

**Foreign Direct Investment in Natural Resource Industries in Africa:  
Chinese versus Western Models**

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### **ABSTRACT**

Chinese firms have increased significantly their foreign direct investments (FDI) in Africa. Our study attempts to investigate the reasons leading to such significant growth (relative to the modest growth of Western firms in Africa). In particular, we focus on the role played by the Chinese government in supporting these investments. Using interview information with nine Chinese and Western companies in Tanzania and four Chinese and Tanzanian government officials, we find two major differences between Chinese and Western FDI models in Africa. First, the Chinese government has been more actively involved in building economic ties and engaging in negotiations with the host country government to enhance investment opportunities for Chinese firms. The Chinese government also provides valuable financial resources and infrastructure support for Chinese firms that invest in natural resource industries in Africa. In contrast, Western governments provide only general advisory information to prospective foreign investors. Second, Chinese firms in different industries, under the guidance and assistance of the Chinese government, form groups to engage in multiple purpose projects that satisfy multiple needs of local communities, and therefore help to improve their economic conditions rapidly. Western firms, however, act in a less coordinated and more individual way, and contribute to the improvement of local communities relatively slowly. We discuss the implications of the findings for research, government policy, and firm strategy.

**Key Words:** Chinese firms, Outward foreign direct investments, Natural resource industry, Africa

## INTRODUCTION

Recent years have witnessed the rapid growth of Chinese multinational enterprises (MNEs) in Africa, especially in natural resource industries. Although Chinese MNEs are latecomers to Africa relative to their Western counterparts, their presence has quickly become an important feature of the African economic landscape (Alden and Davies, 2006; Broadman, 2007; Kargelund, 2010). What is significant is not the share of Chinese investments in total FDI in Africa (which is only about 1.8%<sup>1</sup>) but the growth of these investments. The average annual growth rate of Chinese FDI flows into Africa was about 120% between 1999 and 2008, whereas the corresponding rate of FDI flows from the three largest Western investors in Africa was about 56% over the same period (see Table 1). In particular, Figure 1 shows that Chinese FDI flows to Africa have surged since 2005 and reached US\$ 5.5 billion in 2008. A significant portion of Chinese FDI in Africa is in natural resource industries. About 27% of China's FDI in Africa flew to resource extraction sectors during 1987-2005, and about half of China's Greenfield FDI projects in Africa were in natural resource industries during 2002-2005 (UNCTAD, 2007).

\*\*\*\*Insert Table 1 and Figure 1 about here\*\*\*\*

Chinese MNEs face significant challenges in investing in natural resource industries in Africa for two main reasons. First,

Second, Chinese MNEs are typically viewed as weak competitors relative to their counterparts from Western countries. Chinese MNEs often have weaker ownership advantages

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<sup>1</sup> The number is the average FDI stock share of China in Africa between 2003 and 2007, based on the data provided by UNCTAD (2009).

(e.g., weaker technological capabilities and brand names) and less international experience in overseas markets (Luo and Tung, 2007).

Given the nature of the natural resource industries and the resulting political risks facing Chinese MNEs as well as their weak ownership advantages, it remains a puzzle how Chinese MNEs have been able to achieve such remarkable growth in these industries in Africa, particularly relative to their Western counterparts who are traditionally dominant in most markets. Our study attempts to shed light on this issue. In particular, we are interested in examining the potential differences between Chinese and Western business models in Africa.

Extant research studies and business reports have pointed out that the development of Chinese MNEs in Africa, especially state-owned MNEs, cannot be separated from the policy or financial support provided by the Chinese government (Alden and Davies, 2006; Kragelund, 2010; Luo et al., 2010). Since 2000, with the unveiling of China's "Going Global" policy, the government has created a comprehensive system supporting outward FDI activities of Chinese firms (Luo et al., 2010). In particular, the government issued an Outbound Catalogue Guidance in 2004 to promote explicitly overseas natural resource exploration projects (Lu, Liu, and Wang, 2010; Luo et al., 2010). This is not surprising given that China has increasing demand for energy and other raw materials to feed its rapidly growing economy (Broadman, 2007; Corkin, 2007; Haglund, 2008). Since Africa has abundant and relatively untapped natural resources, the Chinese government has been actively engaged in talks with African countries aimed at strengthening economic ties with these countries (Broadman, 2007; Corkin, 2007; Haglund, 2008).

Our study therefore considers the important role of the Chinese government in facilitating overseas investments of Chinese firms in Africa. Specifically, we examine how Chinese firms

benefit from the Chinese government's proactive role in building ties with African countries. More important, based on this information, we develop a simple theoretical framework that illustrates how the investment patterns of Chinese and Western firms in Africa differ.

In order to develop this model, we adopted a case study approach and interviewed 15 managers in nine companies (5 Chinese and 4 Western), 2 Tanzanian government officials, and 2 Chinese government officials. We asked specific questions related to the home country government's role in facilitating outward FDI of home country firms as well as questions that attempted to identify important factors accounting for the rapid growth of Chinese FDI in Tanzania.

Our study makes important contributions to the literature on outward FDI of Chinese firms. In spite of a growing volume of studies that document general support provided by the home country government for Chinese firms' outward FDI (e.g., Han & Xue, 2010; Luo et al., 2010), no studies, to our knowledge, have investigated specifically how Chinese firms benefit from the assistance provided by the Chinese government or have compared the outward FDI models of Chinese and Western MNEs. Our study attempts to enhance understanding of the nature of Chinese outward FDI in Africa by contrasting it with similar investments made by Western MNEs.

In the next section, we provide background information on the role of the Chinese government in supporting the outward FDI activities of Chinese firms in general, and in Africa in particular. We discuss our research methods in Section 3 and our findings and models in Section 4. We conclude with implications for research, practice, government policy, firm strategy, and future research.

## BACKGROUND

Relative to the vast majority of emerging market governments, and indeed most governments, the Chinese government has played an active, influential role in facilitating the outward FDI activities of Chinese firms (Deng, 2007; Morck, Yeung, and Zhao, 2008; O'Sullivan, 2010). This has been possible due to China's political and economic systems (Deng, 2007). Large companies that are capable of outward FDI are predominately state-owned enterprises (SOEs). For example, the Chinese government owns 98 out of 100 largest companies in China in 2002 (Zeng and Williamson, 2003), and also controls the four largest commercial banks which serve as major financial resources for Chinese overseas FDI (Morck et al., 2008; Thomas and Ji, 2006). Through its control of the largest corporations and financial institutions, the Chinese government has been able to influence the degree and nature of Chinese outward FDI activities. Cheng and Ma (2006), for instance, document that between 2003 and 2005 the share of OFDI by Chinese SOEs was 73.5%, 82.3%, and 83.2% respectively. Similarly, Shapiro and Globerman (2011) present that at least 27 of the largest 30 Chinese MNEs are state-owned in 2006.

Chinese government policy direction with respect to outward FDI has experienced three phases (Luo, Xue and Han, 2010). From 1984 to 1990, outward FDI was strictly controlled by the National Planning Commission (NPC) or the State Council, and all profits earned abroad were required to be remitted back to China. From 1991 to 2000, the government began to offer focused, supportive policies for large SOEs and limited support for small and medium-sized companies. Since 2000, with the unveiling of China's "Going Global" policy, the government has created a comprehensive support system and has attempted to transform its role from a

regulator to a supporter of OFDI. Specific examples of supporting policies include the removal of foreign exchange controls, the simplification of approval mechanisms for FDI projects, and the establishment of an information bank to collect and disseminate information regarding obstacles facing outward FDI.

The “Going Global” policy has significant impact on Chinese OFDI activities. Chinese OFDI increased dramatically since 2004<sup>2</sup>, from US\$5.5 billion in 2004, to 12.3, 21.2, and 26.5, respectively in 2005, 2006, and 2007 (Rasiah, Gammeltoft, and Jiang, 2010). With a special focus on China’s “Go Global” policy, a recent survey by Asia Pacific Foundation of Canada finds that more than 30% Chinese firms surveyed, mostly private, small- and media-sized, reported that their OFDI plans were largely motivated by “Go Global” policy (Woo et al., 2011).

However, the approach remains strategically focused, and the Chinese government has been selective in the types of outward FDI activities it supports (Deng, 2009; Marinova, Child, and Marinov, 2010). In 2004, the government issued an Outbound Catalogue Guidance (OCG) to promote explicitly overseas natural resource exploration projects (Lu, Liu, and Wang, 2010; Luo et al., 2010). The Chinese government has since become active in promoting the investment and trade activities of Chinese firms in Africa, a continent rich in natural resources. Table 2 summarizes milestone activities that help to define the relationship between China and African countries. The Chinese government has devoted considerable diplomatic attention to African countries, coupled with support for prestige projects and development assistance (low interest and outright grants) (Alden and Davies, 2006). The Forum on China-Africa Cooperation has been held four times since 2000. The third Forum, for instance, led to the Beijing Action Plan (2007-2009) that stipulates the principles of Sino-African development, trade and investment

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<sup>2</sup> The first year when MOFCOM started reporting OFDI statistics.

cooperation, and specifies how the Chinese government via development aid and soft loans shall pave the way for future investments in Africa (Kragelund 2010).

\*\*\*\*Insert Table 2 about here\*\*\*\*

## METHODS

### Data and Sample

The core sample of our study consists of 5 Chinese (3 state-owned and 2 privately controlled) and 4 Western extractive mining MNEs operating in Tanzania (see Table 3). We adopted a contrasting case approach (i.e., see Yin, 1994) to understand the role and nature of Chinese and Western FDI in Africa, and in so doing to better understand the rapid growth of Chinese firms in Africa.

We chose to investigate Chinese firms' investments in Tanzania for several reasons. First, Tanzania has become one of the most important investment destinations for Chinese MNEs in Africa after South Africa, Egypt and Nigeria. China's FDI flows to Tanzania were almost zero in 1999 and have increased significantly since 2000; the annual growth rate was on average 88% between 1999 and 2005.<sup>3</sup> China's trade with Tanzania has also increased significantly and reached about US\$ 1.1 billion in 2008; the annual growth rate was 22% between 1999 and 2008, and in particular, the growth rate was 44% for China's imports from Tanzania.<sup>4</sup>

Second, Tanzania is rich in natural resources, with various types of minerals such as cobalt, copper, iron, steel, coal, gold, lead, zinc, uranium, nickel, platinum group metals, silver,

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<sup>3</sup> Calculation was based on data available at the Tanzania Investment Center.

<sup>4</sup> Calculation was based on data maintained by the National Bureau of Statistics of China.

Tanzanite (a gemstone only available in Tanzania), and diamonds, all of which are important to Chinese firms. Recent significant natural gas discoveries at Songo Songo and Mnazi Bay, and the ongoing exploration for commercial quantities of oil in Rufiji Basin, and Lakes Rukwa and Tanganyika Basins are especially attractive to the Chinese government and firms (Tanzania Investment Centre Report, 2007 and Beyond).

Third, Tanzania is a gateway for accessing the newly formed East African Community (EAC) and other warzone countries, such as the eastern part of the Democratic Republic of Congo. EAC includes Tanzania, Kenya, Uganda, Rwanda, and Burundi, and has a population of over 100 million people. The EAC is considered to be one of the fastest growing and most successful economic blocks in Africa, after the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA). The community links the so-called “Great Lakes region” (i.e., Lake Victoria Zone) in East Africa, which has vast untapped natural resources and tropical rainforests.

Fourth, the strong historical linkages and political relationships between China and Tanzania since 1961 have made it natural for the Chinese firms to invest in Tanzania. Last, China sees Tanzania as one of its new frontiers for its home MNEs’ seed companies that are interested in medium-to-large agriculture investment activities abroad. Eighty-five percent of Tanzania’s population lives in rural areas and heavily depends on the agriculture industry (Tanzania Investment Centre Report, 2007 and Beyond).

Following the list of companies recommended by the Chinese Economic and Commercial Representation in Tanzania (ECRPC), the Tanzania Investment Centre (TIC), and the Tanzania Revenue Agency (TRA), we selected companies that are global extractive mining firms listed in

major stock markets. Of these, six have over 200 local employees and over US \$100 million in assets (see Table 3).<sup>5</sup>

\*\*\*\*Insert Table 3 about here\*\*\*\*

Most of the firms are located in the Lake Victoria Zone which is an important economic region for mining firms. Six out of nine companies in our sample are located in this area. This also allows us to control for locational variations in examining strategies used by these firms. In the case of Chinese firms, we selected both state and private owned MNEs to minimize sample selection bias. The variation in ownership type allows us to explore the question of whether the Chinese government plays a different role in facilitating international investments of state and private owned Chinese MNEs in natural resource industries in Africa.

Besides the nine Chinese and Western MNEs, we also interviewed two Tanzanian government officials (TZ Official #1: Director of Tanzania Investment & Research Centre, and TZ Official #2: Principal Officer – Tanzania Revenue Agency) and three Chinese government officials (CN Official #1: the Chinese Ambassador in Tanzania, CN Official #2: Cultural exchange representative in Tanzania, CN Official #3: a representative in the Economic and Commercial Representation in Tanzania).

All the interviews with the managers in the MNEs and with the government officials took place between May and June 2010, on a full-time basis. The interviews lasted from 45 minutes to 4 hours. The majority of the interviews were face-to-face. Most interviews were recorded and transcribed verbatim. We adopted semi-structured interviews following the research questions and goals of this study.

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<sup>5</sup> Four firms, however, did not disclose either employment or asset information.

Archival data were also collected from all the Chinese and Western companies, and from the host country's government officials and individual academics. The archival secondary data provided complementary information and allowed our data to be triangulated (Yin, 1994)

During the process of data collection, new questions and themes emerged that further enriched the data collection (Yin, 1994). For example, new questions and themes supported our initial plan to select Tanzania and the target sector. We were also able to explore the rationale for Chinese firms to expand their investment activities to Tanzania's neighbors (e.g., eastern part of the Democratic Republic of Congo). Verification of data was maintained through contact with stakeholders and individual academics in Tanzania until December 2010.

### **Interview Questions**

We asked the interviewees in the companies the following specific questions. First, what has been the role of the home country government in facilitating the entry and expansion of your business in Tanzania? Has the home country government actively developed relationships with the Tanzanian government? How? To what extent has your company benefited from the home country government's previous and ongoing investments/relationships in Tanzania? Please provide a list of business opportunities and critical resources in Tanzania that are created or enhanced by the home country government.

Second, has your company actively developed relationships with the Tanzanian government or local communities in order to facilitate business entry and expansion? In what ways can your company help the Tanzanian government or local communities achieve their goals?

Third, what do you think are the important factors that have led to the rapid growth of Chinese firms (relative to firms from other countries) in Tanzania or in Africa in general?

We asked the government officials the following questions. First, what has been the role of the home country government (China, in particular) in facilitating the entry and expansion of its firms in Tanzania? Do the Chinese and other foreign country governments adopt different approaches in helping their firms to enter and develop businesses in Tanzania? How?

Second, what do you think are the important factors that have led to the rapid growth of Chinese firms (relative to firms from other countries) in Tanzania or in Africa in general?

### **Data Analyses**

We followed the data analyses procedures proposed by Miles and Huberman (1984), Eisenhardt (1989), and Yin (1994). We first conducted *within-case analyses*. We synthesized the interview data with archival data for each case and recorded the implications of each case for our research questions and theory building. We then performed *between-case analyses*. We paired cases to compare similarities and differences of their implications on our theoretical framework (Eisenhardt, 1989). We took advantage of having multiple researchers. One researcher first proposed a theoretical framework and then discussed with the other three researchers one by one to improve the framework. After one month's intensive discussion, a preliminary theoretical framework with key constructs was developed. Two researchers then coded the interview information independently according to the constructs in the framework and reached an integrate version of data coding after discussion of inconsistent parts. After the data coding, new insights were discovered and used to enrich the original framework.

Along with data coding, we further tested the framework by presenting it to a group of Chinese EMBA students and in academic conferences. We received positive feedback and further improved the framework by more clearly defining its boundary conditions.

## FINDINGS AND CONCEPTUALIZATION

China's rise in Africa is not only a puzzle to us but also to business managers in Africa. When asked what explained the growth of Chinese MNEs in Africa, all interviewed managers in Western companies recognized Chinese MNEs as new, strong competitors, but none of them provided a satisfactory answer. Indeed, one interviewee noted, "They are doing lots of exploratory work here and there, and they do not stop there. It seems they are moving into other east and central Africa countries doing the same. Whenever they go to these places, they build roads, bridges, stadiums, hospitals, airports, etc., which are essential to these African countries. How do they do it? I do not know!"

We synthesized the interview information we gathered from the nine companies and two government officials. We then summarized the key findings of the Chinese business models and the Western models in Africa in Figures 2 and 3. Below, we explain the key constructs and relationships in each figure as well as provide interview evidence to support them.

\*\*\*\*Insert Figures 2 and 3 about here\*\*\*\*

### **FDI in the Natural Resource Industry in Africa: The Chinese Model**

#### ***Relationship building between home and host country governments***

As indicated in Table 3, one of the most significant features of the Chinese model is that the home country government has been actively engaged in negotiations and relationship building with the host country government. In addition, the interview materials suggested three distinct features of the relationship building between the Chinese and Tanzanian governments:

the Chinese style collaborative approach, rapid infrastructure improvement, and “resource-backed” loans with no Western types of conditions.

*Chinese style collaborative approach.* A Tanzanian government official (TZ official #1) observed that the Chinese government prefers to sit down and hold discussions with the Tanzanian government in seeking mutual cooperative partnerships. The Chinese government’s goal is to find practical and feasible solutions to launch projects as early as possible and achieve quick results that can benefit the Tanzanian people as soon as possible. Another Tanzanian government official (TZ official #2) and a Chinese government official (CN official #1) also observed how the Chinese government pays attention to mutual trust and win-win relationships when dealing with not only Tanzania but also countries in war zones. The Chinese government helps the African governments to identify their needs and then the means to achieve their goals.

*Rapid infrastructure improvement.* TZ Official #2 compared Chinese funding programs with those from the World Bank and IMF and concluded that the advantage of the Chinese funding program is that it can help African countries to improve infrastructure systems within a short time period. As observed by CN Official #2, “We know the root causes of poverty in developing countries. As such, our first hand experience puts us in a better comparative advantage to critically address issues here.” Infrastructure improvement is certainly an important area where China can transfer its domestic experience and knowledge.

*“Resource-backed” loans with no Western types of conditions.* China provides resource-backed loans (i.e., African countries can use resources as a guarantee for loans) for infrastructure project in countries like Tanzania that have poor infrastructure systems. Unlike Western countries which often tie aids with conditions (e.g., good governance, elections, reforms, etc), China does not impose conditions on loans. Indeed, the Chinese government follows closely its

foreign policy principle of noninterference in domestic affairs in other states. TZ Official #2 suggested that China's model in Tanzania is simply better adapted, opens new opportunities for Tanzania, and makes more meaningful contributions to the country.

### ***Support of Home Country Government for MNEs***

Following China's "going global" policy, the Chinese government is therefore willing to provide significant policy and financial assistance for overseas expansions of Chinese firms in Africa and other nations (Luo et al., 2010). CN Official #1 observed the rationale for the Chinese government's support for its firms: "We are a developing country, not like Canada, America, or Europe. The government of China for sure is taking a proactive role to support its home grown MNEs. This is the only way we can grow as a developing nation. Maybe one day the Chinese government will not support its MNEs as it does now, but first we need to have a strong competitive edge with other big companies to develop our economy and people."

The scale and scope of support that the Chinese government provides for its firms in Africa has been unprecedented. As TZ Official #2 pointed out, although other foreign countries also tried to lobby the Tanzanian government to allow their firms to invest in Tanzania, the difference between these countries and China is huge-- "the Chinese government has been actively involved, funded (i.e., through the export import bank of China) and supported/protected its home country companies financially and logistically." Specifically, the Chinese government provides three main types of support for Chinese firms: investment opportunities, infrastructure support, and financial resources. We explain in depth each type below.

#### ***Investment opportunities***

*New investment opportunities.* After the negotiations with the Tanzanian government, the Chinese government suggests investment opportunities to the Chinese firms (state and private owned) interested in investing in Africa. Chinese #2 entered Tanzania because it saw an advertisement from the Chinese government and followed the guidance of the government. Chinese #5 was given the opportunity by the Chinese government to explore oil in Rukwa Region. The Chinese government not only creates opportunities for the Chinese firms but also helps them to negotiate for investment opportunities once the firms have discovered them. Chinese #2 emphasized the advantage it has in Tanzania is that once it finds new resources, it reports to the Chinese government who will then enter into negotiations with the Tanzanian government for licenses. Similarly, Chinese #3 discovered new coal reserves and presented its report to the Chinese government who would instruct it later whether the company would get the deal. CN Official #3 pointed out that the Economic and Commercial Representation of the People's Republic of China in Tanzania plays a critical role in providing information to the Chinese government and Chinese firms and in working as an intermediary to connect the firms and government organizations.

*Collaboration opportunities with other Chinese companies.* The Chinese government plays an important role in assisting Chinese firms to form joint ventures in exploring business opportunities. Chinese #1 was invited by the government to collaborate with another two Chinese firms in natural resource exploratory activities. Chinese #2 was helped to join a venture with a state-owned Chinese company in exploring opportunities in DR Congo. Chinese #3 mentioned that the Chinese government often helps state controlled firms which focus on large scale resource ventures to join with small private Chinese companies which concentrate on complementary activities (manufacturing and trade).

*Investment opportunities in high risk areas.* As noted, there is evidence that Chinese firms tend to invest in countries with high political risks (Buckley et al., 2007). Our study provides a partial answer to the puzzle. The Chinese government has gradually built influence in, and relationships with, high political risk areas (DR Congo) through establishing business presence in a nearby, safe country (Tanzania). Chinese #1 suggested “the Chinese government’s approach (building relationships with Tanzania and approaching the neighboring countries) has helped us a lot to access mining sites in DR Congo.” Chinese #5 also observed “the Chinese government uses Tanzania as a platform to engage troubled regions like Burundi and Eastern DR Congo.”

#### *Infrastructure support*

To help Chinese firms to ship their products out of Tanzania, the Chinese government has provided generous support for infrastructure projects. For instance, the Chinese government has concluded agreements with the Tanzanian government to build roads and bridges to reach Chinese #1’s exploratory mining sites. The Chinese government has allocated five state-controlled construction companies to Chinese #1, and most of these companies have received tenders and financial incentives from the government to do quality construction work in Tanzania and other East African countries. Another example is that in accompanying Chinese #4’s initiative to explore iron and steel opportunities, the Chinese government provided funds for an improvement in the central Tanzanian railway to ensure uninterrupted year-round shipments for Chinese #4’s products in Tanzania and its landlocked neighbors of Uganda, Burundi and Rwanda.

#### *Financial resources*

The policy banks in China (China Development Bank, China Export Import Bank, and China Agricultural Development Bank) have played an important role in providing financial resources for firms once they have identified new investment or trade opportunities. In particular, China Export Import Bank is targeting sectors where Western private or official capital is often scarce -- that is, physical infrastructure (Moss and Rose, 2006). Chinese #1, #2, and #5 indicated explicitly that they had received funding (e.g., low cost loans) from the Chinese government, which was critical in winning bids and building projects in Tanzania. The fact that Chinese #5 is a private company suggests that the Chinese government is willing to support not only state-owned but also large private companies to expand overseas and build competitiveness.

### ***Contributions of MNEs to Host Country Community Modernization***

Our interview information suggests two distinct features of Chinese investments in corporate social responsibility (CSR) activities: multiple purpose projects in local communities, and localized CSR activities. We elaborate on them below.

#### ***Multiple purpose projects in local communities conducted by a cluster of firms***

The unique feature of Chinese investments in community modernization is that the leading Chinese companies in natural resource industries typically propose multiple purpose projects in infrastructure, manufacturing, agro-based industries, health, and education to modernize different aspects of a local community. Apparently, the leading natural resource companies are not able to provide services in all sectors by themselves. Lacking the capability to deliver a broad array of local benefits, they typically ally with other firms and form consortia. They often ask the help of the Chinese government to identify/bring other firms or people with needed expertise to the consortium. These Chinese consortia, acting in a coordinated way, have

the capability to modernize local communities quickly -- much more than what an individual firm could achieve within a short time period.

TZ Official #1 viewed the Chinese firms as “a different stock altogether” because they came with multiple projects. Chinese #1 asked the Chinese government to bring a manufacturing company to work with local communities as well as to bring Chinese doctors to share skills with local doctors in order to help eliminate Malaria. Chinese #3 worked with other Chinese and local firms to create job opportunities outside mining such as establishing assembly and trade companies. Chinese #3 also worked with some Chinese seed companies in participating in the Green Agricultural Farming Initiative (called in Swahili “Kilimo Kwanza”) proposed by the Tanzanian government and in transferring modern farming systems to local communities. Chinese #3 stressed “the strategic integrated business ventures in several sectors represent a catalyst to economic development for Tanzania.”

Chinese #5 suggested “the goals of developing special economic zones are not only to explore mining but also to develop a cluster of firms that will help Tanzanian and other African industries to produce local products and services.” Chinese #5 worked with Chinese state construction companies in building airports and it is now targeting a few Chinese manufacturing and telecoms companies in order to provide both affordable manufacturing goods and jobs for local people.

#### *Localized corporate social responsibility activities*

Both TZ Officials #1 and #2 pointed out that Chinese firms adopt localized CSR plans. Chinese firms typically ally with the locals in providing numerous renovations in the public sector infrastructure (e.g., schools, hospitals, roads, bus shelters, women empowerment projects).

They form joint ventures with local companies or entrepreneurs to access local available resources. They attempt to understand the local culture (e.g., many Chinese in Tanzania and East Africa speak very good Swahili, a lingua franca language widely spoken in East and Central Africa and a national language in some East African countries). As a result, Chinese firms have good relations with local people and are able to provide localized CSR activities that cater to the needs of the local people in Tanzania.

## **FDI in Natural Resource Industry in Africa: The Western Model**

### ***Support of Home Country Government for MNEs***

The four Western MNEs we interviewed suggested that their home country government does not represent its firms in negotiating or building economic ties with the host country government. Indeed, the home country government only provides general information (such as investment climate, geo-political information, and consular advice) for the home country firms. All firms emphasized that they are global and shareholder-driven companies and thus their business strategies are not directed or influenced by the home country government. All considered the bilateral relations between the home and host countries as playing a minor role in facilitating the companies' business investments in the host country. They came to Tanzania after successful investment bidding for mining projects.

These Western companies see themselves as being responsible to their shareholders and not the representative of any government. Thus, they see no obligations to fulfill any political or economic objectives for their government.

### ***Contributions of MNEs to Host Country Community Modernization***

All four Western MNEs emphasized that they comply with international CSR standards in helping local communities to develop. Employment, education and training of the locally recruited staff form a vital part of the CSR programs in these companies. Western #3 has brought numerous skill enhancement and technology transfer opportunities to the local employees. Western #4 has actively engaged with the local communities by creating jobs (90% of the employees in its African operations have been recruited locally), procuring supplies and services, and training and empowering the workers (e.g., encouraging employees to study for professional and postgraduate qualifications). It believes that “this type of involvement has a greater positive impact than simply supporting good causes.”

The Western MNEs also pointed out that they strived to create sustainable development through environmental safety (Western #1, #3, and #4), and health and education (Western #2 and #4). They typically act independently or work with NGOs or local community groups in providing the services. However, collaborating with community groups in performing CSR activities can be challenging. Western #1 was frustrated by the conflicts and misunderstandings and the resultant low trust level it had with community groups.

## **DISCUSSION AND CONCLUSION**

### **The Chinese versus Western FDI Models in Natural Resource Industries in Africa**

We investigated factors that contribute to the rapid growth of Chinese FDI in natural resource industries in Africa. In particular, we focused on the unique factors that have made investments by Chinese firms grow faster than those by Western firms in recent years. Based on interview materials with 5 Chinese firms, 4 Western firms in natural resource industries in an

African country, Tanzania, and 4 government officials (2 Chinese, 2 Tanzanian), we found two major differences between the Chinese and Western FDI models in natural resource industries in Africa, as summarized in Table 5.

\*\*\*\*Insert Table 5 about here\*\*\*\*

First, in terms of the role of the home country government, the Chinese government has been more active in facilitating outward FDI of Chinese firms in two important ways. First, the Chinese government has engaged in building economic ties with the host country government (e.g., through economic forums and resource-backed loans) and in negotiating with the host country government for investment opportunities in natural resource industries. Second, the Chinese government has provided direct, valuable assistance for its home country firms in natural resource industries; it has provided not only critical information on investment opportunities but also valuable financial resources and policy support for its firms' overseas investments in Africa. The Western country governments (Canada, Australia, and the United Kingdom in our sample), on the contrary, have provided only general environmental information for their firms and have thus played a more passive role in facilitating their overseas investments.

The second major difference between Chinese and Western FDI models in natural resource industries in Africa regards the way that MNEs have conducted CSR activities and helped modernize local communities in Africa. The Chinese firms, with the guidance and assistance of the Chinese government, have acted as a group to provide "multiple purpose projects." The Chinese firms from different industries (e.g., construction, manufacturing, mining, trade), when grouped together, have been able to provide complementary products/services that satisfy multiple needs of an African local community, and they have been able to provide these

products and services relatively quickly. This also explains why the Chinese MNEs have diversified their activities in various industries ranging from natural resource extraction to manufacturing, construction, agriculture, and services (Broadman, 2007; Kargelund, 2010). By contrast, Western firms have typically acted independently and have seldom allied with other firms (in different industries) from the same home country in providing CSR services for local communities. As a result, the Western firms have been relatively slow in providing multiple purpose projects that could improve conditions of local communities in Africa.

In summary, the active role of the Chinese government in guiding and assisting Chinese firms' FDI in Africa as well as the group activities of Chinese firms partially explain the rapid growth of Chinese FDI in Africa in terms of both speed and scope of business development.

### **Benefits of Chinese Government Involvement in Chinese Firms' FDI in Natural Resource Industries**

We further analyze in depth the specific benefits of involving the Chinese government in Chinese firms' outward FDI in natural resource industries. To this end, we incorporate insights in the literatures on bargaining power and political strategies (e.g., Moon and Lado, 2000; Poynter, 1982; Hillman and Hitt, 1999).

First, involvement of the Chinese government helps to compensate for weak ownership advantages of Chinese firms and to improve their bargaining power relative to host country governments. The literature on MNE-host country government negotiation suggests that MNEs operating in natural resource industries are expected to be in relatively weak bargaining positions because these industries are strategically important to a host country, and the host country government is inclined to intervene in MNEs' operations and may even expropriate MNEs'

assets for political and economic benefits (Bradley, 1977; Moon and Lado, 2000; Poynter, 1982). Bradley (1977), for example, found that 18% of all US mining concessions and 12% of all US mining properties were expropriated by the host country governments between 1960 and 1974. MNEs therefore often engage in constant negotiations with host country governments in order to obtain favorable terms (e.g., operational licenses to extract natural resources) and to minimize interference of host country governments in firms' operations. The sources of bargaining power for Western MNEs are mainly *firm-specific* resources and behaviors including managerial resources, technical knowhow, reputation, and corporate political behavior (responsiveness to the needs of host nations) (Fagre and Wells, 1982; Lecraw, 1984; Poynter, 1982, 1985; Moon and Lado, 2000). Different from Western MNEs, Chinese MNEs often lack managerial and technical resources, reputational assets, and experience in conducting corporate social responsibility activities in compliance with the international CSR standards (Luo and Tung, 2007). Instead, our study suggests that Chinese firms gain bargaining power and competitive advantages mainly through relying on *home-country level* resources (e.g., government funding and loans) and activities (e.g., direct involvement of the Chinese government in negotiations with host country governments for investment opportunities).

Second, the Chinese government has stronger bargaining power than any individual Chinese MNE and can therefore achieve better negotiation results. With control of financial resources (e.g., foreign exchange reserve and state-owned banks) and control of Chinese state-owned MNEs, the Chinese government can make more promises to host country governments and provide more services (e.g., coordination of SOEs in providing multiple purpose projects) to improve local economic conditions and social welfare of host countries. As resources that a party possesses largely determine bargaining power of the party (Moon and Lado, 2000), the Chinese

government is in a stronger bargaining position relative to individual Chinese firms when negotiating with host country governments. As such, home-host country government negotiation likely leads to more desirable results for Chinese firms than MNE-host country government negotiation.

Third, the Chinese government, with its resource endowments, is more capable of adopting a *relational* approach to develop long term exchange relationships with host country governments than individual Chinese MNEs. The benefits of a relational approach are that when issues arise in host countries, the vehicles for access/influence host country political power are already in place (Hillman and Hitt, 1999). This approach is different from a transactional approach in which firms attempt to access/influence host country political decision makers when specific issues arise (Hillman and Hitt, 1999). In fact, a relational approach is preferred over a transactional approach in dealing with issues in natural resource industries. As mentioned earlier, negotiations with host country governments in natural resource industries are constant in nature because the host country governments are motivated to interfere in these industries frequently (Poynter, 1982). Since a relational approach facilitates development of trust and accumulation of social capital between exchange partners (Hillman and Hitt, 1999), it better prepares Chinese MNEs to deal with political risks.

### **Differences between Roles of the Chinese and Western Country Governments**

Although our case studies disclosed the relatively passive roles of some Western country governments in facilitating their home country FDI in natural resource industries in an African country, there is evidence that some Western governments (e.g., Germany, Japan, the United States) had been vigorous in promoting their home country firms' overseas FDI, especially in the

1980s and 1990s (Buckley et al., 2010; Ramamurti, 2001). Buckley et al. (2010) identified several types of government support for OFDI based on experience of developed country governments: 1) information and technical assistance schemes, 2) financial support, fiscal incentives, and insurance and investment guarantees, 3) support for national champions, 4) international investment agreements, and 5) official development assistance. The US government, for example, has developed bilateral trade agreements with many developing countries (e.g., Africa Growth and Opportunity Act in 2000) and have worked with multilateral organizations such as the WTO, World Bank, and IMF to promote free trade and to lift FDI restrictions in developing countries (Ramamurti, 2001).

Considering the findings in our case studies and existing literature, we find two major differences with regards to the roles of Chinese and Western governments in facilitating their home country MNEs' outward FDI. First, the degree of government assistance for home country firms differs. The Chinese government has not only engaged in all the five types of activities identified in Buckley et al. (2010) in supporting OFDI of Chinese firms in Africa (most governments have engaged in some but not all activities) but has also represented Chinese MNEs and participated in continuous negotiations with host country governments for specific investment opportunities for Chinese firms. The Chinese government has been deeply involved in Chinese FDI in Africa because natural resources are critical for China's continuous economic growth and have been listed as priority sectors for OFDI support (Luo et al., 2010).

The second difference lies in the effect of government involvement on home country firms' international competitiveness. The Chinese government, through its negotiation with the host country government and direct assistance for the Chinese firms, helps to compensate for competitive disadvantages and organizational deficiencies of the Chinese firms (Luo, Xue, and

Han, 2010). The Chinese firms, solely depending on their weak ownership advantages, would find it challenging to compete with more experienced, more competitive Western MNEs in securing desirable deals from host country governments. The developed-country governments, on the other hand, mainly engage in activities with a goal to lower/remove particular types of locational barriers facing firms in the host countries (e.g., FDI restrictions) (Ramamurti, 2001). Thus, their activities are aimed to help home country firms to realize the full potentials of their competitive advantages in overseas markets.

### **Implications for Government Policy**

The success of the Chinese government in developing economic ties with African countries and in facilitating their home country firms' expansions in Africa leads to a follow-up question: Can governments in other countries (Western countries in particular) replicate the experience of the Chinese government? Although answers to this question require more systematic analyses, our study suggests that several factors that led to the success of the Chinese government are not easily replicable by Western country governments. First, economic similarities between China and many African countries make it relatively easy for the Chinese government to identify the needs of the African countries and to help them to improve economic conditions. The Chinese government attempts to transfer to Africa the best practices that have been proved successful in China and have contributed to rapid economic growth of China. Good examples include the development of special economic zones in a few African countries and the infrastructure improvement.

Second, the Chinese government is willing to provide financial assistance for African countries without constraints typically imposed by Western country governments (a point we

will revisit later). This is probably due to similarities in institutional development between China and Africa. China itself lags behind advanced economies in its institutional development and is therefore less inclined to impose conditions related to institutional improvement when providing loans to African countries. Third, historical linkages between China and Tanzania also facilitate the entry of Chinese companies into Tanzania. China's friendship with Tanzania can be traced back to many decades ago (1961); China's involvement in the east African nations encompassed a wide range of industries including construction, manufacturing, mining and farming.

The current approach of the Chinese government to OFDI in Africa also has its drawbacks. In the Chinese government's agenda, securing natural resources to feed China's economic growth is critical, but increasing global competitiveness of Chinese MNEs is of equal importance (Luo et al., 2010). The current strategy of the government (providing financial resources and information) helps the Chinese firms (which lack competitive advantages in technologies and brands) to compete with world class players. However, this strategy, if used for a long term, will increase the Chinese firms' dependence on government protection and will reduce their incentives to improve *firm-specific* competitive advantages. In this regard, we recommend the government gradually play a less important role in financing and directing overseas investments of Chinese firms.

### **Implications for Firm Strategy**

Although it is important to understand the rationale behind the recent rapid growth of the Chinese firms in Africa, most managers in our interviewed Western companies were ignorant of the Chinese model. Our study suggests the following advantages that the Chinese MNEs have over their Western counterparts. First, the Chinese MNEs receive strong support from their home

country government in terms of securing investment opportunities from the host country government and obtaining resources for investments. The Chinese firms, represented by the Chinese government and ready to deliver multiple purpose projects, have stronger bargaining power than Western firms. As a result, the Chinese firms can gain more investment deals and receive more favorable treatment by the host country government. Second, the Chinese MNEs are able to deliver products and services that are more applicable to the African context due to economic similarities between China and countries in Africa.

The implications for the Western companies include lobbying their home country governments to provide more assistance for their investments in Africa, collaborating with other companies (possibly from different industries) to perform diverse types of CSR activities for local communities, and providing more localized products or services.

It is worth noting some fundamental differences between Chinese and Western MNEs. Chinese MNEs are mostly state-owned and they fulfill the political and economic objectives of the Chinese government in exploring overseas investment activities, whereas Western MNEs are mostly private and responsible for their shareholders rather than their home country governments. This also indicates that Western firms, even after intensive lobbying activities, will not receive similar level of support provided by the home country governments as Chinese firms.

Our study also has implications for the Chinese MNEs. Our interview information seems to indicate that the Chinese firms did not pay as much attention to international CSR standards as the Western companies. Chinese firms should be aware of these standards and comply with them (e.g., safety standards, sustainable development, employment training) in order to become more socially responsible MNEs.

Another important implication for the Chinese MNEs is based on recent studies on the role of political ties in firm performance (Li, Wu, and Zajac, 2010). Li et al. (2010) proposed a “gets-and-gives” perspective in investigating the relationship between firms and governments; after receiving resources and support from the government, firms are obliged to reciprocate the favor by allowing governmental access to the firms. Therefore, the Chinese MNEs should be aware that after obtaining financial and information support from the Chinese government, they need to return favors to the government by accepting governmental interference on firms’ decisions. Chinese MNEs, especially private ones, should be alert about the potential costs of accepting governmental support in determining whether they should rush into a reciprocal relationship with the Chinese government.

### **Implications for Tanzania (and other African states)**

Our findings suggest that Chinese assistance differs from that provided by the Western governments and organizations in terms of no “special” investment conditions. The Western governments or organizations have often demanded improvement on the rule of law, democracy, fighting against mismanagement and corruption, and business environment free from war/terrorism as conditions for their assistance. Although institutional improvement is critical for long term economic growth, focusing on institutional improvement has indeed hindered short term economic development in many African countries, as pointed out by the two government officials in Tanzania. Chinese assistance, instead, concentrates on win-win relationships with host nations with no internal interferences or conditions. Chinese loans target the traditional highly deprived sectors which are also the backbones for Tanzania’s economic development, such as infrastructure, health and education services, and agriculture. In a country with high

unemployment, poverty and underdeveloped entrepreneurship initiatives among its citizens, the Chinese engagement approach represents a new direction for Tanzania (and Africa's) economic development. By targeting key sectors through its loan systems, Chinese FDI seems to inject new business linkages, opportunities and accountabilities for the bottom billions in Africa.

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**Figure 1: China's Outward FDI Flow to Africa (1999-2008)**

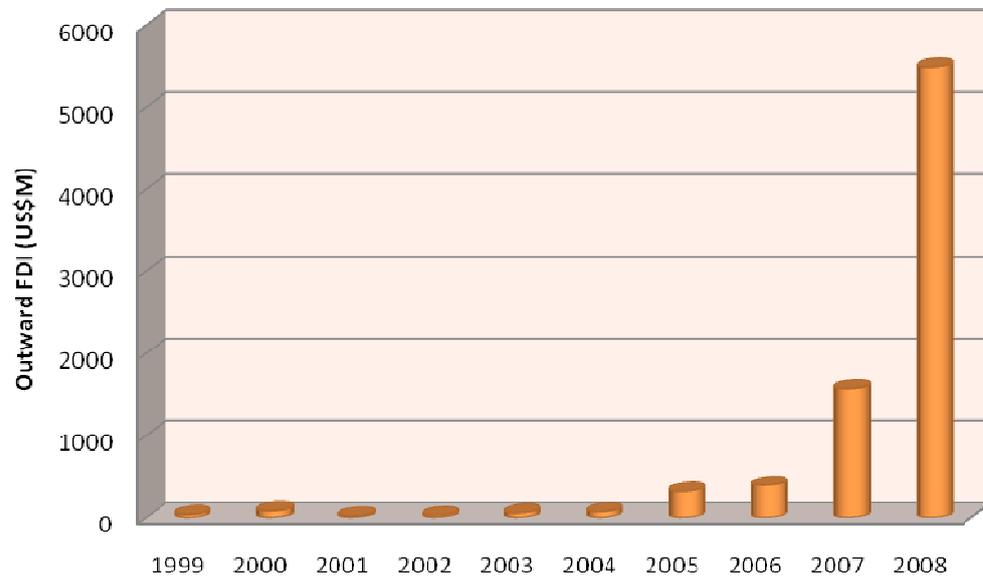


Figure 2. Foreign direct investments in natural resource industry in Africa: The Chinese Model

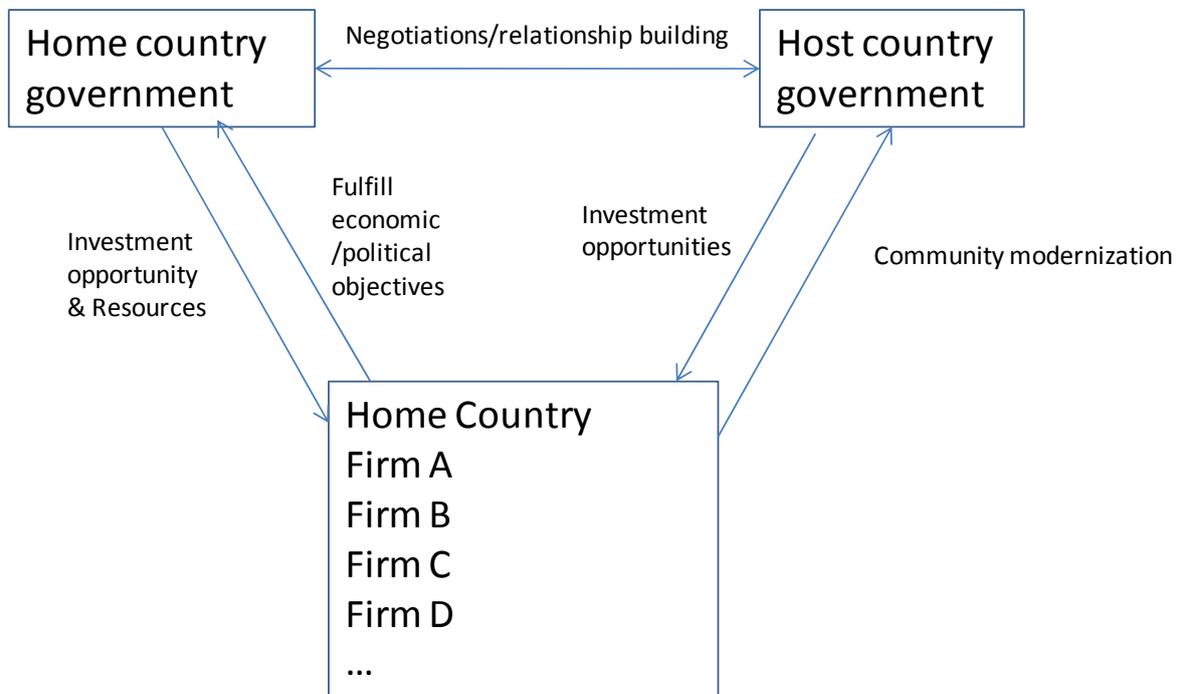
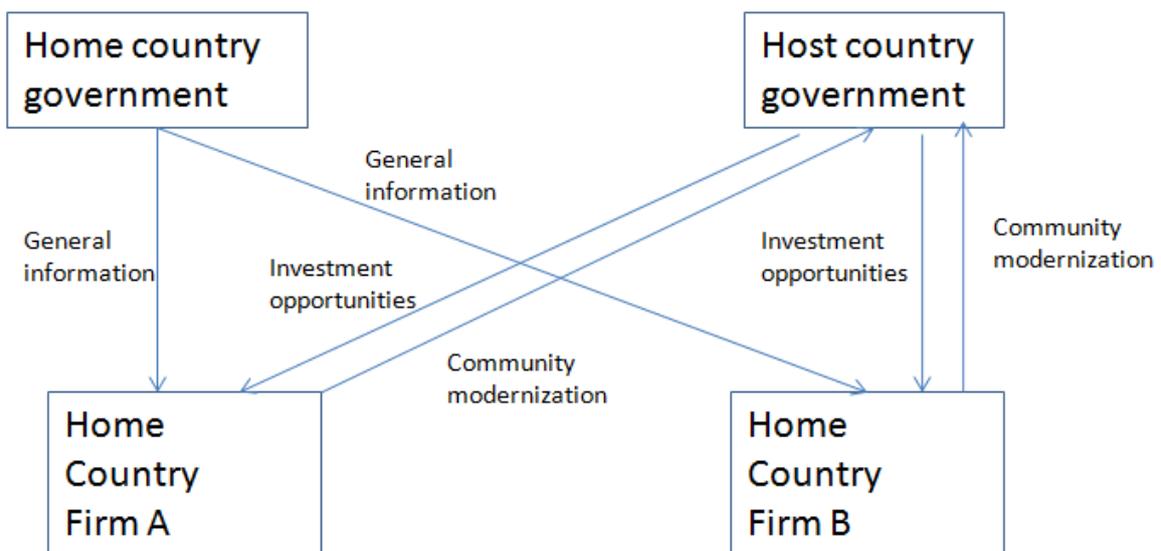


Figure 3. Foreign direct investment in natural resource industry in Africa: The Western Model



**Table 1. FDI flows from China and the largest three Western FDI investors to Africa**

Year	China	Largest 3 Western FDI investors in Africa			
		UK	France	US	Total3
1999	42.30	1901.10	901.30	596.00	3398.40
2000	85.00	2119.70	1300.90	716.00	4136.60
2001	24.50	1658.40	1796.00	2438.00	5892.40
2002	30.10	3291.30	855.40	-578.00	3568.70
2003	60.80	5639.40	1095.90	2697.00	9432.30
2004	74.79*	10588.10	1028.10	1325.00	12941.20
2005	317.42*	37863.71 <sup>+</sup>	4733.37 <sup>^</sup>	2564.00 <sup>ª</sup>	45161.08
2006	391.68*	27773.56 <sup>+</sup>	3108.59 <sup>^</sup>	5157.00 <sup>ª</sup>	36039.16
2007	1574.31*	36503.37 <sup>+</sup>	4726.00 <sup>^</sup>	4490.00 <sup>ª</sup>	45719.37
2008	5490.55*	32811.99 <sup>+</sup>	17546.73 <sup>^</sup>	3764.00 <sup>ª</sup>	54122.72
<b>Total</b>	8091.45	160150.63	37092.30	23169.00	220411.93
<b>Post-1999 Annual Growth (%)</b>	<b>119.57%</b>	55.51%	77.93%	-35.00%	<b>55.58%</b>

Data sources: UNCTAD (2007) for data before 2004 (data before 2003 for China).

\* Ministry of Commerce of China

<sup>+</sup> UK Office National Statistics

<sup>^</sup> Banque de France

<sup>ª</sup> US Bureau of Economic Analysis

Unit: Millions of USD

**Table 2. Milestone events in the China-Africa relationship**

Date	Milestones
Oct-2000	First Forum on China–Africa Cooperation (FOCAC), Beijing, China (1) Beijing Declaration of the Forum on China–Africa Cooperation (2) Program for China–Africa Cooperation in Economic and Social Development
Dec-2003	Second FOCAC, Addis Ababa, Ethiopia Addis Ababa Action Plan (2004–2006) (1) further opened Chinese market for African least developed countries under duty-free treatment (2) a 33% increase in investments in the African Human Resources Development Fund.
Jan-2006	Beijing published China's African Policy Paper, including (1) Bilateral Investment Promotion and Protection Agreement (2) Avoidance of Double Taxation Agreement between China and African states.
Nov-2006	Third FOCAC, Beijing, China Beijing Action Plan (2007-2009) (1) China would offer \$3 billion in preferential loans and \$2 billion in export credits over the next three years. (2) China would double its foreign aid.
Nov-2006	African Leaders and Business Representatives High-level Dialogue & The Second China-Africa Business Conference (1) Beijing initiated the China-Africa Development Fund (CADFund) with US\$ 50 billion.
Jun-2007	China-Africa Development Fund (CADFund) held the opening ceremony.
Mar-2009	CADFund opened its first representative African office in Johannesburg, South Africa.
Nov-2009	Fourth FOCAC, Soho-Square, Sharm el-Sheikh, Egypt Sharm el-Sheikh declaration and an action plan for 2010–2012 to chart the path for further China–Africa cooperation. (1) Loans: China announced a \$10 billion low cost loan; a 1 billion U.S. dollar special loan for small and medium- sized African businesses established; China to write off the debt of some of the poorest African nations. (2) Projects: China to construct 100 new clean-energy projects, to undertake 100 joint demonstration projects on S&T research (3) Agriculture: China to increase the number of agricultural technology demonstration centers in Africa to 20, to send 50 agricultural technology teams to Africa, to train 2,000 agricultural technology personnel for Africa (4) Health: China to provide medical equipment and anti-malaria materials worth 500 million Yuan, to train 3,000 doctors and nurses for Africa (5) Education: China to build 50 China–Africa friendship schools and train 1,500 school principals and teachers, to increase the number of Chinese government scholarships to Africa to 5,500 by 2012, to train a total of 20,000 professionals of various fields for Africa over the next three years.

**Table 3: Descriptions of the interviewed Chinese and non-Chinese MNEs in the natural resource industry in Tanzania**

<b>Firms &amp; Official Title of Interviewees</b>	<b>Interview Length &amp; Time</b>	<b>Ownership, Public Listing &amp; Size</b>	<b>Year of Entry to Host Nation, Location in Host Nation, Activities, &amp; Employment</b>
Chinese #1 (2 interviewees: a site manager & a line manager)	90 minutes; May 15 <sup>th</sup> , 2010	State-owned; Shanghai and Toronto stock exchanges; (total asset not disclosed)	2009; Kabanga, north western Tanzania; Nickel exploration; over 800 local employees and about 20 expatriates
Chinese #2 (1 interviewee: site manager)	75 minutes; May 16th, 2010	Private-controlled; Shanghai and Hong Kong stock exchanges; total asset of US\$100 million (2007)	2007; Lake Victoria Zone; Zinc & Gold; with over 400 local employees and about 30 Chinese expatriates
Chinese #3 2 interviewees: a site & HRM manager)	1.5 hours; June 1st, 2010	State-owned; Shanghai and Hong Kong stock exchanges (total asset not disclosed)	2008; Ludewa district, Iringa region; Coal exploration; (# of employees and expatriates not disclosed)
Chinese #4 (3 interviewees: a site manager, an engineer manager, & logistics manager)	90 minutes; May 23rd, 2010	State-owned; Shanghai, Hong Kong, Sydney, Tokyo, NY and Toronto stock exchanges; total asset of US\$24.96 billion (2009)	2007; Lake Victoria Zone; Iron & Steel; with over 600 local employees and about 120 Chinese expatriates
Chinese #5 (1 interviewee: site manager)	65 minutes; May 27th, 2010	Private-controlled; Shanghai and Johannesburg stock exchanges; total asset of RMB 10 billion (US\$ 1.4 billion) (2009)	2009; Rukwa region; Oil & Uranium exploration; (# of employees and expatriates not disclosed)
Western # 1 (1 interviewee: site manager)	45 minutes; May 19th, 2010	Private-owned; listed on major international stock exchanges; total asset of US\$ 2.48 Billion (2007)	1995; Geita district, Lake Victoria Zone; Gold; largest employer in Tanzania, with over 15,000 local employees and about 200 expatriates
Western # 2 (2 interviewees: a HRM and accounting manager)	50 minutes; May 18th, 2010	Private-owned; listed on major international stock exchanges; total asset US\$ 1.7 Billion (2009)	1995; Geita district, Lake Victoria Zone; Gold; with over 800 local employees and about 75 expatriates
Western # 3 (1 interviewee: a HRM manager)	48 minutes; May 18th, 2010	Private-owned; listed on major international stock exchanges (total asset not disclosed)	2000; Geita district, Lake Victoria Zone; Gold; with over 1000 local employees and about 200 expatriates
Western # 4 (3 interviewees: a HRM manager, site manager & an engineer director)	65 minutes; May 24th, 2010	Private-owned; listed on major international stock exchanges (total asset not disclosed)	2002; Geita district, Lake Victoria Zone; Gold; with over 600 local employees and about 60 expatriates

**Table 4. Major differences between the Chinese and Western models in Africa**

	<b>The Chinese model</b>	<b>The Western model</b>
Role of home country government	<p>Active</p> <ol style="list-style-type: none"> <li>1. Build country-level ties</li> <li>2. Provide information and resources for firms</li> </ol>	<p>Passive</p> <ol style="list-style-type: none"> <li>1. Provide general advisory information</li> </ol>
Actions of home country firms	<p>Group</p> <ol style="list-style-type: none"> <li>1. Provide multiple purpose projects</li> <li>2. Modernize local communities quickly</li> </ol>	<p>Individual</p> <ol style="list-style-type: none"> <li>1. Focus on a few projects</li> <li>2. Modernize local communities slowly</li> </ol>