mega-projects. Mphanda Nkuwa constitutes one of these very projects. This critique arises from studies that have broken down the picture of how different strata and socio-economic groups have benefited distinctively from these high growth rates. This however is not straightforward as the true nature and impact on poverty of Mozambique's economic development remains widely debated (Arndt 2007).

The main potential risks envisaged in the construction of the dam encompass, first of all, the building of the dam in a potentially seismically risky area. There are not only the traditionally risks related to “reservoir induced seismicity”⁷ but there are also chronic liabilities in the collection of seismic records. Mozambique is “in vicinity of Nubia-Somalia plate boundary and straddles a highly active fault zone called the shire though” (Lemos & Ribeiro, 2007:67). In addition, besides floods, draught remains a primary concern for the local population. The arrival of the dam will change the patterns of river flow with uncertain risks and consequences for those who have traditionally relied on it.

A useful way of looking at what are, for the purposes of this project, the most relevant socio-economic aspects of the building of the Dam is dividing them into two categories as IRN (2006) did for its study: those related to construction and those caused by dam operation. In regards to the former, the very action of building the dam entails specific changes for the populations residing in the local construction site. Characterized by a traditional absence of central state in its socio-political organization these traditional groups will be subject to absorbing a considerable wave of immigration from urban areas to work in the mega-project. Critics claim that, despite greater economic and commercial activities and new job opportunities, there can be a likely increase in the rates of crime and HIV/AIDS. To that, one must add the obvious task of resettlement with the first estimates point to a number of up to 200.000 people who will have to move. To the construction of a dam of great proportions, a change of great proportions corresponds. While IRN focused solely on the implications for the local populations this chapter will use this distinction between risks/challenges related to dam operation and those concerning the dam construction and apply them to the realms of economic diplomacy.

Reports such as that of *Justiça Ambiental* (IRN, 2006) defend that the dam will lead to greater severity in droughts with subsequent humanitarian catastrophes and food security problems fruit of lower and more unstable levels of water in the Delta. It follows the train of thought of arguments that claims that China Exim Bank’s involvement in Nkuwa has removed the pressure on Mozambique government to improve social and environmental assessment (Lemos & Ribeiro, 2007:68). *Justiça Ambiental* and IRN offer as alternatives a set of other options such as micro-hydro, solar panels, windmills, biofuels from sugarcane waste and even improved cooking stoves (IRN, 2006). These can undoubtedly be important complements that can be used simultaneously with dam power but some doubts can be posed in terms of to what extent these constitute viable alternatives if the objective is to commercialize and export electricity in large quantities. In contrast to this antagonistic position towards the dam by a considerable section of organized civil society, the government and other economic

⁷According to the IRN “Damning the Zambezi” report (2007), this phenomena consists in how the dam’s reservoir can increase the surrounding plates’ seismic potential as a result of the increased weight of the water

agents defend the exact opposite (Jornal Notícias de Moçambique , 2007 A). The project is seen by authorities not just as being economically sound but it also as having an advantage to allow for a greater degree of control over the river flow and avoid floods. In fact its economic viability is not certain, and it seems like the dam is particularly vulnerable to climate change, and natural catastrophes. A case in hand is the upstream Kariba dam which has been operating at 14 percent of its capacity due to recurring droughts. Taking into account climate change also assumes particular relevance as Southern Africa is one of the regions in the world where its impact in the form of desertification and droughts are most likely to become more significant in the medium/long term (Brown et al. 2007; Eriksen et al. 2007).

These debates and challenges once again point to the importance of going beyond the mere quantification of the potential impacts and implications of the dam. Any macro-economic and macro-political analysis needs to be complemented by an understanding of the micro-economics and the micro-politics as well as outside-in thinking. In itself, the project holds some very interesting overlapping challenges when it comes to transnational issues such as those of social and environmental responsibility issues and even taxing (Bucuane & Mulder 2007). The most important is for the rents from electricity exports to be successfully distributed and re-invested productively into the economy. The sheer dimension of the dam means that once the project goes past its tendering phase and kicks off, Mphanda Nkuwa will become a flagship in Mozambique's energy strategy. It is therefore of the utmost importance that the Mozambican government, because of its privileged position as a rent collector, tries to see that it benefits as many people as possible. Just like in Soderbaum and Taylor's analysis of the Maputo Development Corridor (MDC) initiative and the role of the state: flaws, disregard and state-elitism in a mega project like Mphanda Nkuwa "reinforce the role of the state as a transmission belt for international capital, rather than as a facilitator for development" (Soderbaum & Taylor, 2001:676).

In brief, the double conceptualizations of the state as a "transmission belt" and as a "facilitator for development" encapsulate the unit of the state and more precisely the government into a useful analytical dichotomy. It presents a variation from the state as an actor that operates as a transmission belt, this concept presenting an understanding where the state carries out the task of being the "disciplining spokesman of transnational capital". This contrasts with Cox's (1996) view of the state as a "buffer' protecting the domestic economy from harmful exogenous influences", the function of the state that should be aspired to. To Cox's ideal type one can add not just the protection function of the state but also its role in potentiating positive exogenous influences. These two contrasting conceptualizations of the role of the state really point out to how the government of Mozambique must, at the end of the day, be more aware and active regarding the concrete impacts China is having in its economic development, concerning both threats and opportunities. The MDC's paradigm was characterized by "short-term, capital-intensive and large scale investment, with a minimal degree of state involvement." Some flaws of this paradigm seem to have been repeated with Mphanda

Nkuwa. As in the case of the MDC, and other Mega-Projects, local populations were not really consulted before and during the process of planning and execution of the projects and “integrated into the decision-making” (Soderbaum & Taylor, 2001:688). The dam remains nonetheless a big macro-economics “chess-move” whose impact and benefits can still be broken down and sieve through to those who most influence an improvement in the economic development performance – local poor rural classes. For this to happen however government will have to properly manage the taxes collected from the newly exported electricity from the dam. Mozambique has adopted a strategy concerned with “increasing the profile and credit rating of the region” (Soderbaum & Taylor, 2001:686; Business Map 2000:37). The country needs to avoid the over-prominence of deals “between the political elite and transnational capital” that restrictedly benefit these two. There must be a distinction between a government that transfers its responsibilities by giving full autonomy to a company to carry out all the “grunt” work, managing the risks of a project and a government that provides incentives and stimulates new and innovative investment models. The Government of Mozambique needs to distinguish between utter carelessness and *l'état stratège*⁸.

Even back in 2001 Soderbaum and Taylor already pointed out to how there were no institutions that were able to “facilitate dialogue with bottom-up forces in society” (Soderbaum & Taylor, 2001:692). And despite the positive openness from China to adapt and change its investment models as required, the dialogue remains restricted to elite to elite forces in society. In fact, the very objective of producing 12.000 MW mentioned by Armando Guebuza and referred to in the previous section of this chapter has still fallen short of being achieved and much of the energy produced by Mega-projects stands to benefit, above all, other mega projects. These are projects such as the heavy sands exploration of Chibuto and Moma as well as Mozal III aluminium smelter, businesses that depend on a reliable and cheap supply of energy. This creates a case of double economy and a closed elitist circle of investment sustaining the arguments pointing to the paradox of growth vs. inequality. Most strikingly, Mozambique’s strategic option of trying to produce energy in greater quantities for exporting purposes brings about an extremely visible paradox when one looks at its internal consumption: what will a dam producing 2500 MW for export do to a country where households still rely on “bio-mass in the form of charcoal and firewood for 80-90% of its internal energy consumption” (Ghazvinian, 2008).

6.6 Conclusion

This chapter has given a review of the tendering process of Mphanda Nkuwa. It has concluded that the genealogy of the dam shows significant signs of pragmatism from Chinese actors in Africa and particularly Exim-Bank as the bank demonstrates increasing openness to reinventing its partnership and investment models. Saying that, these changes also come at a time when more autonomous actors plan out the

⁸ French expression designating the strategic and pro-active state

investments and projects bet upon by taking into account a regional framework. Finally, in a nutshell the answer to the question “who will benefit from the dam?” stand with the government which will collect the revenues from electricity exports, since the economic benefits from the construction of the dam itself are short and circumstantial. There is still a need for the Mozambican government to move from being a “transmission belt” for China’s transnational capital to a “facilitator of development”.

Mozambique governance structures should simply allow for China to displace Western partners and have short-term profit-seeking deals, but actually tap and adapt China’s commitments on an individually tailored, project-by-project basis. The Mphanda Nkuwa project has not been without its critics. Serious questions have been raised regarding the displacement of people that the dam might cause. Furthermore, there have been criticisms regarding the reliability of the feasibility studies that have been conducted. IRN and the NGO *Justiça Ambiental* are two of the most vocal groups demanding further studies. Some of their representatives were even lobbying Chinese stakeholders during the ADB meeting in Shanghai in 2007 (IRN, 2007).

Mozambique must now also look at starting to make the most out of investments that are already there, by creating incentives for these businesses, previous investments and mega-projects to stay and expand. This would be a new welcomed trend given recurrent suggestions for a greater focus on capacity-building instead of simple carefree liberalization. As long as the construction process is successful, it will be a political decision if Mphanda Nkuwa is economically successful and if it will benefit a wide constituency or not. The nature of economic impact is similar to those pertaining to other mega-projects and same development benefits and limitations apply but in this case the Government of Mozambique has been delegating its responsibilities to Camargo Correa which will have a great say in determining the modality of the financing and construction process. Meanwhile the Government of Mozambique will retain the last word in the economic development impact of the dam which will depend on the re-distribution and re-investment of the significant rents that will be collected from exporting the new produced energy.

Chapter 7 - China's Engagement of Mozambique through the Macau Forum

7.1. Introduction

The dimension of China's economic involvement in Mozambique herein presented pertains to a specific instance of the multiple and increasingly specialised diplomatic channels used by China and Africa in their mutual engagement. The Forum for Economic and Commercial Cooperation between China and Portuguese Speaking Countries (FECCCPS), henceforth the "Macau Forum" had its first formal meeting in October 2003 in Macau. From the start, the Forum was an institutional investment, not just directly targeting Mozambique but in fact a vaster group of important economic partners to China of which Mozambique was a part of. The Macau Forum and the actions of Mozambique within the Forum will be presented in the context of other alternative channels in order to understand what exactly is different, or not, about the Forum and how it shapes Mozambique-China relations. This chapter is composed essentially of three main sections. The first will provide a brief overview profile of what the Macau-Forum is and has achieved since it has been created. Secondly, a theoretical discussion will be carried out whereby the possibilities and limitations of the Forum are assessed by means of a review of how and why it came about in this particular point in time of the history of China and Africa and their relations. The Forum's position as a hybrid actor will be presented and discussed as a possible framework for understanding how Mozambique can make further use of the Forum for the benefit of its own economic development. Lastly, the chapter will move into a discussion of the specific instances where the Forum has assumed a role as a moderator, an arena and a conductor for China-Mozambique relations and for Mozambique's development.

7.2. Profile of the Forum

The Macau Forum is in essence a multilateral organization composed by Portuguese Speaking Countries (PSCs) and China with São Tomé e Príncipe as an observer due to its recognition of Taiwan. It is financed in its entirety by China and has met five times since its creation in 2003. Chronologically, the meetings have taken place in: Portugal, Angola, Mozambique, twice in Macau and Cape Verde. As an institution it does not have an autonomous agenda and remains, at its very best, the sum of its parts, i.e. of its member states' agendas. In other words, the Forum begins and ends in state-led initiatives of its members and the secretariat is considerably limited in these matters. The Forum has an inherently material and economic agenda, it seeks to do so by creating political and diplomatic channels for investment and promoting each country's investment-products.

China sees great economic complementarities between its economy and those of Portuguese-speaking countries and, accordingly, took the initiative of setting up the

Macau Forum to explore these synergies. In so doing, China also seeks to foster the role of Macau as a linking platform facilitating access to these countries and promoting more intense relations between China, Macau and PSCs. The Macau Special Administrative Region holds a special role and is at the apex of the Macau-Forum for historical and “geo-cultural” reasons. In effect, Macau has long had cultural and language ties with PSCs that have endured the test of times, with Macau having, for example, both Chinese and Portuguese as official languages practised in its local media and learning institutions. It also has, for instance, a judicial system and code of law that has a markedly European influence (Zengyi, 2004). This can be a significant asset in terms of know-how, learning and ability to influence the capacity of businesses. It means that they can potentially operate more successfully across the geographical, bureaucratic and political dimensions of the Macau Forum and more effectively bring these markets together.

Initially the Macau Forum presented more rhetorical apparatus than outcomes as its practical reality still fell markedly short of the original goals. The Forum initially set out to meet every three years at the ministerial level in the areas of economy and commerce as well as with personalities from international organizations and commercial and business associations. It started by having an unambitious agenda of assessing and debating areas for further cooperation and has progressively become more pro-active and practical in its goals:

- Human resources training by organizing seminars, colloquiums and training courses for the authorities and technicians of Portuguese Speaking countries, including Mozambique;
- Stimulate Business exchanges;
- Promote and organize High level diplomatic visits;
- Promote and improve commerce between China and Portuguese Speaking Countries through advisory and information provision, namely in banking services, opening up of aerial and maritime route, etc. (Macau Government, 2007).

It has, nonetheless, witnessed a noteworthy reform in 2008 which Mozambique can make the most of in order to push through its development agenda. The Forum frequently finds itself being dominated by the secretary-general which used to be Wang Cheng An, an orthodox Communist party hardliner which had strong connections with the anti-imperial African liberation movements. His profile was not welcomed by some of the members of the Macau-Forum, namely Portugal and Brasil but also Mozambique, which saw him as constantly centralizing the workings of the Forum and allowed little room for agenda-setting and other forms of actual agency for Mozambique and other members. The Forum worked pretty much as a visible face for China's “do-good” charm offensive, another channel for its “diplomatic marketing”. As political and diplomatic exchanges occurred making this reality increasingly evident, China replaced Wang Cheng An by Zhao Chuang, a technocrat, and someone with a more suitable profile to carry out the Forum original intentions (Personal communication – interview A; B; Dr.

Moisés Silva).. Since 2006, the Forum has sought to assess and review the procedural and work rules of the Permanent Secretariat, in view of fulfilling and coordinating more effectively the Action Plans for Economic and Commercial Cooperation, signed by the Ministers responsible for economic and commercial affairs from China and PSC countries (Macauhub, 2006). Nevertheless, the very centralizing mechanisms and rules of the Forum will still need to be reviewed and revised for it to actually have a more balanced and effective role in fostering economic relations between its members.

Another of the most significant changes has been for the Forum to assume in its strategy less a stress on intergovernmental political exchanges, but rather a greater emphasis on creating the right environment for business and entrepreneurs to assume the initiative as central drivers of the institution, as was claimed by Manuel Amante da Rosa, vice-director of the Forum secretariat (Ping, 2008). The annual event of the Macau International Fair is also a recurring initiative promoted by the Forum. It gives an opportunity for businesses from Macau and PSCs to exhibit their products and services. In addition, during the three days that it is held, sourcing and business matching activities are carried out and business deals are signed.

China's creation of the Macau Forum should also be understood within three particular changes of China's foreign policy after 1978. According to Lampton (2001) and (Le Pere & Shelton 2007: 30) China has, since then, been pushing for a greater professionalization of its diplomatic elites, and for corporate pluralisation, and has allowed for a gradual decentralization of power to the provinces and local structures. Such professionalization, “which includes a higher level of specialized knowledge among the Chinese elite and the development of expertise in bureaucracies concerned with decision-making” is also sought after in institutions such as the Macau Forum. The Forum is a concrete institution that contributes to this through its initiatives generating specialized elite. Corporate pluralisation will in turn mean a greater number of different perspectives regarding policy-making, and the “spread of organizations, groups, and individuals” in these policy-making processes. Lastly, the creation of the Forum with its headquarters and permanent secretariat in Macau should be understood within the “gradual decentralisation of power to the provinces and local structures” (Le Pere & Shelton 2007: 30). Such decentralisation fits the new trend towards the emergence of hybrid actors discussed below.

The Forum and Mozambique's behaviour within this organization mirror the tendencies of China's ascending importance within the Portuguese speaking world. Dr. Moisés Fernandes (Personal Communication by Dr. Moisés Silva), even suggests that in the long-run the Forum find itself replacing the Community of Portuguese Language Countries (CPLP), an organization of the Portuguese-speaking world which has the same members as the Macau-Forum except for China. The reasons he provides are essentially of an economic nature. The Forum, in contrast to the CPLP, is very practical and economic in nature, tending to be less ideological. This gives it a more adaptable and economically attractive edge in the current context of competition and commercial economic diplomacy in international relations as noted in the section below. The

membership and sponsorship of one of the major emerging powers in the international order, China, is also undeniably important.

7.3. Theoretical discussion regarding Economic Diplomacy and how the Macau Forum fits within new trends

The institution of the Macau Forum can also be seen as concrete example of the importance of hybrid actors and also of how African countries can advance their development through the platforms they offer (Michelmann & Soldatos, 1990; Henders, 2001). Through these actors China has another channel through which to be convinced to focus on absolute gains benefiting a wider range of internal and external actors. The “hybrid actors” conceptualization, for the case of the Macau Forum, refers to the propagation of the characteristics of federal states in the Macau Special Administrative Region. This autonomy has meant that it has been in the interest of Macau authorities themselves to advance and encourage a “special” connection China should have with PSCs. This will in turn provide Macau, a tiny territory of China in relative terms, with a unique status as well as a political and economic comparative advantage within China itself. Going back to Chris Alden’s typologies, a hybrid-actor, like Macau, also benefits from China having more of a development partner commitment to Lusophone Africa in detriment of an economic competitor stance. This is so because Macau’s aspirations as a commercial and economic platform are dependent upon long-term sustained commitments by the Chinese and Lusophone actors it seeks to serve.

That being said, state owned companies themselves resemble more and more hybrid actors. Take Exim-Bank for instance, which as an organization it is able to make the most of its affiliation to China's central government while simultaneously having as a guiding principle its self-sustainability as a financial institution and its individual business performance. This has occurred since the bank has acquired new characteristics from the private sector which also gives it a hybrid nature. Indeed, according to a Mackinsey quarterly report from 2008 (Woetzel, July 2008):

(...) for many years, the West has viewed China’s state-owned enterprises in black or white. But these companies, like China itself, are diverse. Many of them would make better partners for multinationals than some of their private-sector counterparts. Openness, not ownership, is the key

This hybridity made evident both in SOEs and the Macau Forum is due to the technical bureaucratic centripetal necessities that push and ask for China to devolve some of its control, even if just partially. As for the notion of economic diplomacy, it alludes to a trend in the last decades in which traditional diplomatic channels and processes have become more porous and have now opened up to input from non-governmental and other alternative actors. Commercial diplomacy on the other hand describes the work of diplomatic missions in support of the home country’s business and finance sectors in their pursuit of economic success and the country's general objective of national development. It includes the promotion of inward and outward investment as well as

trade. Important aspects of a commercial diplomat's work is the supply of information about export and investment opportunities and organizing and helping to act as hosts to trade missions from home. In some cases, commercial diplomats could also promote economic ties through advising and support of both domestic and foreign companies for investment decisions. Indeed, according to Saner and Yu (2003:12, 20) one of the primary tasks of contemporary diplomats is now to "influence political, economic and social policies to create the right conditions for economic development taking into account the needs and aspirations of other stakeholders", a task that is not only inherently economic by nature but also one that encourages engagement with a multitude of actors outside the traditional "state-boxed" diplomatic spheres.

These alterations also encompass a vast change in the very content and pace of diplomatic engagement, something which has rendered criticisms to the inadequacy in training of a great number of diplomatic corps (Saner & Yiu, 2003:5), including Mozambique's. Assuming this, China's relations with Mozambique through the diplomatic channel of the Macau Forum demonstrates these very trends, reflecting as they do three of China's foreign policy enhancement concerns discussed in the previous section (professionalization, corporate pluralisation and decentralization).

As was noted when framing the Macau Forum within the hybrid actor conceptualization, the multilateral institution of the Macau Forum represents evidence of a trend towards the devolution of power, through several methods, from central government to geographic and political sub-units. Such devolution and autonomy, within which Macau and the Macau Forum fit, gives such sub-units greater room for advancing particular economic and political interests that they did not have the capability or the legitimacy to do before. On top of that there is now an increasing number of business communities that "put forward their own white papers stipulating preferred policy positions" (Saner & Yiu, 2003:8). It is not literally the case that Chinese business communities like those in Macau put forward a white paper diplomacy-making document to central government. Instead, and very much thanks to the acknowledgement by the same central government of the complexity and the new demands of economic diplomacy, these business communities and often, semi-nationally owned business actors, tend to gain increasing autonomy and have a greater say in the content of China's actions abroad.

An illustrative event is how Fujian province wants to make use of Macau's position, using it as a platform for its investment in PSCs. The provincial secretariat of the Chinese Communist Party has been in liaison with Edmund Ho (the Chief Executive-elect of Macau) in order to organize for investment canvassing in PSCs through the Macau Forum as well as the organization of visits from PSCs to its region with view of presenting business opportunities. Fujian is part of the Pearl River Delta, a region in which Macau is also included. It is very dynamic and economically vibrant and includes Fujian, Jiangxi, Hunan, Guangdong, Guangxi, Hainan, Sichuan, Guizhou and Yunnan. The region holds a third of China's population, roughly the same population as the European Union and a third of the country's GDP. Macau has, for the

last decades, been establishing a closer relationship and integrating its economy with its surrounding region meaning that it is in a privileged position to be a link between the massive economic potential of a province like Fujian with that of Mozambique and PSCs (Macauhub, 2008).

An additional example is how Millennium BCP, a Portuguese Bank has already acknowledged the potential of Macau as a hub in its strategy. It signed an MoU with the China Africa Business Council in 2007 aiming at using its presence and subsidiaries in Africa and in Macau to offer credit opportunities to Chinese investors in Mozambique and Angola, and also, to supply credit for potential African investors from Mozambique and Angola in China (Diário Económico, 2007). Macau and the Macau Forum are at the centre of coordinating these packages given its strategic characteristics, with the deal including the provision of loans, “cash-management”, and bank guarantees among other financial services to Chinese and African businesses.

7.4. The Macau Forum and Mozambique's development - Initiatives of the Macau Forum that concern Mozambique

What the Macau Forum offers, in practice, is then an additional channel of communication for Mozambique. As the name itself indicates, a Forum for Mozambique to “brand” and commercialize its economy as it seeks investment and to improve upon its political and diplomatic “capital”. It is the outcome of a materialization of an elite-driven political process started in 2003 which is of a top-down nature. It means that, in the case of Mozambique’s development concerns, the Forum will only work towards it to the extent that Mozambique’s delegates are able to advance and attract economic support, investments and projects to strategic sectors and projects opted for in the PARPA.

The Macau Forum is thus a multilateral arena where Mozambique can project its development strategy and seek to find the channels through which to fulfil it. For this to happen however, Mozambique then depends on:

- how the Forum will generally evolve as an institution, if it will be able to accomplish its essentially practical and economic ambitions
- if Mozambique is able to organize itself successfully in diplomatic terms so that it can coordinate effectively between the wishes of its infant private sector as mentioned in Chapter 4, its development strategy and the opportunities that the Macau Forum generates
- if Macau is able to affirm itself successfully as a platform for economic and political exchanges between China and the Portuguese-speaking world
- and if China is able to definitively “let go” of its initial overly zealous “grip” on the organization

This section will look with greater detail at what has been done and can further be achieved from the Mozambican side. Therefore the focus will be in the second bullet point in the previous list. In what concerns Mozambique the Forum has brought about several measures to promote contact between tourism, banking, infrastructure and law stakeholders with several deals having been signed. Above all, to make the most out of the opportunities in the Forum, Mozambique should take into account the previously discussed particular characteristics of Macau as an economic hybrid actor which functions as the geopolitical hub of the Forum.

For instance, between the 18th and 19th of April 2007, the Macau Forum organized a high level meeting for Businesses from its member states in Maputo. The meeting was hailed as a great success for Mozambique and the Forum at a number of different levels. With more than 600 participants, eighteen deals were signed and governance institutions of Mozambique were actively involved, among them the Institute for Export Promotion of the Centro Para o Investimento (Centre for Investment) and the National Institute for Statistics. For many of China's businessmen, it was one of the first times they had ever been in Africa and, on the record, stated that they had been pleasantly surprised with the range of business opportunities they encountered in the continent (Centro de Informação Comercial e de Mercados, 2007). The meetings showed just how much importance Mozambican authorities assign to the Forum as the business meeting initiative was opened at the very highest level by Prime-Minister Luísa Diogo. It has also been through events organized by the Macau Forum that some faint but important first hints of a wish from the side of Mozambique's businesses to invest in China's markets has been witnessed. Successive series of high level meetings and press statements show that stated interest is at least frequently and formally expressed from the side of Mozambique. For example Fernando Sumbana Júnior, the Tourism Minister of Mozambique in 2008, claimed that much attention was being given to attracting investors from Macau to invest in the gambling industry in the country, hence helping fulfil its tourism potential. Such declaration was made in a seminar in Macau entitled "Investment Opportunities in the Tourism Area in Mozambique", a Macau-Forum sponsored initiative (Angola Press, 2007). Aires Ali, Mozambique's Minister for Education and Culture corroborates this thought. He supports the view that tourism is an area in which cooperation with China, through Macau can be most useful. Macau itself, as an autonomous administrative region, has great experience with its very own thriving tourism and gambling industry (Ping J. g., 2007).

Nevertheless, going back to the 2007 meeting in Maputo, despite claims of success, and 16 MoUs being signed between Chinese and Mozambican entities, a great deal of the issues discussed concerned the compliance of previous deals. This points to problems in following up commitments agreed upon in Macau-Forum promoted meetings. It also shows the will, expressed by many delegates for there to be concrete actions and measures to arise out of the Forum. Many of the delegates asked for mechanisms of verification and legislation that would oversee and observe the consummation of

previous deals to be set up. Moving beyond good intentions and well-staged economic and political marketing acts is therefore the big challenge.

Also, the last events of the “contact scholarships for business”, an exchange program for business professionals, have already provided some important experience to Mozambique businesses. One of the participants, Maria José do Carmo from AETEC-MO, an Architecture and Engineering company, in the third meeting in Maputo notes that the initiative has demonstrated Mozambique businesses how they must improve their product placement. She claims the meeting served to show businesses in Mozambique how they should set out specifically in their business plans, exactly what their comparative advantage to other investors and business partners is (Centro de Informação Comercial e de Mercados, 2007). Before the meeting in Maputo a task force was brought into action by the government which joined together the Ministry of Tourism, Planning and Development, of the Interior, Finance, Transport and Communication, Foreign Affairs and Cooperation, the Chamber of Commerce, the Centre for Investment Promotion and the Confederation of Economic Associations. This task force was given the responsibility to coordinate all the preparatory work for the Summit. This was an occasion where the bureaucratic and organizational capacities of the government of Mozambique were tested and provided greater experience in organizing and managing an event of such nature. Maputo’s diplomatic corps can, to a certain extent, benefit from the learning process and specialization such occasions offer.

Opportunities for Mozambique within the Forum also abound. After the “plan of action for Economic and Commercial cooperation”, 1200 workers and trainees of the PSCs took part in training and research programs carried out in China between 2003 and 2008.

An interesting development has been how China Exim Bank wants to push for a mechanism of financial cooperation between the actors of the banking sectors of the PSCs in a colloquium promoted by the Macau Forum after the 2nd Ministerial Meeting of the Institution. Mozambique’s national bank would stand to benefit from being part of a financial platform and consortium able to finance projects with dimensions that, the national bank by itself, would not have the capacity or know-how to manage otherwise. The sponsorship of contact scholarships is one of the favourite methods by which to stimulate international collaboration between the private sectors. Exim Bank can supply precious know-how and experience when it comes to the financing of projects of an international dimension. There are instances of similar institutional cooperation across PSCs before, namely in the case of the association of Lusophone Insurance Supervisors. The Monetary Authority of Macau has been carrying out some important work in this area, negotiating a series of preliminary protocols with Mozambican financial partners as well as with those from other PSCs. (Ping J. G, 2007). In addition, the Government of Mozambique can stimulate synergies between China and other members of the Forum towards joint investment initiatives in the country. To that regard, João Gomes Cravinho, Portuguese Foreign Secretary of State, the Chinese *vice* Minister of Foreign Affairs and Manuel Chang, Mozambique’s Finance Minister have

already expressed availability and interest for joint projects, articulated through the Macau Forum, bringing together Chinese and Portuguese entrepreneurs investing in Mozambique's infrastructure sector (Macau Government Information Bureau, 2007). On the 30th of November 2007, a China-Mozambique chamber of commerce was created in Maputo, a sign of growing legal and commercial demands between the countries and also a necessary response to the growing exchanges between the two. Such an organism is not only supposed to supply quality information on government policies and rules for Chinese investors interested in Mozambique but also to link the two communities through other initiatives, namely through cooperation with the Macau Forum (Macauhub, 2007). Lastly, Mozambique can use the exchanges promoted by Macau Forum to gain a deeper understanding of China's development model, and particular success stories. This can be in the form of, for example, a visit to a trans-frontier business park between Macau and the delta of the Pearl River region (Jornal Tribuna de Macau, 2007) in which Chinese entrepreneurs and businessmen introduce to their peers the particular strategies of economic development used.

7.5. Conclusion

The Macau Forum, since its creation in 2003, has been symptomatic of a rise in intensity and commercial and political interest of China in the Portuguese speaking world in general and Portuguese Speaking Africa in particular.

China's initial choice of Wang Cheng An for secretary general, an old coordinator of China's support for liberation movements in Africa did not suit the cutting edge, and non-ideological underpinnings and objectives of the centre. The subsequent substitution of Wang Cheng An by Zhao Chuang in the 1st of March 2008 is set to bring to the Forum a new dynamic and a more practical and pro-active tendency. Dr. Zhao Chuang had previously been the Director General of the Institute for the Ministry of Commerce.

At the onset there are at least three observed possible ways in which Mozambique can use the Forum:

- first, as is its mandate, the Forum will stand as an outlet for Mozambique to sell its commercial brand and as a centre for canvassing economic and investment interest in the country;
- second, Mozambique can make use of the exchanges within the Forum to gain a greater understanding of the experience and tools used by China in its development path; and
- third, the Forum will provide further motivation and incentives for Mozambique to organize and improve its bureaucracy and specialized diplomatic corps.

The Forum stands, at the very least, as an additional consultative mechanism for China to carry out a much needed dialogue with Africa, a dialogue which is turn focused on business and economic exchanges which Mozambique can really make the most of.

China's relation with Mozambique as that of China with Africa is a case in hand of how "professional boundaries between business and diplomacy have gradually become blurred especially after the end of the Cold War period" (Le Pere & Shelton 2007:22), and the modus operandi of the Macau Forum so far has provided further evidence of this. This discussion has put into perspective the greater complexity and coordination difficulties that diplomatic corps both from Mozambique and China have to grasp. The Macau Forum can be an important arena for Mozambique to "guide" China towards its development goals and strategy. For that to happen, there is a need for greater symmetry between the objectives delineated in the PARPA of Mozambique and the initiatives pushed for in the Macau Forum.

Departing from these definitions of economic diplomacy, one can characterize the Macau Forum as an institutionalized version of an idealized economic diplomat and an institution which seeks to train and carry out specialized services and activities with such focus. It is an organization which has had China as the patron and Macau as the articulating geopolitical hub and link but has now been progressively been given greater autonomy and leeway from China's central government.

As is suggested for the other case of another institution, FOCAC (Le Pere & Shelton 2007: 159), African countries also need to look at the Macau Forum as an "interactive process and not as an assistance package offered by China". The economic and political potential of the Macau Forum has been acknowledged to such an extent that it is now even seen as a strong organizational competitor of the CPLP and its foreseeable substitute.

Chapter 8 – Conclusion

8.1. Introduction

This chapter consists on a review of the questions the paper has posed at the start, reassessing them with respect to the previous analysis and findings. It seeks to revisit the central problem statement: “What are the dimensions of China’s economic involvement in Mozambique as reflected in major recent processes and what conclusions could be drawn on their possible effect on Mozambique’s development?”

Final observations will be advanced, with respect to the wider context of Africa-China relations. These are followed by a conclusion suggesting areas of future research both regarding the specific cases approached and China’s wider engagement with Africa. The unprecedented rise of China as an emerging market, presents a set of simultaneously delicate and complex challenges and opportunities for Mozambique. An effective divide in the developing world is evident when the characteristics of a large economy like China’s is comparatively analysed to that of a small country like Mozambique. China first and foremost advances its particular interests and plays the game of constituency-economics at the international negotiation table. This means that, because some African economies are particularly sensitive to tremendous competition from “giants” like China, they will now tend to try and find a more concerted bargaining position in trade negotiations vis-à-vis the developed world. The shift in the global political architecture of power, in great part pushed by China, has allowed for this situation and provided developing countries with greater autonomy when designing their particular economic policies. At the same time, and because China sometimes poses economic threats herself, this global shift has brought about challenges requiring greater agency from African economic stakeholders. This is the current scenario, one which demands greater concerted action when a state like Mozambique designs its strategy and contributes to form Africa’s response.

8.2. Can China develop Mozambique?

From the previous analysis, the most prominent dimensions of China’s economic engagement of Mozambique comprise investments by China in the infrastructure sector, manufacturing and agro-forestry. To these one can add the dimension of economic engagement through the Macau-Forum. The Forum constitutes an institutional innovation in economic diplomacy between the two countries. After observing the empirical examples and coming to grips with the recent dimensions of China’s engagement, a perhaps obvious yet significant conclusion is that China is not singlehandedly capable of developing Mozambique. There are important externalities affecting the process. In addition, the impact of the engagement and the benefits of China’s presence are directly dependent upon the strategic handling, channelling, managing and regulation by Mozambican governance actors.

Furthermore, it is important to note the importance of the regional dimension of China's approach to Africa as observed in the case of the Mphanda Nkuwa Dam. Evidence from the previous chapters showed that the Chinese presence in Mozambique signals a response to the general fluidity in the international political landscape and an awareness of the inviting conditions abroad and at home for China to reach out. This presence can potentially affect Mozambique's development positively. Less evidence supports the view of a strategically orchestrated and state-sponsored new scramble for Africa. Although not without its transgressions as in the logging industry, Chinese stakeholders seem to be, in contrast to the ballistic notion of "scrambling", playing according to the rules of the global economy in Mozambique. Thus, the Government of Mozambique can and should tap into this engagement for the benefit of its development. For so to happen, Mozambique will need to strengthen its governance, law enforcing capabilities, as well as its bureaucracy. In a nutshell, it must become more pro-active in the business practicalities in a post-setting up phase. Mozambique and Africa's stakeholders at all levels need to embrace the situation and advance their governance and development interests in the current global economic situation.

The Mphanda Nkuwa Dam showed just how Chinese stakeholders are in fact open to change, as well as liable to being wrangled into deals and structures they did not initially set out to seek. This is noteworthy as it means that different investment models can be pushed for and actively pursued by local African governance institutions. For that to happen, governments will have to focus in moving from being "transmission belts" for China's transnational capital to becoming "facilitators of development". In the case of China's involvement in the infrastructure sector, as a whole, there have not been any preferential procurement policies. At the same time Mozambique has had to recurrently rely upon external financing to carry out its projects. This funding in turn arrives with varying degrees of strings attached, formal and informal. Nevertheless, China essentially presents an additional option for external financing and investment, as well as an additional array of offers and opportunities for Mozambique to consider. When it came to general trade and investment between the two countries, it seemed like trade remained complementary. However, the future success of the trade and investment seems to be tied to the wider strategy of China's SEZ's in Africa, as well as to the expansion and development of Mozambique's private sector. The agriculture sector in turn showed both great potential for cooperation with China and the gravest instances of harmful and illegal economic activities carried out by Chinese private actors. The problems are associated with a lack of institutional capacity by the Government of Mozambique. If the government is able to overcome its bureaucratic capacity deficit it will be in better position to tap into China's tendency of pushing into Africa for its food security.

Greater synergetic ties between economic stakeholders and the diplomatic corps are essential. This must occur not only at the national level but also at the level of the regional and international spheres. For instance, South Africa should care, know and

enter in dialogue with Mozambique about the strategic implications of a dam being built in the Zambezi with Chinese involvement.

8.3. How China-Mozambique relations inform the more general China-Africa debate

Is China actually set to challenge ideology and consensus, creating an alternative engagement to the current status-quo in Mozambique? It generally seems to be the case that China's diplomatic behaviour is not as free-floating as sometimes portrayed. The integration of markets and economic actors has locked international agents into a system with a set of rules now deemed, albeit not always explicitly, good and natural not just by the US and its Western partners, but also by emerging powers such as China. Coerced, as was the case during the opium wars, or seduced by profit opportunities, China is now part of this economic global polity (Ougaard & Higgot 2002). It entered the game of economic development by agreeing to the rules of a game that had been previously defined by others but is now taking these rules and is actively seeking to reinvent and re-adjust them. Evidence collected from Mozambique supports this new international push, particularly in the case of the Macau-Forum. A multilateral organisation set up by China to encourage privileged investment exchanges between China and Portuguese Speaking Countries. In addition, the impacts of trade and resource extraction in the environment and labour regulation are, as seen in Chapter 5 the kind of transnational problems that need to be increasingly tackled. Thus, furthering policies for environmentally friendly resource extraction and labour regulation could more suitably take place through the formulation of continent-wide conventions for foreign investment.

China's pragmatism has also become clear in the previous observations. Except perhaps for the issues of arms trade and peacekeeping, there has been a low salience of security issues in influencing relations between China and Mozambique. At least when it comes to conventional military power-play, force has played a small role in defining the current relations. Complex interdependence appears to be helpful in theorising why there has been a certain degree of fluidity when it comes to the hierarchy of issues defining China-Mozambique and China-Africa relations. Although in the wider context of China-Africa relations the one-China policy has usually been an overarching conditionality in the diplomatic agenda, this issue starts to lose significance as other economic concerns become more important. Trade, resource security or other international diplomatic issues have become more salient and any 'issue-area' can now be at the top of the international agenda at any given time (Keohane & Nye 1989:24). Mozambique needs therefore to understand how it can influence and push for the issues areas most suitable for its development concerns.

China is growing while making active use of international institutions to promote the country's development of global power status. There are indeed many cases in which institutions do matter. Africa and Mozambique should now also actively seek such protection and some glimpses of such happening are already evident in the initiatives of

the Macau-Forum. Mozambique has started playing an increasingly important role in this Forum as was the case in the business meeting organised in Maputo. The country needs however to further explore, within the Forum, initiatives that will support the specific strategic lines present in the PARPA strategy plans.

Many developing countries in Africa appear to be on the cusp of a significant economic upturn. This is positive news but one should bear in mind the old truthful cliché that, although a ‘precondition for it’, growth does not automatically translate into development. Another frequent problem with the current outlook is that a considerable part of growth is primarily commodities-based, which can be problematic and dangerously uncertain in the longer term (Farfan 2005). Conversely, the persistence of what can be called “constituency-economics”, originally reflected in Putnam’s two-level game theory (Putnam 1988), also plays a role. It is present when traders, investors and policy-makers allude to their home constituencies as having insurmountable interests in need to be upheld and defended on the international stage. The term “constituency-economics” alludes to the Neo-Realist inspired persistence of a “zero-sum” game in the politics of international trade, whereby home constituencies press governments to sign off to trade deals that provide them with relative gains in relation to the other signatories. This phenomenon has been illustrated, for example, in the work of Krugman (1997) and has been present in China-Mozambique trade calculations as well as in all policy decisions by Mozambique which try to prevent China from acting like an economic competitor in the country. The problem of “constituency-economics” can be also used to explain, for example, why South Africa placed as much political pressure as could be mustered to encourage China to voluntarily impose quotas on its export of textiles to South Africa (Burke, Naidu, & Nepgen, 2008: 17-18). Mozambique too needs to be aware of this on the course of its engagement with China.

Does a look at China’s pattern of behaviour in Africa reveal the signs of a new hegemonic power in the making? This understanding would look at what China is doing in Mozambique as following the dependency logic of, for example, IMF’s past relationship with the continent. In the same way that the IMF has had for many years the belief that what suits in Iowa suits in Mozambique, now China would be seen as advancing the belief that what suits in Guangdong suits in Mozambique. Africa and Mozambique would then simply be shifting their preferences in the “structure of domination”. The presentation of the “China model of development” may very well be in itself an expression of this hegemony, as S. Gill (1991:47) puts it “hegemony would be fully achieved when major institutions and forms of organization - economic, social and political - as well as the key values of the dominant state become models for emulation in other subordinate states”. An element that also supports this argument is how China has so far been privileging its relations with state elites. This situation might however change in the future, with the increasing importance of “transnational civil society links between the Chinese peoples and the African peoples” (Chidaushe 2007:122) among other factors privileging non-state actors.

As opposed to Neo-Realism, under a Neo-Liberal perspective the interdependence that arises in China's engagement with Africa goes from being a dependent variable of *realpolitik* power-politics to becoming an independent variable which defines and affects the behaviour of the actors. This is where the Neo-Realist take on China's hegemonic scramble for Africa falls through. The engagement is not static. There is, at the end of the day, one not often mentioned factor for China that takes precedence over all of the above, and that is stability. Stability is essential for all of the current economic engagements and is becoming ever more vital as investments are changing from short-term to long-term in nature. Mozambique is a prime example. Despite being bottom in many economic development indexes, Mozambique has, since 1992, consistently been a politically stable country, drawing China's attention accordingly. This also means that, for example, it is not for the benefit of China to have turmoil in Sudan or in Zimbabwe as it is sometimes implied: something observed for instance in a conference report by Institute for Security and Development Policy in Sweden (Marklund & Odqvist 2008). China is, on the onset one of the major beneficiaries of a stable Sudan. Evidence of this is slowly mounting. The case of Sudan is illustrative of the paradoxes and dilemmas regarding the evaluation of China's foreign policy towards Africa but presents in the end its ultimate concern for stability. This concern is evident if one looks at how China managed to balance its traditional non-antagonizing, minimum interference diplomacy with its strategic necessity to keep an economic partner politically stable. The diplomatic "gymnastics" Beijing carried out in Khartoum had its paramount in China's important low-profile role in convincing Khartoum to accept a UN intervention in the region (Dowden 2007). Yes, China does give a clearer lifeline than Western countries to not always the most human rights-friendly African states. However, its policy is not as one-dimensional and restricted to the one-China policy issue as sometimes it is argued. As investment mounts, stability becomes more and more important and, again, in the process, China's international relations *modus operandi* is being challenged while slowly evolving and adapting.

If Mozambique and Africa seek to use China's engagement to "move beyond their traditional reliance on single-commodity exports" (Broadman 2008), they will have to design strategies accordingly. This means that lethargic and passive governance can result in a repeat of previous structural mistakes. A mishandling of this engagement can still have other malign ramifications by means of negative reactions from labour markets, commerce and industries. African economic stakeholders, ranging from small to big businesses and to regional organisations should rethink their approaches. African businesses in turn need to have the capacity to effectively lobby China to open up its protectionist trade policies (Broadman 2008) and, at the same time, have the autonomy to experiment with innovative, value-added projects and alternative investment models.

8.4. Suggestions for Future Research

The previous exercise observing China's engagement of Mozambique shows just how much the overlapping international, regional and national mechanisms affecting the

economic development of the continent have been “shaken up” by this recent resurgence. China’s arrival brings sector-specific, region-specific, nation-specific and even project-specific problems and opportunities and it is precisely more focused and detailed research that needs to be carried out. Such will enable greater insight into precisely what practical policy-making options can be made for the benefit of economic development. These policy making option have to be complemented by an awareness of what actors, given its capacities and responsibilities, should actually be taking them.

Having said that, there is still room for greater analytical refinement of the China-Africa body of literature, namely in understanding what the smaller narratives of the relationship represent for the claims being made in the wider debates. What is also missing in the discourse is the ability to find an intellectual framework that assesses the rise of China within the context of the East's dominance in the period before Christ and whether the re-emergence of China as a powerful economy in the global system is being witnessed - a return of history (Alvarenga, Jansson, & Naidu, 2008 incoming). As for work further required in terms of specific China-Mozambique relations there are particular areas of relations which remain under-researched. These comprise military relations as well as the particularities of Mozambique’s diplomatic relations with China which are much more party-to-party than many of other relations of China with African countries. These nuances have interesting ramifications into the economic relations, representing a fascinating field for further work. In conclusion, it seems like that, in the context of the global economy, what Mozambique needs is greater agency. Looking at “if” and “how” China provides this is a key issue in need constant reassessment in future China-Africa literature.

8.5. Conclusion

Some of the most significant political and economic intricacies of China’s unfolding engagement of Africa have been described. China is revolutionising the strategies used by economic and diplomatic stakeholders of the African continent and Mozambique while riding the current wave of change in the power relations within the international political economy. Between China and Mozambique trade is up, investments are up, diplomatic visits and dialogues are up and the implications are vast. China retains a distinct *modus operandi* in its engagement, encouraged by its unique place in the dynamics of the global political economy, the historical links to Mozambique as well as by its conditions at home. The analysis of these unfolding relations concludes that Mozambique, as Africa, is now at an economic and diplomatic crossroads in which broad strategic choices have to be made, a set of decisions which will significantly determine the ultimate nature of the engagements. This study has provided an overview of China’s engagement with Mozambique and outlined some of the opportunities and risks that shape this engagement based on four focused examples. It has made an analysis which is not so much within the current discourse of the scramble debate, but rather framed within the changing rules of contemporary global political. Nevertheless,

this does not mean all insights from the scramble argument were discarded. Rather, a discourse that is more reactive to Mozambique's interaction with China was opted for.

To this end, the promises being made to Africa through the FOCAC Commitments and now with the Macau-Forum provide Mozambique with a significant opportunity to break through the bottlenecks in infrastructure development and other structural weaknesses. These are however one-time events. Mozambique must understand that China is not going to be the panacea of its development challenges. Instead, it needs to shape the engagement as well. In his *magnus opus*, *The Wealth of Nations*, Adam Smith talked of an 'enlightened selfishness' that states need to entrench to become globally competitive. China has understood this and is moving towards this 'enlightened selfishness' with great speed (Alvarenga, Jansson, & Naidu, 2008 incoming). But what is Mozambique's 'enlightened selfishness'? How Mozambique responds in protecting the interests of its own marginalised constituencies is important. For Mozambique's engagement with China to be a sustainable strategic partnership, it has to be a pragmatic engagement that pushes beyond the current bilateral relations to include a multilateral framework endorsing the AU, NEPAD and the Macau-Forum as primary actors in this regard. At present it seems that the permanent interests of African states are to keep the first two institutions weak, which does not bode well for the favourable conditions that African leaders point to when assessing their engagements with China i.e. that it facilitates the continent's greater integration into the global economy.

At the end of the day, one needs to find “a tolerable median between uncritical acceptance and knee-jerk rejectionism” (Obiorah 2007: 53) and China should be criticized for all of its wrongdoings. Looking at China through Mozambique's eyes however, has demonstrated that the situation is very often more complex and multi-layered than it has been sometimes portrayed. Much of the relationship is there ready to be shaped by Mozambique to the benefit of its economic development and strategies.

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