The Political Economy of Going Global: Understanding the Determinants of Chinese Foreign Direct Investment in the Middle East and Africa

Majid Shirali

University of Nevada, Las Vegas, shiralim@unlv.nevada.edu

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THE POLITICAL ECONOMY OF GOING GLOBAL:
UNDERSTANDING THE DETERMINANTS
OF CHINESE FOREIGN DIRECT
INVESTMENT IN THE
MIDDLE EAST AND
AFRICA

By

Majid Shirali

Bachelor of Arts in Government and Middle Eastern Studies
The University of Texas at Austin
2002

Master of Arts in Middle Eastern Studies
The University of Texas at Austin
2005

Master of Arts in Politics
New York University
2006

A dissertation submitted in partial fulfillment
of the requirements for the

Doctor of Philosophy – Political Science

Department of Political Science
College of Liberal Arts
The Graduate College

University of Nevada, Las Vegas
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We recommend the dissertation prepared under our supervision by

Majid Shirali

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is approved in partial fulfillment of the requirements for the degree of

Doctor of Philosophy - Political Science

Department of Political Science

John Tuman, Ph.D., Committee Chair
Jonathan Strand, Ph.D., Committee Member
Dennis Pirages, Ph.D., Committee Member
John Curry, Ph.D., Graduate College Representative
Kathryn Hausbeck Korgan, Ph.D., Interim Dean of the Graduate College

May 2015
ABSTRACT

The Political Economy of Going Global: Understanding the Determinants of Chinese Foreign Direct Investment in the Middle East and Africa

By

Majid Shirali

Dr. John Tuman, Examination Committee Chair
University of Nevada, Las Vegas

This study seeks to explain the motivating factors behind Chinese foreign direct investment (FDI) patterns to the Middle East and Africa through a quantitative framework that utilizes a pooled cross-sectional time-series data set that covers 57 countries from 2003-2010. Prior research on the issue has hypothesized that China attempts to use external FDI to developing areas to promote national interests and help sustain economic growth. However, there has been an almost exclusive focus on economic determinants while generally ignoring political variables. The approach in this project attempts to fill this scholarly void by employing a broad array of independent variables that account for both economic and political influences in producing a timely model that yields robust results that will allow for generalizable statements to be made regarding the data. The findings demonstrate that pre-existing trade relations and strategically important natural resources (oil, ores, and metals) within host economies influence Chinese FDI to the Middle East and Africa. In addition, the study empirically shows that external FDI from China was heavily concentrated in economies with lower per capita income and directed toward regimes that may be classified as mildly authoritarian. The dissertation concludes with an analysis of larger policy implications and suggestions for future scholarly inquiry.
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CHAPTER 1
INTRODUCTION

The People’s Republic of China’s (PRC) position as the world’s leading emerging economy has for years made the country a top target for international investment. Inward flows of foreign direct investment (FDI) stimulated domestic growth and the expansion of China’s market size. A very large population, coupled with greater consumption, has made the socio-economic status quo unsustainable in the long-term as evidenced by frequent episodes of political unrest. Thus, securing new and dependable avenues for growth has created a convergence of interests for the business and political communities in China as they seek to keep up with national expansion. As the PRC has grown, this intersection between the private and public sectors has led to the desire to increase the country’s global footprint, which, in turn, brings us to the relatively recent rise in external FDI emanating from China. Increasing the amount of outward bound FDI has been a crucial component of Chinese policy dating back to the early 2000s.\(^1\) Beginning with the 10\(^{th}\) Five Year Plan in 2001 and extending into the 11\(^{th}\) (2006-2010) and 12\(^{th}\) (2011-2015) Five Year Plans, the government continued to utilize these socio-economic initiatives to express the need to bolster international investment by Chinese firms. Wen Jiabao, speaking in 2010 as Premier, succinctly stated that:

> We must accelerate the implementation of the ‘go global’ strategy, in accordance with market orientation and the principle of independent decision-making and guide enterprises with different kinds of ownership to invest overseas and cooperate in an orderly manner.\(^2\)

\(^1\) See Figure 1 from the Chinese Ministry of Commerce (MOFCOM) below.

One year later, he reiterated China’s stance by elaborating further on the issue:

We will accelerate the implementation of the ‘go global’ strategy, improve relevant support policies, simplify examination and approval procedures, and provide assistance for qualified enterprises and individuals to invest overseas. We will encourage enterprises to operate internationally in an active yet orderly manner. We will strengthen macro guidance over overseas investments, improve the mechanisms for stimulating and protecting them, and guard against investment risks.\(^3\)

Initially, Chinese multi-national corporations (MNCs) mostly focused on investment projects in developed countries in order to seek assets such as superior skills, marketing expertise, and proprietary technologies.\(^4\) More recently, however, there has been a remarkably strong increase in outflows of Chinese FDI to the Developing World. The majority of this new pattern of Chinese FDI has been located in East Asia and Africa. Nevertheless, Chinese firms have also begun to concentrate on aggressively investing and expanding their operations in the Middle East and Latin America.

Deepening our knowledge of the pattern of Chinese FDI will allow for a better understanding of the motivations underlying the decision-making process of Chinese multi-national corporations. As the comments above by former Premier Wen indicate, attention also needs to be paid to the role of the Chinese state in facilitating external investment. Thus, analyzing the determinants of Chinese FDI to the strategically important region of the Middle East and economically vital continent of Africa will help explain the rationale and implications of Beijing’s “Going Global” policy.\(^5\) Investigating the international activities of Chinese firms is also important vis-à-vis the potential for

\(^3\) Ibid.


\(^5\) Beijing’s initiative encouraging external FDI by Chinese firms is interchangeably referred to in English as a policy of “Going Global,” “Go Global,” and/or “Go Out.”
bilateral tensions between the United States (US) and China, especially given the former’s heavy presence in both the Middle East and Africa. Chinese co-investment projects in the energy sectors of certain countries in the region and on the continent, which serve to increase production and export of fossil fuel to China, have already been closely scrutinized in American policy-making circles.6 Similarly, US officials have highlighted concerns about the possibility of Chinese FDI in the Developing World in general serving as a catalyst to direct other types of commodity exports back to the Chinese domestic market.

Figure 1: China Outward FDI Flows 1990-2010 (USD billion)7

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7 Davies, p. 34.
Beyond identifying the factors behind outflows of Chinese FDI to the Middle East and Africa, a study of this issue will provide a valuable opportunity for an analysis of the explanatory power of existing models of FDI, which draw largely upon references to firms in advanced industrialized economies. Previous paradigms seeking to explain the nature of external Chinese FDI have made important contributions to painting a clearer picture of this process, but their residual limitations fail to completely capture all the facets that lead to a firm’s decision to go abroad. Moreover, recent scholarly inquiry into the issue has focused solely upon the latent economic causes of Chinese overseas investment.\(^8\) Although an observer may expect political conditions in the host country to have an impact on the investment behavior of Chinese multi-national firms, there has been practically no empirical research done on the effects that revolutionary violence, rights, and liberties have on Chinese FDI flows.\(^9\)

**Defining the Middle East and Africa**

We will be examining the relationship between outward Chinese foreign direct investment to the Middle East and Africa as a whole. Thus, conceptualizing the region and continent may run the risk of being a self-explanatory exercise. Nevertheless, it may also be important to fully define the contours of the geographic area under consideration

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\(^9\) For an exception to this orthodoxy, see Peter J. Buckley, L. Jeremy Clegg, Adam R. Cross, Xin Liu, Hinrich Voss, and Ping Zheng. “The determinants of Chinese outward foreign direct investment.” *Journal of International Business Studies*, 38, 4 (July 2007): 499-518. Their study, however, did not distinguish amongst different types of instability and pooled observations from the markets of developing and developed countries.
in order to address possible methodological questions. What is meant when we say the Middle East and Africa? Are we referring to abstract concepts, arbitrary labels based on tradition, or classifications used to accurately designate territory? Does the meaning of these terms change as they are applied to different contexts or is there a standard definition that is used in a uniform manner?

The term Middle East seemingly originated in the 1850s as the British were seeking a way to distinguish Iran, Afghanistan, and Central Asia from the Far East. The Near East was simultaneously being used to describe the territory under the control of the Ottoman Empire. While the term Near East can still be found in political, academic, and policy circles, the term Middle East over time became synonymous with Iran, Turkey, Israel, and the Arab states of North Africa and West Asia. Due to the fact that these states stretch across Asia and Africa, the region may also be referred to as the Middle East and North Africa (MENA) to account for countries being located on both continents. Despite Sudan sharing ethnic, religious, and linguistic similarities with its neighbors to the north, Khartoum is usually considered part of sub-Saharan Africa due to the country’s geographic position being primarily south of the Sahara Desert. Another subjective distinction is Afghanistan’s absence from the territory comprising the modern Middle East despite its historic connections to the region. Afghans have similar linguistic, religious, historical, and cultural identities as those living right next door in Iran, but often times find themselves grouped together with the rest of Southwest Asia (Pakistan, India, Bangladesh, and Sri Lanka) when it comes to area studies.10

10 For a fairly standard example of this approach, see Devin T. Hagerty, Editor. *South Asia in World Politics*. Oxford: Rowman and Littlefield, 2005.
The origin of the term Africa, on the other hand, is more ancient and derived from the Latin word *Afri*, which was used to refer to Carthaginians who lived in what is now Tunisia during the 9th century BC. The suffix of the term (*-ica*) is also Latin and can be used to describe a piece of land. Due to the arbitrary nature of the borders created by European colonialists, independent African states were more artificial than other polities due to the disregard of the ethnic, tribal, linguistic, religious, and cultural boundaries that existed amongst the people of the continent. These imposed creations have made stability, national unity, and territorial integrity much harder to achieve in post-colonial Africa. Eritrea breaking away from Ethiopia in 1991 and South Sudan’s separation from Sudan in 2011 are two recent examples of the volatile nature of Africa’s borders.

Although the populations of African states are extremely heterogeneous, the line that separates the study of African politics from Middle Eastern studies in academia is fairly straightforward. The predominantly Arab-Muslim countries of North Africa are grouped together with the Middle East proper while every state that is either completely or partially below the Sahara Desert is studied as part of Africa. There are differences, however, in terms of classification at the international level. During qualification for the World Cup and certain sporting events during the Olympic Games, North Africa is grouped together with the rest of sub-Saharan Africa. Moreover, multi-lateral organizations, such as the United Nations (UN) and African Union (AU), aggregate the continent as a whole when it comes to membership.\(^{11}\)

\(^{11}\) While Morocco is a member of most multi-lateral African organizations, it withdrew its membership from the Organization of African Unity (OAU), the AU’s predecessor, in 1984 due to a dispute over occupied Western Sahara and has not returned since.
Consequently, as we can clearly see, a neat classification of regional and continental nation-states is not always possible. Much of what we refer to as the Middle East and Africa today is in fact due to convention and modern tradition. Therefore, the answers to the questions above may very well depend on our sources of information, but for the purposes of this project we define the Middle East as a set of geographically contiguous nation-states that begin with Morocco in northwest Africa and extend all the way east to Iran. This stretch of land encompasses all the Arab states of North Africa as well as the remaining Arab countries outside the continent and includes Turkey and Israel in addition to Iran as the only non-Arab states of the Middle East. Although the Middle East is diverse ethnically, linguistically, religiously, and culturally, the majority of the region’s population has an Arab ethnic affiliation, speaks a dialect of Arabic, and practices a form of Islam. Most of the modern Middle East also shares similar historical experiences of foreign domination and autocratic rule and an arid climate that is known for its sweltering heat.

It is important to note that while Israel is a political and geographic reality within the Middle East, the Jewish state’s official diplomatic relations and unofficial regular interactions with only a handful of governments within the region keep it isolated and prevent it from becoming fully integrated politically and economically. Moreover, the Israeli regime, despite discriminatory practices against Arab citizens of Palestinian origin and other minority groups, is considered a developed political system. The topic of this dissertation focuses on Chinese FDI in the developing political systems of the Middle East and Africa.
Correspondingly, Africa is defined as a group of sub-Saharan nation-states that are primarily located in one continental land mass. There are 54 countries on the continent of Africa and 49 of them are in sub-Saharan Africa once we subtract the five North African states of Algeria, Egypt, Libya, Morocco, and Tunisia that are usually considered part of the greater Middle East.\textsuperscript{12} Five of the remaining 49 states in sub-Saharan Africa are island nations and one is located completely inside the borders of another country. Cape Verde, Comoros, Madagascar, Mauritius, and Seychelles are located off the eastern and western coasts of Africa and the Kingdom of Lesotho is entirely surrounded by South Africa. The continent consists of a wide-range of tribal groups, linguistic affiliations, ethnic identities, religious traditions, and cultural norms and practices that cannot be adequately treated here. The Congo by itself, centrally located in a vast area that encompasses approximately 250 ethnic groups who speak over 240 languages, represents a microcosm of Africa as it provides us with a glimpse of the continent’s diversity.\textsuperscript{13} The majority of modern Africa has also had to contend with foreign occupation and post-colonial authoritarianism in a climate that ranges from dry and barren in the northern half to lush and tropical in the central part with temperate conditions in the southern portion of the continent.

\textsuperscript{12} There are two proto-states in Africa that have unilaterally declared independence. Somaliland in the Horn of Africa and the Sahrawi Arab Democratic Republic in Western Sahara have both established a measure of sovereignty over territory, but have limited international recognition.

Main Topic and Research Question

The purpose of this dissertation is not to simply acknowledge that China has begun heavily targeting the Middle East and Africa for investment, but rather to provide a unique lens that furthers an understanding of Chinese FDI to the region and continent by identifying the motivating factors behind these investment patterns. Explaining this process vis-à-vis these two crucial areas within the Developing World should serve to enhance our overall knowledge of the direction that outward Chinese investment has taken. By examining a wide-range of economic and political factors, an attempt will be made to identify the determinants that are responsible for external flows of Chinese foreign direct investment to the Middle East and Africa. Beyond recognizing these root causes, a fuller analysis will also offer an explanation of how Chinese multi-national firms go about selecting countries for investment and the role that Beijing plays in facilitating external FDI. To this end, the main contribution of this project is the development of a quantitative framework for the proper study of Chinese foreign direct investment in the Middle East and Africa.

Academic scholarship on the relatively new phenomenon of Chinese FDI in the Developing World is comparatively understudied. Much of the research on Chinese FDI has focused either on internal investment in China by foreign firms or on the external investment activities of Chinese corporations in advanced industrialized nations. Past investigations that have tackled the topic of Chinese FDI in the Global South have provided crucial commentary, but a great deal of emphasis has been placed on economic factors at the expense of studying the political variables that affect the decision of
Chinese MNCs to go abroad.\textsuperscript{14} The approach in this dissertation will attempt to fill this scholarly void by conducting a cross-sectional time-series using a broad array of independent variables that not only cover economic indicators, but also highlight political influences to produce a timely model that yields robust results in explaining the flow of Chinese FDI to the Middle East and Africa. This will be done to design a multi-dimensional perspective that seeks to more comprehensively account for the wide-range of factors affecting the patterns of Chinese FDI to the region and continent.

Another feature of this study to more deeply grasp the causes and effects of Chinese FDI to the Middle East and Africa is the policy implications of China’s drive to expand globally. By synthesizing a large amount of variables that cut across economic and political lines, this paradigm will seek to provide the appropriate prism in which to also understand China’s economic and business climate as it relates to outward FDI and the role of the Chinese state in stimulating these activities. These dynamics have key international policy consequences as competition intensifies between Chinese firms and their American and European counterparts for investment opportunities in different parts of the Developing World. These are all important issues that this project will take under consideration as we go forward and examine the elements that impact Chinese FDI in the Middle East and Africa in order to better comprehend the nature of this ongoing process.

\textbf{Overview of the Dissertation}

The following chapters consist of a theoretical approach to understanding cross-national studies of foreign direct investment and its application to China, a rigorous

\textsuperscript{14} A comprehensive discussion on this issue will take place in Chapter 2.
literature review, an explanation of data and methods, a presentation of the main findings, and concluding thoughts that take into account the policy ramifications of China going global.

Chapter 2 describes the dominant model used by scholars to study FDI flows and analyzes its utility in explaining the international operations of Chinese companies while conducting a comprehensive literature review on the subject and presenting various hypotheses that buttress our main research question. Each of the three components of the OLI framework for FDI, ownership advantages (O), location advantages (L), and internalization (I), will be examined as they relate to China. The chapter discusses the hypothesized effects of economic and political influences on inflows of FDI from China as well. There will also be further background provided on the modern Middle East and Africa in order to fully conceptualize the target areas of Chinese FDI that are being analyzed in this dissertation. Subsequently, a broad survey on the extant literature regarding the motivations for internationalization by Chinese firms and the country’s growing relationship with the Middle East and Africa will take place to improve our insight on these two converging phenomena. The end goal of presenting these secondary sources and hypotheses is to provide the reader with a foundation in comprehending Chinese FDI habits, which can then be used as a platform to interpret the results of the quantitative methodology presented in this dissertation.

Chapter 3 provides a detailed explanation of the accumulated data and the methods employed to measure that information. The research design operationalizes the dependent variable, categorizes the independent variables, and identifies the sources that comprise the data set. The methodological approach to understanding this issue strives to
encompass all the possible variables that could impact external Chinese investment by gathering information from a heterogeneous group of sources. In attempting to validate the theoretical assumptions and hypotheses mentioned in the second chapter, a representative amount of data is collected to test our assertions. The broad assortment of data begins measuring Chinese FDI flows from the early 2000s when Beijing started prioritizing outward bound foreign investment up until the end of the decade.

Chapter 4 presents the main findings of the statistical analysis. The data set will focus on analyzing a set of factors within 57 countries in the Middle East and Africa to determine if there exists a causal link between these nation-states and the flow of Chinese FDI. The eight year time-span under consideration will also give the ability to discern any early historical trends within the data. As the sample data is expanded by spreading it across time, not only can patterns of Chinese FDI to the Developing World be highlighted, their level of connectivity to the present posture of Chinese foreign investment may become visible as well. The rationale behind this particular aspect of our approach is to ensure that our quantitative lens is relatively exhaustive enough for us to be able to make generalizable statements about the investment behavior of Chinese firms that are reasonably robust. The ultimate purpose of this exercise is to produce a quantitative perspective that can serve as an analytical tool to help provide a fuller understanding of the aggressive expansion of external FDI that has been underway in China for over a decade now.

The concluding chapter summarizes the results and determines whether they lend support to pre-existing theories of FDI that are applied to China. While doing so, we also probe the limitations and explanatory power of our approach to understanding the logic
of Chinese foreign direct investment in the Middle East and Africa by analyzing the usefulness of the employed framework in furthering our knowledge of the subject matter. We will take a look at the broader applicability of our study in helping to explain external Chinese investment in other parts of the Developing World as well. The dissertation ends with remarks that tie thoughts and ideas together while detailing potential policy implications.
CHAPTER 2

CHINESE FDI IN A GLOBALIZED WORLD: LITERATURE REVIEW, THEORY, AND HYPOTHESES

Over the past decade and a half there has been a precipitous increase in outward bound Chinese foreign direct investment in different locations throughout the world. During the initial stages of this process, Chinese firms primarily targeted investment opportunities in advanced industrialized countries for the purposes of acquiring strategically important assets. The second phase of going global has seen the rapid rise of Chinese FDI in large parts of the Developing World. The expansion of external Chinese investment did not spring up spontaneously nor did the penetration of new markets happen overnight. Political and socio-economic initiatives spearheaded by the Chinese government and domestic growth along with a range of other factors paved the way for this contemporary phenomenon.

The literature review in this chapter is organized thematically so that we may isolate and properly address each issue within the broader topic before moving forward and summarizing the argument and detailing the expectations. First, an overview of the modern Middle East and Africa coupled with further conceptualization of these two host areas of Chinese FDI will serve to provide the necessary background to appropriately contextualize the region and continent. The next sections turns to the history of Chinese FDI with particular emphasis on the role played by the state and the economic influences that affect China’s investment activities. Subsequently, the focus shifts to understanding the political motivations behind Chinese FDI and the foreign policy goals that Beijing is attempting to achieve through commercial activities. The final portion of the literature
review offers a discussion of Sino-African and Sino-Middle Eastern relations for us to better interpret the interactions both have had with China.

Beyond merely a descriptive account of the secondary literature on Chinese FDI, this chapter also elaborates on the theoretical approach that is frequently associated with cross-national studies of foreign direct investment while discussing how it relates to China as we incorporate various hypotheses on the subject. What emerges as we seek to understand the primary causal factors affecting outflows of Chinese FDI is a constellation of complex forces and conditions that have been coalescing to create the necessary space for multi-national corporations from mainland China to operate in. By attempting to offer a deeper understanding of the changes in China’s posture vis-à-vis outflows of FDI, there are questions that need to be answered: What specifically were the root causes that led to the decision to go global? What kinds of tactics and strategies have firms from China been employing? How have outcomes varied? Under what political conditions and socio-economic circumstances do Chinese corporations seek to go abroad? What roles have non-Chinese actors played in this process? As we analyze a common theoretical approach to studying FDI, these questions amongst others will be addressed by examining the literature on the issue and determining to what extent the academic scholarship on the subject cohesively captures the determinants of foreign direct investment emanating from China while striving to ultimately address the main research question: What explains the flows of Chinese foreign direct investment to the Middle East and Africa?
Review of the Literature (I): The Middle East and Africa

The Middle East and Africa as Regional Sub-Systems

Are the terms Middle East and Africa a facile and nebulous way of referring to a similar group of countries that have been lumped together based on Eurocentric conceptions or can the region and continent be characterized as systems with their own set of unique features and distinct characteristics? While an in-depth analysis of Middle Eastern and African politics is beyond the scope of this paper, attempting to articulate to what extent the region and continent can be referred to as political systems may be useful in further conceptualizing these two important hosts of external Chinese foreign direct investment before delving into a historical overview.

James Dougherty and Robert Pflatzgraff identify a system as:

“[a] whole which functions as a whole by virtue of the interdependence of its parts” and “the concept of system connotes relationships between units. The units of a system are of the same ‘set,’ by which is meant that they have features in common that enable a particular relationship.”¹

Thus, there exists an international system whose structure has taken on different forms over time. The structure of the system can range from unipolar to bipolar to multipolar as its units interact and communicate with one another. Regions, therefore, can be treated as sub-systems of the overarching international system.² Louis Cantori and Steven Spiegel tell us that regional sub-systems are made up of:

“one state, or of two or more proximate and interacting states which have some common ethnic, linguistic, cultural, social, and historical bonds, and whose sense

² Ibid., p. 115.
of identity is sometimes increased by the actions and attitudes of states external to the system.”

William Thompson provides us with further guidelines, which include:

“regularity and intensity of interactions to the point where change in one part affects other parts; general proximity of actors; internal and external recognition of the subsystem as a distinctive area; units of power that are relatively inferior to units in the dominant system; subordination in the sense that a change in the dominant system will have a greater effect on the subsystem than the reverse; intensive and influential penetration of the subsystem by the dominant system than the reverse; some degree of integration; common developmental status; and at least two or more actors in the subsystem.”

Based on the criteria above, one may argue that the Middle East and sub-Saharan Africa qualify as systems/regional sub-systems. The aforementioned similarities of geographic proximity and territorial continuity allow for direct relationships and constant contact between units. The contiguous nature of much of the system along with the interrelatedness of its parts means that actions in one place can have consequences in another. The overthrow of Zine El Abidine Ben Ali in Tunisia began a domino effect as mass protests and rebellions spread to neighboring states and beyond. Civil war in Syria has put pressure on other states as millions of refugees who fled the fighting are being temporarily absorbed in bordering countries. Likewise in Africa, ethnic conflict in the Great Lakes region and internal strife in West Africa have been shown to have a broader destabilizing impact. Civil war in Sierra Leone drew in regional actors as Burkina Faso, Guinea, Liberia, and Libya supported different factions during the conflict. The ripple

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5 When reference is made toward parts and units, we are not just referring to states. Additional components of the Middle East and African sub-systems include leaders, movements, regional organizations, and a range of other non-state actors that comprise the whole at the sub-regional level.
effect of the Rwandan Genocide led to Tutsi rebels invading the country from Uganda, a mass exodus of Hutus to the neighboring Congo, Rwandan backed rebels temporarily taking over in Kinshasa, and the porous borders surrounding the Congo allowing militant groups to operate with impunity.

In terms of economic integration, even with conflict, instability, and sanctions, trade continues to transpire between sub-systemic actors. Commerce, in some cases, has flourished as a result of these conditions that usually debilitate economic interactions as lucrative black markets have developed to provide goods and service that are otherwise unavailable. Common cultural norms, religious values, ethnic identity, ideological affiliations, overlapping linguistic associations, similar regime type, and shared historical experiences all constitute affiliations that help further integrate the various components within the overall systems of the Middle East and Africa.

**The Middle East and Africa: Modernization and Historical Paths to the Present**

The primary focus of this dissertation is to explain the determinants of outflows of Chinese FDI to the Middle East and Africa. Nevertheless, it is essential to build upon previous sections that define and conceptualize the region and continent by providing the necessary background to ensure that the treatment of the topic is placed in its proper historical context.

The politics of both regions have been marred by violence, authoritarianism, and foreign domination. These characteristics are not unique to the Middle East and Africa and can be seen, in one way or another, throughout the Third World during the colonial
era and the subsequent post-WWII decolonization period. Armed resistance campaigns were an important component in the struggle for many of these nations to acquire independence and the regimes that succeeded colonial occupation were mainly authoritarian in nature. In addition, after the yoke of colonialism had been officially thrown off, a large number of neo-colonial states dominated by foreign powers emerged throughout the Global South with ruling elites closely aligning themselves with outside forces.

No two areas of the world have experienced as much foreign intervention as the Middle East and Africa in the modern era. One of the first instances of heavy external interference from the West was Napoleon’s occupation of Egypt in 1798, but western intrusion greatly intensified in the late 19th and early 20th centuries. The “Scramble for Africa” led to the official partition and formal colonization of the continent by European powers following the British occupation of Egypt in 1882 and the Berlin Conference of 1884-1885. After the end of WWI and the subsequent breakup of the Ottoman Empire, Britain and France, via the Sykes-Picot Agreement, divided up most of the Middle East into mandates, which were little more than fig leaves for colonial rule. Western powers even managed to dominate countries that were not formally under their suzerainty. For example, Iran was politically dominated by Britain and Russia throughout the early 20th century, and later fell under the hegemony of the United States until 1979. Due to a military invasion and subsequent occupation, fiercely independent Ethiopia even fell under the brief control of Italy in the 1930s.

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6 The terms developing world, global south, and third world will be used interchangeably.

7 These mandates are also occasionally referred to as protectorates.
Initially, the discovery of an abundant amount of natural resources and raw materials, which were relatively inexpensive to produce, sparked western interest in the region. The procurement of petroleum in the Middle East allowed the British military to switch its primary source of fuel from coal to oil. This change was strategically vital for Britain’s navy during WWI, because it allowed its ships to sail faster and for longer durations. Since the Middle East has the largest amount of proven oil reserves in the world, the struggle over controlling access to this natural resource has led to tremendous amounts of foreign intervention and destabilization that still continues to this day.

Likewise in Africa, WWI caused a precipitous increase in demand for copper, which was readily available in different parts of the continent. Therefore, mass production of the metal for wires, cables, and manufacturing purposes played a crucial role in the war efforts of the Allied Powers. The US government was also particularly dependent, along with most of the world, on uranium from central Africa. The United States, which had already utilized uranium excavated from the Congo in the two atomic bombs it had dropped on Japan at the end of WWII, was in desperate need of a stable, unfettered supply of the ore, because of the nuclear arms race it was embarking on with the Soviet Union. Due to Africa possessing the most vast and diverse amount of natural resources on the planet, competition over the continent’s inherent wealth has been a key source of conflict, instability, and foreign encroachment.

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8 At this time the Congo was the source of the majority of the world’s uranium and the ore was most abundant in the province of Katanga.

9 This is one element of the resource curse. For a comprehensive discussion on the issue, see Macartan Humphreys, Jeffrey D. Sachs, and Joseph E. Stiglitz, Editors. *Escaping the Resource Curse*. New York: Columbia University Press, 2013.
As WWII ended, the trend of increased nationalist sentiment grew throughout the Global South, which helped usher in the end of colonialism. The international roles of Britain and France had been diminished while the US attempted, with varying degrees of success, to fill the Western European void by becoming the main power broker in the Middle East and Africa. In addition to the acquisition of independence by former colonies, American and Soviet super-power rivalry was being simultaneously solidified through the Cold War. The establishment of Mao Tse-Tung’s People’s Republic of China in 1949 and the Korean War (1950-1953) exacerbated US fears of communism. As a consequence, the United States began to increasingly view foreign policy and international developments through the lens of Cold War politics. American officials believed that third world nationalism was synonymous with chaos, which would lead to a potential communist takeover, thus, a pro-western autocratic or “strong man” was preferred for reasons of stability.

As a result of the Cold War and the strategic significance of natural resources, many of the regimes that emerged in the Middle East and Africa were highly authoritarian and dictatorial in nature. A number of these neo-colonial states were actively supported and heavily influenced by the United States. In turn, when making policy calculations, these autocratic rulers would, for the most part, safeguard American interests and work to secure western access to ores, metals, and fossil fuels. Furthermore, due to a lack of development, these same governments in the region and continent became increasingly dependent on the West not just for political support, but for financial, economic, and military aid. The low level of progress in the Middle East and

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10 This phenomenon was not specific to only the Middle East and Africa. It was evident in other parts of the Developing World, such as Southeast Asia and Latin America, as well.
Africa coupled with dependency on the West also meant that raw materials would be exported out while finished goods were imported back into these two parts of the world.\textsuperscript{11} The West fostered this relationship by encouraging authoritarian governments in both places to purchase vast quantities of services, technology, and military equipment that they sometimes did not necessarily need, or even, in some cases, know how to use.\textsuperscript{12} As relations grew stronger, so did the accompanying dependency.\textsuperscript{13} The bond has become so robust that the American-allied authoritarian leadership of these regions has been given carte blanche domestically as long as the relationship remains intact and the status quo is maintained.\textsuperscript{14} In general, these authoritarian states may be characterized by their secularism, oppressive politics, relative lack of development, and the tendency to use religious symbolism and nationalist imagery when politically expedient.

\textsuperscript{11} A good historical example of this relationship of dependency would be Egypt exporting cotton to Britain and later buying finished British goods, such as clothing, that used Egyptian cotton.

\textsuperscript{12} Saudi Arabia and the Persian Gulf sheikhdoms have relatively recently purchased very sophisticated military equipment from the US. America actively encourages these states to buy these goods by highlighting Iraqi and Iranian “threats” to the security of their regimes. As one former member of the US military has told me, ex-military personnel have developed quite a lucrative career by traveling to these countries and attempting to teach members of their armed forces to use this new equipment. In some cases, such as the AWACs surveillance planes sold to the Saudi military, Americans have had to assume the duty of flying them and monitoring the skies themselves.

\textsuperscript{13} For example, the dependency on the US in Kuwait is so strong that America is, for the most part, solely responsible for the security of Kuwaitis. The government of Kuwait pays the United States to operate a military base in the country as well. Similarly, without American support, most experts agree that the Saudi monarchy would be much more susceptible to pressure and destabilization. The United States and France both also have a military presence in the Horn of Africa and the latter has a network of small, but well-equipped military bases in Djibouti, Senegal, and Gabon.

\textsuperscript{14} Fairly representative recent cases that personify this relationship include the violent state suppression of protestors in Gabon in 2009 and Bahrain beginning in 2011. In both instances the aggressive measures taken did not act as an impediment to continued political, economic, and military cooperation with the United States.
To fully understand the evolution of Middle Eastern and African politics, it is necessary to go beyond simply analyzing western impact by broadening our focus and examining some of the paths taken toward modernization and the role these programs played in bringing about the situation that is currently unfolding in both the region and continent. As previously described, the Middle East and Africa are notorious for low levels of development which intensify dependency on outside forces. There have, however, been modernization attempts, though in some cases these developmental models conflated being modern with westernization while others programs rejected western values. In general, the mode of modernization utilized by Middle Eastern and African regimes has been a top-down form of development that is highly bureaucratic and extremely authoritarian with the intent of ensuring regime continuity.

The most notable examples of the phenomenon in the Middle East are Mustafa Kemal Ataturk and Reza Shah’s modernization efforts in Turkey and Iran. Both leaders came from a military background and were staunchly secular, highly dictatorial, and worked to emulate the West. The plans they had for modernizing their countries ranged from establishing a state with central authority and a strong military to banning traditional Middle Eastern clothing in favor of western attire.\(^{15}\) The results for both nations have been mixed.\(^{16}\) On the one hand, law and order was established, modern amenities became more common, and a renewed sense of national pride was created. On

\(^{15}\) Ataturk was more extreme in his revamping of Turkey as he even changed the alphabet from Arabic letters to a Latin variant. Reza Shah’s modernization program was continued by his son, Mohammad Reza Pahlavi.

the other hand, the role of the military as the “protectors” of Turkish democracy led to four military coups and the Pahlavi monarchy’s corruption and economic mismanagement helped lead to its downfall.

An interesting contemporary case is Dubai in the United Arab Emirates (UAE). This sheikhdom has used the vast increase in petrodollars to develop the area as a whole and to attempt to diversify its economy. These advancements have transformed Dubai into an important international financial center, popular tourist destination, and precipitated a real estate boom. Although the Persian Gulf monarchies, with the exception of Bahrain, have been largely immune to the recent political turmoil in the region, real governmental reforms have not been undertaken. Instead, most of these states have made a conscious decision to try and adapt to modern demands by making a few piecemeal political changes and increasing already generous government subsidies as a way to pre-empt any sort of societal discontent. Therefore, despite these recent changes, the UAE ultimately remains a welfare state, and even with a small population, questions remain on the sustainability of this approach, which means the end result of this modernization campaign is unclear.

The Democratic Republic of the Congo (DRC) is emblematic of the problems that have plagued the continent of Africa and frustrated attempts at modernization. Shortly after the end of Belgian colonialism, a power struggle between various political actors led

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18 Bahrain is a unique case in that a minority Sunni family rules over a majority Shia population. Also, the public revelations made by Saudi Prince Khaled Bin Farhan al-Saud as a result of his recent defection suggest that the government of Saudi Arabia is highly concerned over the revolts in the Arab world and has taken a proactively aggressive approach in cracking down on dissent.
to General Joseph Mobutu conducting his second coup in November 1965 and establishing a military dictatorship for the next five years. After systematically eliminating political opponents, Mobutu, having no real challenges or obstacles remaining in his path, personally ruled the Congo for virtually the next 30 years. The defining characteristics of Mobutu’s rule, as Georges Nzongola-Ntalaja puts it, were “…corruption, gross violations of human rights, including assassinations, extrajudicial executions, massacres of unarmed civilians, and banishment to remote penal colonies.”19

Mobutu, having become president for life through a single-party system, began to implement his own distorted version of modernization along with ideologies of authenticity or Mobutuism and “Zairianization” to try and develop the Congo and garner support from the masses. The manifesto of Mobutu’s political party speaks for itself:

[It aims]…to build a truly independent Congo, to adopt nationalism as its doctrine, to restore the authority of the state and its international prestige, to give priority to the economy…by achieving a sound financial situation, stable currency, and controlled economy.20

Authenticity, however, meant unilaterally changing the name of the country to Zaire, banning foreign or Christian names, and not permitting men or women to wear western style clothing.21 To calm capitalist fears, Mobutu utilized the term “Zairianization” as a code word for nationalization. This policy involved expropriating many foreign owned companies, taking over the insurance field, organizing a new shipping agency, and

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19 Nzongola-Ntalaja, p. 141.
21 Nzongola-Ntalaja, p. 172.
creating a state-controlled contractor group. Mobutu’s political philosophy did not succeed in developing the Congo nor did it generate the public support that was expected.

Ultimately, Mobutu was overthrown during the First Congo War from 1996 to 1997 by rebel forces backed by Uganda and Rwanda. Subsequently, the Second Congo War from 1998 to 2003, where states intervened in support of and opposition to the Congolese government, and the Kivu Conflict, which was a spillover conflict in eastern Congo from the 1994 Rwandan Genocide, have led to over five million people dying as a result of war, disease, and starvation and millions more suffering displacement. In the aftermath of violence, a semblance of normality has returned to the DRC and although the Congo is now nominally democratic, it still faces the same challenges it did over 50 years ago.

For many years autocratic leaders in the Middle East and Africa were able to manage and contain popular discontent through a combination of coercion and cooptation. Yet decades of autocracy, patrimonialism, corruption, economic inefficiency, high unemployment, minimal political freedom, and human rights violations converged in recent times to create movements for change across the region and continent. Both the Arab Spring and the mini-wave of democracy in sub-Saharan Africa have forced leaders

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22 Kanza, p. 354 and Nzongola-Ntalaja, p. 274.
23 Although Belgian colonial occupation of the Congo was extremely brutal and fell just short of the official definition of genocide, the challenges and opportunities facing the DRC mirror many of the same issues confronting African countries across the continent. Similar to the Congo, Sierra Leone, Liberia, Rwanda, Burundi, and other African states have all made the post-conflict transition from institutionalized autocracy to nascent democracy. For a detailed account of the interrelated causes of unnatural death in the Congo during the colonial era, see Adam Hochschild. *King Leopold’s Ghost: A Story of Greed, Terror, and Heroism in Colonial Africa*. Boston and New York: Houghton Mifflin Company, 1998, pp. 225-234.
to confront the pervasive political and socio-economic shortcomings that ultimately gave rise to multiple public expressions of grievances.

The political demands that brought about change in the Middle East and Africa have had their limitations. Despite challenges to political authority and incremental changes in the region, most regimes in the Middle East were able to adapt, and the underlying tensions mentioned above that are endemic in most societies remain in place. In Africa, although transitions to democracy have taken place in some states, authoritarianism continues in others. Even in nascent democracies, consolidating democratic rule has been extremely challenging as states continue to confront problems, ranging from authoritarian tendencies to bloated bureaucracies to instability and conflict, that have plagued Africa in the past.

Review of the Literature (II): Theory and Research on Chinese Foreign Direct Investment

*Overview: Development, Patterns, and Trends in Chinese Outward FDI*

The purpose of the following sections of the paper is to gauge the state of scholarship and level of intellectual production on the issue of Chinese foreign direct investment. As we survey the literature on the topic, there will be an expansion of some of the sources cited previously while also introducing new secondary material to fully round out our discussion in a thematic manner. In doing so, we will weave and intertwine theory and hypotheses with our literature review in order to flesh out our
sources and offer a thorough understanding of the academic scholarship on Chinese FDI.\textsuperscript{24}

Hsiu-Ling Wu and Chien-Hsun Chen identify four stages in the development of Chinese FDI from 1978 to 2001.\textsuperscript{25} The 1\textsuperscript{st} stage (1978-1983) was based primarily on policy objectives: China sought to use outward bound FDI as a means to enhance cooperation with states in order to establish trade relationships and bolster Beijing’s economic clout and political status at the international level. Profit maximization was not a key goal at this stage. During the 2\textsuperscript{nd} stage (1984-1985), the numbers, scope, and range of Chinese enterprises involved in external FDI activities increased rapidly. This trend continued in the 3\textsuperscript{rd} stage (1986-1992) as a result of economic liberalization and government encouragement. In this era, profit maximization became important as Chinese firms attempted to exploit their comparative advantage in various sectors. The 4\textsuperscript{th} stage (1993-2001) witnessed some stagnation in the levels of outward FDI as the Chinese government implemented economic restructuring measures. Overall, Wu and Chen are able to demonstrate that higher levels of international investment by Chinese companies continued despite occasional lags.

The authors also echo other scholars in reiterating that seeking assets and resources were the primary reasons for large investments by Chinese firms in industrialized countries. Nevertheless, another motivating factor for Chinese firms to

\textsuperscript{24} This portion along with subsequent sections of the literature review will be organized thematically. Overlap, however, is unavoidable as various issues within Chinese FDI converge and coincide with one another.

invest overseas is highlighted. An argument is made that offshore investments may be able to offer protection against domestic inflation and exchange rate depreciation. Therefore, Chinese MNCs can set up subsidiaries internationally to enjoy the benefits of a more balanced portfolio and evade foreign exchange and other restrictions that would hamper them in China. The article additionally underscores the move by Chinese companies to begin diversifying the geographic distribution of their overseas investment activities during this time period by turning their attention to other areas.

Mark Yaolin Wang traces the history and explains the motivations behind outward Chinese FDI in a relatively early journal article on the subject. Wang focuses on the selection of locations during the nascent stages of Chinese FDI. Initially, China mainly targeted the US, Canada, Australia, and Hong Kong with FDI outflows with the strategic logic behind these investments being similar to the reasons put forth by Wu and Chen. The year 1990 is identified as being the time when China began outward FDI in increasingly larger amounts to other parts of the world (Africa, the European Union, Eastern Europe, Latin America, Southeast Asia, and the Middle East). This pattern would pick up pace in the 1990s and subsequently expand even further during the first decade of the new century.

Randall Morck, Bernard Yeung, and Minyuan Zhao describe China’s outward FDI in terms of its size, scope, target locations, and players. The authors tell us that China’s global share of outward FDI is extremely small. While there has been attention

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directed toward high profile Chinese FDI in developed countries, the target locations for most of the country’s FDI and FDI stock, as of the end of 2006, are in Asia, Africa, and Latin America. Moreover, the article’s data also shows a propensity for Chinese firms to invest in Caribbean tax havens for a multitude of potential reasons (concealing wealth from the government, hiding profits from shareholders, and easy access to trade and finance activities). Examining the 30 largest companies in China in 2005 and 2006, the article discusses two major observations vis-à-vis these key players. First, the biggest sources of outward FDI are state-owned enterprises (SOEs). Second, practically all the important corporate actors in relation to Chinese FDI have domestic monopolies in some major industry.

Suma Athreye and Sandeep Kapur provide the reader with a contemporary introduction and broad overview of the trends, motivations, and strategies of Chinese and Indian firms as they expand internationally as well as policy implications resulting from this global expansion. 28 Focusing on China, the authors chronicle the rapid rise of outward FDI from the Developing World in general and China in particular, and state that Chinese firms are increasingly involved in overseas mergers and acquisitions (M&A). Subsequently, the article explains that Chinese FDI is more often in primary sectors, especially minerals and energy, whereas international investment from India is spread out across a number of sectors. The authors argue that the trend of Chinese economic dependence on sustained exports is the driving factor forcing Chinese FDI to seek and secure access to natural resources and raw materials.

Athreye and Kapur contend that a permissive economy is a necessary but insufficient condition for overseas investment when describing Chinese motivations. The two authors then argue that existing theoretical perspectives, such as the OLI paradigm, fall short of explaining the international activities of MNCs from developing countries. In particular, they claim that traditional theories on economic development do not apply to China’s FDI patterns since the country leapfrogged some of these stages by utilizing import substitution to develop their industrial base.

The article concludes by discussing possible policy implications and broader international and domestic trends. The authors believe that most view China’s ability to provide low cost manufactured goods to consumers as a positive, but they also point to anxiety over China’s overall rise by the “established order of industrial hegemony.”29 In relation to the domestic layer, the piece puts forth two contending views. One is that increased levels of FDI will deprive the home country of both financial and human capital. The second school of thought views the increased internationalization of developing economies as their “coming of age.”30

**The Role of the State in Chinese FDI: Theory, Practice, and Hypotheses**

Prior scholarship in the fields of international political economy and international business has often relied upon the OLI model, or “eclectic” paradigm, to investigate the cross-national pattern of direct investment.31 The OLI theory emphasizes that firms are

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29 Ibid., p. 219.
30 Ibid., p. 220.
31 As mentioned in the previous chapter, OLI refers to ownership advantages (O), location advantages (L), and internalization (I). The paradigm is referred to as “eclectic” because it blends together elements from the neo-classical theory of the firm and other behavioral approaches. For a pioneering
likely to internationalize (as opposed to remaining focused on the domestic market) when they enjoy an ownership advantage over potential competitors in foreign markets.\textsuperscript{32} Typically, scholars employing the OLI framework often ignore the role of the state (in the home economy) in FDI behavior, and particularly in studies of US FDI. Yet, in recent times, some studies have argued for the need to shift the focus from firm behavior in advanced states in order to explain the outward investment behavior of Chinese firms, which are based in a newly industrialized economy.\textsuperscript{33} Indeed, as noted in Chapter 1, however, in the Chinese context outward FDI must receive the approval of various government ministries, which invites attention to the role of the state in guiding FDI.

The political regime in China is a one party state. Emphasis on the PRC’s role in the economic dimensions of foreign policy is reflective of a broader state-centered approach in dictating a country’s political economy, especially in East Asian developmental states. And China can be considered a developmental state in the sense that it is industrializing while simultaneously possessing the bureaucratic and regulatory capacity to influence outward FDI amongst state-owned and private firms.\textsuperscript{34} The PRC is also not a liberal regime that allows its firms a tremendous amount of economic freedom.


\textsuperscript{34} Brazil would be another contemporary example of a developmental state.
As Ping Deng notes, state ministries, such as the State Administration for Foreign Exchange (SAFE), have various policy instruments at their disposal to influence FDI decisions. Reflecting the consensus at high levels of policy-making, state officials seek to employ outward FDI to safeguard national interests, including energy security, or to promote domestic competitiveness through the acquisition of foreign technology with FDI. Chinese multi-national corporations realize the constraints of the political environment in which they operate and are sensitive to state security concerns and strategic economic interests. In addition to national expansion, the business climate in China has helped to establish closer relations between private sector actors and those in the public sphere. This allows Beijing to either play the role of FDI facilitator, if MNCs cooperate by accounting for state needs in their commercial endeavors, or strictly enforce regulatory measures for firms who do not.

Wang also states that the Chinese government has actively supported and sponsored this process by playing a crucial role in directing large corporations to invest in certain locations and particular sectors abroad. The PRC has taken this approach in order to have outward Chinese FDI carried out in accordance with China’s long-term strategic interests. Thus, Beijing has encouraged its large firms to seek and acquire strategic resources (capital, raw materials, technology, and information) in order to ensure continued growth. Beyond the PRC’s push for large enterprises to go overseas in order to secure steady supplies of resources, Chinese firms have also sought new markets

35 Ping Deng, 2007, p. 72.
37 See Wang, 2002.
for their products. Acquiring access to new technology via joint ventures has been
another motivating factor in Chinese companies going abroad. Wang describes the
formal process of engaging in outward FDI and the official mechanisms and systems in
place by the government to help implement and monitor these external Chinese FDI
activities as well.

Athreye and Kapur demonstrate that much of the outward investment in the
Chinese context is done by large SOEs, which serves to directly solidify the role of the
state in this process. However, the authors, similar to other scholars, observe that
Chinese FDI is still small in scale when compared to the size of its economy and
international FDI flows. Thus, the attention that Chinese overseas investments are
receiving is a result of China’s status as an emerging global power and the Beijing-led
reorientation of its economy from an inward perspective to an outward approach.

In general terms, they believe the aforementioned commercial activities by
Chinese firms reflect attempts to follow Beijing’s lead by procuring strategic assets and
obtaining access to raw materials and distribution networks. Another motive identified
by the two is the need to gain access or proximity to overseas markets. In China’s case
this would be to improve access that has already been acquired through exports. The
second motivating factor Athreye and Kapur highlight is the drive to secure access to
natural resources and raw materials in order to sustain continued economic growth. In
this area, Chinese state-owned corporations have been at the forefront of obtaining access
to these resources. The article cites a possible rush overseas in order to get ahead of
domestic rivals as well.

38 See Athreye and Kapur, 2009. More information on this aspect of Chinese FDI will be provided
below in the section on economic influences.
Ping Deng contends that when it comes to outward investment flows, the drive for assets is spurred by the state and based on strategic needs, especially competing successfully in international markets.\(^{39}\) He is explicitly examining the rationale behind resource driven mergers and acquisitions by Chinese MNCs using theory and providing evidence in the form of case studies. The article uses an institutional perspective to explain the overseas activities of Chinese firms, particularly their aggressive strategic asset-seeking M&A approach to FDI, which often times takes place in advanced countries.

Deng’s model suggests that Chinese firms are under institutional pressures and cultural-cognitive influences to adopt the asset-seeking M&A strategy. The research advances the idea that the Chinese government’s role in encouraging and facilitating outward FDI is the most important exogenous source of institutional pressure. He also demonstrates that institutional constraints at the domestic level and rising difficulty in the ability to develop distinctive capabilities at home can contribute to M&A abroad and other forms of Chinese FDI. Corporate values and norms are identified as important endogenous sources of institutional pressure as well. Thus, the author concludes that higher levels of entrepreneurial orientation and adoption of the government’s “going global” outlook will boost the acquisition of strategic assets by Chinese firms in international expansion. Deng ends by asserting that inward FDI can play a role in this process by acting as a stimulant in precipitating the acquisition of strategic assets when it comes to moving outward.

Economic Influences on Chinese FDI: Theory, Practice, and Hypotheses

As observed above, a number of scholars hypothesize that the Chinese state guides firms, including SOEs and private companies, to promote certain national economic goals and interests. Certainly, countries that possess strategically important natural resources might be important for Chinese FDI. Harry Broadman, for example, hypothesizes that a large part of recent Chinese FDI targets oil-rich countries. This strategy has been facilitated by the Chinese state’s “going global” policy, in which firms are guided to “invest abroad to seek inputs in support of the country’s fast-paced economic development…” 40 Citing the recent geographical diversification of Chinese FDI, Wu and Chen and later Wang posit that Chinese firms have been motivated to invest in developing countries to secure access to oil and other important resources.41 Prior research has also found a positive association between inflows of Chinese FDI and natural resources in the host country.42

Chinese firms may have an inclination to be market-oriented as well. The state-centered framework on Chinese FDI hypothesizes that market-oriented firms may use trade as a precursor to FDI. Trade allows a firm to establish a presence in the host country’s market and to gauge additional market potential. If sales from prior trade are robust, firms may establish a branch in the market through FDI. Some studies have


41 See Wu and Chen, 2001 and Wang, 2002. Wu and Chen cite the primacy of economic influences, particularly the desire to seek new markets and increase exports, as being the initial triggers of Chinese FDI.

42 See Buckley et al., 2007, Ping Deng, 2007, and Ping Deng, 2009.
found a positive link between trade and Chinese FDI.\textsuperscript{43} Similarly, if firms are interested in higher sales, host countries with higher levels of per capita income might be attractive to Chinese FDI, and particularly for higher value-added products.\textsuperscript{44} However, Chinese firms might also gravitate to economies with lower incomes because there are fewer competitors from advanced states, and because there might be potential for strong growth for lower value-added products.

Huaichuan Rui and George S. Yip divide up the foreign investment habits of Chinese firms into separate categories and subcategories.\textsuperscript{45} The first group consists of large SOEs concerned with acquiring natural resources. Within these state-owned firms, according to the authors, there exists an “…obligation to fulfill national tasks with cost the least of considerations.”\textsuperscript{46} The second is made up of large SOEs motivated by China’s “go out” or “go global” policy. The third category is large or small public firms serving corporate strategy and shareholder interests. The last set of actors is private corporations that are driven by corporate strategy and entrepreneurial ambitions.

The further division of these Chinese MNCs is based on the underlying reasons for their acquisition activities. One group is made up of MNCs with a focus on being

\begin{itemize}
\item \textsuperscript{44} See Chen and Lin, 2008. They speculate that Chinese firms may be motivated to invest in more mature developing-country markets in order to acquire new technology and managerial skills, which can be transferred back to China.
\item \textsuperscript{46} Ibid., p. 213.
\end{itemize}
competitive on a global scale while still wanting to retain strong positions domestically (e.g., Lenovo, Haier, and Huawei). Another motivating factor for Chinese MNCs is the need to offset competitive weakness in order to transform themselves (this has been an acquisition strategy used by SOEs). An additional driving force is competition between Chinese firms with a primarily domestic orientation and foreign MNCs for shares in the Chinese market. These domestic firms go out and pursue strategic assets internationally to either remain competitive or compensate for shortcomings within China. Trade-oriented firms also seek strategic assets from abroad to expand trade in the short term while possibly reinventing themselves as production firms later on down the road. The last are niche market players who engage in foreign acquisition as a means to further enhance their position in the market. The research is supported by case studies from three Chinese corporations (Lenovo, Huawei, and Nanjing Automotive) who all displayed a strategic intent perspective when making acquisition decisions in line with the motivations mentioned above.

Morck et al. identify three features at the macroeconomic level that are associated with increases in Chinese FDI: a high savings rate, weak corporate governance, and distorted capital allocation. Subsequently, the authors turn to the theory of the firm and the microeconomic motivations of Chinese outward investment activities. They believe that Chinese SOEs have developed robust methods of operation despite state interference. Additionally, the article argues that navigating in this type of difficult institutional atmosphere has aided Chinese MNCs when operating in countries with similar institutional environments.
Morck et al. contend that two remaining rationales guide outward Chinese FDI.

The first is that:

“…in certain maturing industries, outward FDI from China, even into advanced economies, might make economic sense. This ownership reversal…argues that the party possessing manufacturing capabilities becomes the ‘‘boss’’ as the locus of competition shifts from innovation to production cost and quality control.”

The second is that:

“…China’s outward FDI may be justified economically to SOE insiders who overvalue control owing to their distrust of markets and sense of national pride. This…rationale can continue as long as those who control China’s business enterprises continue to accept below-market share valuations in exchange for these perceived benefits of control.”

Xinming Deng examines the top 500 Chinese firms from 2004 in order to explain why these companies have gone abroad. Specifically, the author is analyzing their motivations for internationalization, their entry mode choices in foreign markets, and the logic behind the international markets they target. Only 59.64% of the Chinese corporations under investigation in this study end up having significant levels of outward FDI. The main Chinese entities, within the time frame of the article, that operate internationally are primarily from the steel, telecommunications, and building materials and construction industries. When analyzing the root causes behind Chinese firms going abroad, the author argues that it is chiefly a result of seeking both overseas markets and strategic assets. Other reasons highlighted by Deng that explain outward Chinese FDI are

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47 Morck et al., p. 348.
48 Ibid.
efficiency seeking, eliminating institutional obstacles, gaining institutional benefits, industrial promotion, and seeking resources.

The article elaborates by telling the reader that Chinese firms have utilized a multitude of methods with respect to their mode of entry into foreign markets. They range from direct export (the most popular entry mode) to management contracts (the least popular entry mode). The others, from least popular to most, include original equipment manufacturer (OEM), franchising, strategic alliances, transnational export of labor services, license, the creation of wholly-owned firms, construction of overseas factories, erecting research and development institutions, overseas technical cooperation, mergers and acquisitions, engineer contracting, joint ventures, listing abroad, indirect export, and overseas sale subsidiaries establishment. The author’s analysis reveals that although much of Chinese FDI at the time was located in Southeast Asia, the US, and Europe Union, there were large chunks of external investment in Russia, the Middle East, and Africa. Deng believes that these Chinese firms are conducting a “multi-directional exploration of international markets and international resources.”

Peter J. Buckley, L. Jeremy Clegg, Adam R. Cross, Xin Liu, Hinrich Voss, and Ping Zheng conduct a quantitative analysis using information from a variety of sources including data from the State Administration for Foreign Exchange, a key Chinese government agency that deals with the investment approval process. Their findings are consistent with some of their hypotheses while not lending support to some of their other assertions. Their data indicates that Chinese outward direct investment (ODI) is

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50 Ibid., p. 310.
51 See Buckley et al., 2007.
associated positively with absolute host market size (prior to 1991). In particular, market seeking was a key motive for this aforementioned hypothesis. The authors also found that Chinese FDI is associated positively with the proportion of ethnic Chinese in the host population. Therefore, cultural proximity is found to have a highly significant and positive effect on Chinese FDI flows. Their research also suggests that liberalization of Chinese FDI policy in 1992 increased external investment for that year. Their quantitative analysis of Chinese ODI patterns did not demonstrate a positive association between overseas investment by China and host country endowments of natural resources (although this did become significant from 1992 onwards) nor was Chinese ODI associated positively with host country endowments of ownership advantages.

They continue by elaborating on differences across time vis-à-vis the determinants of Chinese FDI. Before 1991, inflation, geographic distance, and market openness were key determinants of outward direct investment, but post-1992 only exports and imports are significant. As a result, Chinese FDI patterns have changed over time, and the article argues that change has partially occurred as a result of policy liberalization within China. Buckley et al. also find that from 1984-2001 Chinese firms moved away from undertaking mainly market-seeking strategies in nearby foreign markets and toward the securing of raw materials in riskier markets. Therefore, securing natural resources has become a vital goal in recent years in order to meet the demands of domestic growth. These investments have been made in countries, at least by western standards, with higher levels of political risk. Another important conclusion in the article is that market

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52 Buckley et al. utilize the term ODI as opposed to FDI throughout their article. Since there is no substantive difference between the two terms, the use of one over the other is a matter of style and preference.
size is a significant determinant of Chinese FDI within countries part of the Organization for Economic Cooperation and Development (OECD). However, the authors find that Chinese FDI follows trade/exports in both OECD and non-OECD countries. Mergers and asset-seeking were not the driving forces behind Chinese FDI flows. This became an important strategy for Chinese firms following 2001 (the cutoff year for the article’s data). One last indicator of external FDI cited by Buckley et al. is that capital market imperfections, particularly the low cost of capital that firms (especially SOEs) enjoy, in China have been crucial to outward FDI over the period in question (1984-2001).

Ping Deng, relying on data from the late 1990s and early 2000s, asserts that Chinese MNCs invest more in developed countries due to better technology, managerial skills, and investment environment. He goes on to explain that Chinese FDI is characterized by two significant and distinct features: the critical role of the Chinese government and the increasing use of mergers and acquisitions as a mode of entry. Both of these factors are highly influential in facilitating asset-seeking FDI based on the country’s strategic needs.

Deng highlights five economic determinants of Chinese FDI from an earlier 2004 article he authored: investing for natural resources, technology, markets, diversification, and strategic assets. He then elaborates by analyzing the root causes of these motivations and providing evidence in the form of case studies. The asset-seeking perspective (i.e., acquiring strategic resources such as market intelligence, technological know-how, management expertise, and a reputation for being established in a prestigious market) is

53 See Ping Deng, 2007.
54 Deng’s discussion on the role of the state can be found in a more recent contribution he made to the literature on Chinese FDI above in the previous section.
used as the primary factor in understanding the behavior of Chinese firms investing overseas. Specifically, the author cites China’s relatively late arrival on the international investment scene, which has provided impetus for Chinese MNCs to more aggressively engage in asset-seeking FDI, especially in developed countries, to compensate for competitive disadvantages and to allow for improvements in global competitiveness. In addition to M&A, Chinese MNCs utilize Greenfield investments as their other preferred method of engaging in asset-seeking investments.

In the edited volume *Multinational Corporations and the Emerging Network Economy in Asia and the Pacific*, a set of scholars tackle a wide-range of issues surrounding the political economy of the Far East. Edward K.Y. Chen and Ping Lin seek to identify the characteristics and determinants of the FDI patterns of Chinese firms. They argue that China’s outward FDI motives are based on seeking resources, markets, efficiency if possible (this is essentially when an MNC invests in other countries in order to improve its own productivity), and strategic-assets (done mainly in developed countries).

Chen and Lin do mention that securing stable supplies of natural resources at Beijing’s behest are important, but not as essential as strategic asset-seeking in explaining why Chinese MNCs go abroad. The main reason for this, according to the text, is because large amounts of inward FDI flows along with the penetration of Chinese markets by powerful foreign MNCs during the past two decades have put a tremendous amount of competitive pressure on Chinese firms. They further explain that this pressure left Chinese firms with no choice but to go abroad and acquire strategic-assets such as

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brand names, advanced technology, and a reputation for being established in developed
countries. The two sum up their argument by telling us that outward Chinese FDI is in
large part a reaction to inward FDI, and this has been the incentive for acquiring
advanced technology from abroad.

Chen and Lin also make an important distinction between two main types of
external Chinese FDI. The first is outward FDI by SOEs mainly in the area of natural
resources in order to sustain China’s economic growth. The second is primarily market
driven with the goal being to locate new international markets for Chinese exports and to
acquire strategic-assets like those mentioned above to either remain competitive in the
face of domestic pressure brought about by an influx of inward FDI or to complement
China’s existing advantages in low-cost manufacturing and increase its competitiveness
at home and abroad. Although efficiency seeking does not seem to be as important as the
other aspects when it comes to Chinese FDI due to China’s abundance of low cost labor,
the authors do support their assertions by using qualitative evidence in the form of case
studies.

While the text *China’s Expansion into the Western Hemisphere: Implications for
Latin America and the United States* does not primarily focus on the regions under
consideration in this dissertation, portions of this edited volume are relevant to our
discussion and may help shed light on the potential impact and policy implications of
China’s new political and economic relationship with the Developing World. The book
presents one claim that China’s growing international presence is simply a byproduct of

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56 Chen and Lin, p. 184.
the country’s “going global” strategy and then offers up counterclaims that emphasize China’s aggressive diplomatic approach in addressing fears that its rising power could potentially be destabilizing. The text, when explaining the Chinese government’s economic policies, cites factors such as long-term strategic planning and goal setting, prioritizing the development of local capacity, sound fundamentals (competitive exchange rates, high savings and investment rates, education, and research), and a strong willingness by the state to intervene in economic affairs as all playing key roles in economic success in China.

*Foreign Policy Objectives and Political Influences on Chinese FDI: Theory, Practice, and Hypotheses*

In addition to economic influences, the state-centered theory of Chinese FDI hypothesizes that political conditions in the host country may have an effect on investment flows. In particular, the state-centered approach assumes that firms gravitate to environments that provide secure protections for the firm’s ownership rights. In addition, state foreign policy goals and political considerations are crucial in the decision-making process of Chinese firms to invest abroad. As many analysts have indicated, Beijing already places a high degree of value on domestic political stability and incremental change. Given the involvement of government ministries in guiding FDI,

and the preference for political stability, it is possible that state officials also guide Chinese firms to avoid political risk in external markets. Thus, we might expect that countries that have revolutionary movements or widespread political unrest will not be attractive for FDI.

Likewise, within developing areas, Chinese firms might prefer host countries that permit elections but restrict associational freedoms (i.e., labor rights and freedoms) to ensure stability in the investment environment. Buckley et al. note that in some periods, Chinese FDI is associated with higher levels of political risk; however, they attribute this largely to differences in their sample between developed and developing countries (as opposed to differences amongst developing countries in their sample).\(^{59}\) Focusing exclusively on developing-country markets, Chinese firms generally have a preference for political risk avoidance – although tolerance for risk may be higher in host markets that are abundant in natural resources. Finally, an important foreign policy goal might be to use FDI as leverage with states that continue to recognize Taiwan. In particular, Chinese officials might pressure firms to avoid countries where the state has recognized Taiwan.

Wang mentions some of the underlying political motivations behind external FDI and increased trade. The common theme of acquiring a steady supply of natural resources to ensure economic growth, which appears in much of the literature in previous sections, is highlighted as a vital foreign policy directive. The level of support for the One-China policy, backing of Beijing’s role in international organizations, and politicization of human rights can all impact the moves that large Chinese firms make in

\(^{59}\) Buckley et al., p. 510.
relation to outward FDI as well.⁶⁰ Similarly, Wu and Chen also argue that China hopes to use outgoing FDI as a vehicle to develop further collaboration with other countries to assist Beijing in enhancing its economic and political status at the international level.⁶¹

In terms of risk tolerance, the research findings of Buckley et al. found no evidence to support the notion that Chinese ODI is associated negatively with rising levels of host country political risk. The article states that “…a 1% increase in the host country risk index (i.e., a decrease in risk) is associated with a decrease in Chinese ODI of 1.8%.”⁶² As mentioned earlier, it is inferred that the increasing relationship between host country political risk levels and Chinese ODI is a result of variance between rather than within developed and developing systems. Nevertheless, the authors do propose a range of other reasons that may explain this phenomenon, including the possibilities that Chinese foreign investors may not perceive risk in the same way as firms from industrialized nations and that Chinese MNCs may also be prepared to invest in countries generally avoided by firms in industrialized nations for ethical reasons. However, the assessment of what constitutes political risk in a host country might vary depending upon the national origin of the firm.⁶³

*China’s Expansion into the Western Hemisphere: Implications for Latin America and the United States* highlights geopolitical and geostrategic goals as the driving force behind Chinese foreign policy. The two main objectives that constantly appear in Beijing’s foreign policy doctrine are energy security and the issue of Taiwan. Moreover,

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⁶⁰ Wang, pp. 204-205.
⁶² Buckley et al., p. 510.
⁶³ Ping Deng suggests that the institutional environment in China might influence how Chinese firms view different risk factors in host countries. See Ping Deng, 2009, pp. 76-77 and 79-81.
the Developing World is increasingly likely to be sensitive to China’s needs due to Beijing’s diplomatic offensive, which includes an aggressive combination of aid packages, infrastructure development projects, and increased trade, and further FDI. China’s non-interventionist approach to engaging developing countries with a foreign policy that avoids conditionalities also presents an attractive alternative to the policies of the West.64

Part of Broadman’s research focuses on investment-trade linkages at the firm level by providing empirical evidence that is consistent with the information above on how Chinese businesses operate. He explains that at the macro level success or failure in attracting FDI is based on a set of characteristics, many of which are either directly or indirectly related to political conditions in the host country. Political stability, geography (proximity to markets), quality of infrastructure services, reform measures (official capital flows stimulate reform while private capital flows respond to reform), a sound and stable economic policy regime, and “behind-the-border” market-supporting institutions, especially those assuring a competitive business environment, legal protection and enforcement of property rights, sound governance, and market-reinforcing regulatory regimes governing the provision of basic infrastructure services are all identified as important political determinants affecting the external investment activities of Chinese enterprises.65

64 For a discussion on how China’s political and economic policies in Africa are seen as viable alternatives to programs and models from the West, such as the Washington Consensus, see Firoze Manji and Stephen Marks, Editors. African Perspectives on China in Africa. Cape Town, Nairobi, and Oxford: Pambazuka Press, 2007, pp. 42-44.

65 See Broadman, p. 327 for a specific description of what the author considers a sound and stable economic policy regime.
China’s Economic Relationship with the Middle East and Africa: Implications for FDI and Trade

This section is not meant to be a comprehensive survey or an exhaustive account of China’s relationship with the Middle East and Africa. The purpose is to present an introduction to the reader that provides a backdrop for understanding contemporary relations as we move forward with a data-driven approach that seeks to quantitatively examine the FDI patterns of Chinese firms in these two parts of the Developing World.

African Perspectives on China in Africa is an edited volume that attempts to present the African voice on the challenges and opportunities posed by China’s growing presence on the continent. Setting the stage for the rest of the text by examining China’s historical role in Africa, the authors contend that the driving force behind China’s increasing involvement in contemporary Africa is the need for raw materials to enable further economic expansion. Thus, the Chinese government is encouraging its MNCs to invest in Africa and is helping to take on some of the risk by providing preferential loans and buyer credits. In one way, Beijing’s expansion is framed as a positive development for the continent. New opportunities for investment and the possibility of economic development without conditionalities are cited as benefits of this budding relationship. Furthermore, the potential for “South-South” cooperation, particularly China providing Africa with better advice and sounder models on how to solve problems that are hindering the continent (e.g., lack of rural development, absence of national unity, and warlordism) due to Beijing’s similar historical experiences, is

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66 See Manji and Marks, 2007.
Another point that is raised is the competition western corporations and governments now face, especially the alternative that Chinese aid now presents to international financial institutions in Africa. On the other hand, the text argues that the Chinese model of development, which does not place much emphasis on democracy or human rights, may be attractive to more authoritarian African rulers, thereby diminishing human development in certain countries.

The case studies that make up the bulk of the material in the book describe and analyze different issues related to Sino-African relations in specific contexts. Beijing’s involvement and relations with Mozambique and Sudan are described as resembling traditional European colonialism and western neo-colonialism due to the exploitation of natural resources and the destructive impact of infrastructure developments on the environment. Chinese practices in Africa, in general, are said to have deleterious environmental consequences on the continent, which, in some cases, resembles the practices of colonialists and neo-colonialists.

The text subsequently contextualizes China’s relationship with Africa and analyzes the current status of relations with an eye toward the future. Much of what we find in the previous literature is documented here, namely that China’s heavy interest and growing influence in Africa is a result of Beijing’s need for natural resources to help maintain economic growth. The authors also underscore the importance of bilateral relations in trade and investment between African countries and China, but reiterate that these relationships are mainly around the issue of natural resources. Last, the notion is

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67 The edited volume provides evidence, such as Africa being the source for 30% of China’s oil, to demonstrate growing Chinese dependence on Africa for natural resources. See Ibid., p. 157. This data was current as of the publication date of the text.
put forth that the idea of Chinese exceptionalism will fade as time goes by and African policymakers should pre-empt this by designing approaches more grounded in reality sooner rather than later.

Broadman’s *Africa’s Silk Road: China and India’s New Economic Frontier* argues that Chinese investors in Africa are influenced by a combination of economic factors. Specifically, the need to secure natural resources, acquire strategic assets (technology, brands, and distribution channels), obtain market access, and the acquisition of platforms for exporting to Europe, the US, and other parts of the region. Both Chinese FDI flows and stock to Africa are a small proportion of China’s overall FDI activities. Chinese FDI flows and stock to Latin America and Asia make up the majority of its foreign direct investment portfolio. 68

While historically China has been active in developing infrastructure in Africa, a large part of Chinese FDI has recently targeted oil-rich countries on the continent while its infrastructure development activities continue. Broadman tells us that growing FDI from China to Africa is consistent with its trade patterns in the continent. Thus, Chinese FDI is linked to Chinese trade with a focus on acquiring natural resources and the export of manufactured goods and products to Africa. Additionally, “based on the gravity model incorporating the stock of inward FDI as one of its explanatory variables, FDI in African countries appears to be complementing rather than substituting for bilateral

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68 Chinese FDI flows and stock data are from the time of the book’s publication. Broadman also tell us that, as of 2007, most of the Chinese FDI in Africa had entered the continent in the form of Greenfield/De Novo investments (82% De Novo, 9% Joint Venture, and 9% Acquisition). See Broadman, p. 291.
Therefore, a positive correlation exists between increases in FDI and a rise in exports at the country level.

*China Considers the Middle East* by Lillian Craig Harris documents the political and economic history of China’s growing involvement in the Middle East while analyzing Beijing’s policy approach to the region with an emphasis on the post-WWII era. The author identifies the PRC’s desire to maintain the Middle East as a buffer zone and security barrier against foreign encroachment from the West as one key goal that characterizes Chinese posture toward the region. Similar to some of above analysis on Sino-African relations, another guiding principle in formulating China’s Middle East policy has been the effort to portray Beijing as a model for Middle Eastern development. The text then breaks down China’s relationship with the Middle East into four chronological phases: anti-colonialist and anti-imperialist solidarity during the 1950s, the Sino-Soviet split and the Cultural Revolution of the 1960s, articulation of an alternative vision to Cold War politics that provided a “third way” forward in the 1970s, and the establishment of an independent foreign policy in the 1980s with achieving economic modernization and creating commercial ties as its primary pillars.

During this evolutionary process of Sino-Middle Eastern relations, Beijing began by providing political support for the struggles against colonialism and imperialism taking place in the region as a reflection of the PRC’s attempt to prevent western domination of strategically significant areas around the world. The next two steps were

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69 Ibid., p. 102.
71 Ibid., pp. xv, 246, and 277.
marked by a Chinese break from the Soviet Union and support for various revolutionary causes in the Middle East in trying to accomplish the dual goals of undermining the two superpowers while at the same time offering a non-aligned path for states in the region. After being largely unsuccessful at realizing the aforementioned policy objectives, the final stage in the book highlights China’s autonomous foreign policy and its ambitions to advance its economic interests in the Middle East by focusing on increasing trade and vitalizing economic relations.

The text concludes by examining the political implications of China’s future rise and the tensions it could create with the United States. The end of the Cold War had, according to the author, simultaneously benefited and harmed China’s stature in the Middle East. Harris argues that although communism had been discredited in the region by the dissolution of the Soviet Union, the people of the Middle East continued to view China as an emerging superpower. The author, however, argues that Beijing’s primary motivations in the Middle East during the post-Cold War era are less political and more economic. As the book strives to provide the proper historical perspective to understand modern Sino-Middle Eastern relations, the need to ensure the traditional regional role of acting as a security barrier and buffer zone for Beijing is a constant thread that appears throughout time in relation to China’s outlook on the Middle East.

Geoffrey Kemp’s *The East Moves West: India, China, and Asia’s Growing Presence in the Middle East* is a more recent account of the region’s economic and geopolitical relationships with its Asian neighbors. The main focus is on analyzing the

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consequences of Chinese and Indian ambitions in the Middle East and the challenges they may pose for America’s hegemonic role in the region. Kemp believes that China and India are currently content in allowing the US to continue carrying the burden of regional hegemony as long as the two are benefitting economically. The text, nonetheless, argues that the growing economic interdependence between the Middle East and Asia’s rising powers will ultimately work to diminish the regional influence of the United States.

As is the case in Africa, Beijing, we are told, is in a unique position to advance its interest in the Middle East. China, not stigmatized by having the same legacies of colonialism and imperialism as the West, can cite a non-interventionist past as an impetus in expanding its business and commercial connections to the region. The Chinese practice of avoiding interference in domestic politics and regional conflicts gives the PRC a further advantage in cultivating improved relations with states in the Middle East. Kemp also discusses how the growth of Asia’s emerging economies has led to the need to secure greater energy resources that are necessary both literally and figuratively in fueling sustained growth.

Although increased investment activities and the search to secure access to abundant amounts of oil and natural gas has intensified dependence between Beijing and the Middle East, the book examines a historical dimension that connects these political actors as well. The author cites the increased familiarity and enhanced opportunities that traditional ties and geographic proximity has given China over its competitors in their efforts to build better ties to the Middle East. These dynamics, along with China not possessing the same historical baggage as the US and Europe in the region, have all
served as the basis for building more meaningful political links and establishing deeper economic ties.

While the text is heavily descriptive in providing a wealth of data and facts, it does discuss the uncertain impact that unresolved regional issues and conflicts can have on the Middle East’s burgeoning relationship with Beijing. Kemp is skeptical about the possibilities of increased economic interdependence laying the foundation for political stability and wonders about the long-term viability of China’s reliance on soft power to advance its interests. The author, when analyzing policy implications, raises the possibility of friction and potential confrontation between China on one hand and the United States on the other as these actors all pursue their own regional agendas. We are left to ponder a future scenario where the US begins to abandon its hegemonic position in the region leaving a security void that will severely test China’s “hands off” approach.74

Muhamad S. Olimat in *China and the Middle East: From Silk Road to Arab Spring* provides a scholarly view of the growing Chinese presence in the Middle East from a regional perspective.75 The author begins by describing the longstanding historical, cultural, and commercial ties that initially developed over 2,000 years ago as a result of the main trade route from China to the Middle East known as the Silk Road.76 He then identifies five areas that are at the core of contemporary Sino-Middle Eastern relations. The text cites energy, trade, arms sales, cultural relations, and political cooperation as being the main catalysts behind China’s new strategic partnership with the

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74 Ibid., p. 67.
76 Ibid., p. 7.
Middle East before analyzing triangular relationships between Beijing, regional players, and international actors.

Olimat explains that, despite historical and cultural bonds that connect the two civilizations, China’s Middle East policy is guided by specific criteria meant to advance Beijing’s national interests. The strategic nature of the relationship is determined on a case by case basis as the PRC interacts with regimes in the region. On one side, Chinese engagement with Israel is focused on arms and technology while, on the other, China’s relationship with the United Arab Emirates centers on trade, investment, and commerce. It becomes clear, however, that the critical factor that unites China’s close relations with most states in the Middle East is natural resources. Furthermore, Olimat argues that future trends and projections suggest that China will rely heavily on the Middle East for the majority of its oil in the near future as domestic demand increases and international competition for energy intensifies.77

Additionally, shedding light on China’s response to the Arab Spring, the text argues that Beijing has taken a reactive approach by seeking to adapt to popular discontent in the Middle East in order to ensure that relations with key regional allies are not interrupted. As China attempts to strike a delicate balance of maintaining the regional status quo while trying to avoid a backlash from the people of the Middle East, Olimat concludes that Chinese involvement in the region will increase in the near future as Beijing’s interests in the Middle East grow in importance.

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77 Olimat expects China to rely on the Middle East for 75% of its oil in the next two decades. See Ibid., p. 41.
Summary: Theoretical Expectations

Based on the review of the secondary literature and the relevant theories on Chinese FDI, we can make certain preliminary expectations prior to analyzing the quantitative data on Chinese FDI in the Middle East and Africa. First, in terms of natural resources, an argument can be made for expecting a strong relationship between increasing levels of Chinese FDI and an abundance of fossil fuels and raw materials in the target country, in particular when it comes to securing access to oil, natural gas, and strategically important minerals. Second, one may infer that firms from China have a tendency toward market orientation as well. Thus, firms use trade as a method to deepen economic ties and lay the groundwork for future FDI. Although the secondary literature is conflicted on this issue, there might also be an expectation that host economies with lower per capita income have greater potential for sales growth, particularly for Chinese firms that focus on lower value-added products.

Shifting the focus to political influences, qualitative case studies suggest Chinese firms strive to avoid political risk in the Developing World. Therefore, while not necessarily concerning themselves with internal politics and regime type, Chinese firms might place an emphasis on stability in the host country. This may lead to greater FDI in developing states that demonstrate a stable business climate by curtailing civil liberties and associational life as well as having a track record of successfully honoring contracts. Also, in terms of foreign policy objectives, this study expects that states that offer diplomatic recognition to Taiwan will receive less, or no, Chinese FDI.

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78 It is important to note that, when discussing firm behavior going forward, inferences are being made about individual level firm behavior from highly aggregated data that involves many firms, which is convention in similar types of aggregate studies.
All the sources under consideration in this survey have played a role in enhancing our understanding of a multitude of factors surrounding external Chinese FDI and China’s relationship with the Middle East and Africa. As we can see, much of the literature on Chinese FDI focuses on actions and interactions with the Developed World. In addition, most of our sources examine the issue of outward Chinese investment from a qualitative perspective. The analysis of China’s relationship with the Middle East and Africa leans heavily on the procurement of natural resources being the strategic rationale behind the PRC’s pivot toward the region and continent. These observations notwithstanding, there is a dearth of quantitative evidence on the subject beyond basic facts and examples.

Overall, the recent rise of Chinese FDI in the Developing World is a relatively insufficiently examined issue. Scholars have concentrated much of their efforts on inflows of FDI to China or on creating an improved understanding of Chinese investment in advanced industrialized economies. Previous academic scholarship on Chinese FDI in the Global South has given us valuable insight on the topic. As is evident, however, past studies have disproportionately focused their attention on the economic underpinnings of policy formulation while comparatively neglecting to factor in the potential impact of political influences on the investment behavior of Chinese firms. In order to address this scholarly lacuna, we will utilize a cross-sectional time-series incorporating both political and economic variables to more fully capture the determinants of Chinese FDI to the Middle East and Africa. Before presenting the statistical results of the model, we turn our attention to a detailed discussion of the research design, data collection, and methodological aspects of the dissertation in the chapter to follow.
CHAPTER 3

DATA COLLECTION, RESEARCH DESIGN, AND METHODOLOGY

The prior academic scholarship that investigates Chinese foreign direct investment to advanced industrialized states provides us with a valuable opportunity to examine this topic from a relatively understudied angle. By building a statistical model that attempts to explain Chinese FDI patterns to the Middle East and Africa, I make use of a quantitative approach that allows one to study this process with an emphasis on two key areas within the Developing World. In contrast to the literature that does exist on external Chinese FDI in the Global South, much of which utilizes a qualitative perspective via case studies, creating a data set and estimating a statistical model provides a multi-dimensional understanding of external flows of Chinese FDI to the region and continent. Indeed, such an approach may yield more comprehensive results by accounting for a broader range of independent variables, such as political influences, that complement the dominance of economic concerns.

Dependent Variable

The dependent variable that this dissertation employs is China’s annual real (inflation adjusted) net FDI outflows to the countries of the Middle East and Africa. During the time frame for the study (2003 through 2010), the amount of Chinese FDI (in total unadjusted millions of dollars) received by each country varied considerably. Some countries, such as South Africa, received a net amount of over 4 billion dollars, while others had a net outflow of 63 million dollars (i.e., -63 million dollars). Because of extreme differences in the amount of FDI received by countries in the data set, it is
advisable to normalize the data. As Quan Li has suggested, using the natural log of Chinese FDI in each recipient country within the model is a useful way to address FDI data where there are outliers and extreme differences in the amount of FDI.\(^1\) Therefore, all of the FDI data are logged and in constant 2005 millions of US dollars, with an additive constant for observations that are zero or negative (for log transformation). The data for Chinese FDI was collected from the Ministry of Commerce (MOFCOM) of the People’s Republic of China.\(^2\)

It should be noted that prior to 2002, government statistics on external Chinese FDI were documented haphazardly with irregular reporting and underestimates of data.\(^3\) However, in more recent years, the Chinese government began to compile and document FDI figures that are consistent with international standards established by the Organization for Economic Cooperation and Development and the International Monetary Fund.\(^4\) As a result of the problems of comparability in FDI data before and after 2001, this dissertation limits analysis of Chinese FDI to the post-2002 time period. Although China was active in terms of external FDI prior to the 21\(^{st}\) century, there was not a precipitous increase that was sustained over time until the early 2000s and beyond. Moreover, since the adoption of internationally accepted FDI compiling and recording


\(^4\) Cheng and Ma, p. 3.
methods, MOFCOM has only provided data from the year 2002 up until the end of the decade with the release of the 2010 Statistical Bulletin of China’s Outward Foreign Direct Investment. Therefore, the time-frame I employ in seeking to understand variation on FDI emanating from China to the Middle East and Africa is from 2003 to 2010. The data set itself is comprised of 57 countries located in the Middle East and Africa in which observations are part of a pooled time-series analysis covering an eight year period.

Independent Variables: Economic Influences

To account for the salience of China’s strategic economic interests, I introduce a number of independent variables (the hypothesized direction for each independent variable is summarized below, in Table 1). First, the model utilizes the natural log of real total bilateral trade (constant 2005 millions of US dollars) between China and the target nation. The data are lagged by one year to avoid endogeneity issues between FDI and

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5 No specific reason has been given by the Ministry of Commerce as to why the cutoff date for the data on external Chinese FDI has, so far, been the year 2010.

6 The period of 2003 through 2010 is used for the dependent variable. Because of lagging of the independent variables, the first year of observations for the explanatory variables is 2002. In order to address potential coverage issues, some data for 2002 (for the lagged dependent variable) were compared with figures in the United Nations Conference on Trade and Development (UNCTAD) FDI database for specific recipient countries.

7 The only countries within the region and continent that are absent from the model are Burkina Faso, Burundi, the Central African Republic, the Comoros, Guinea-Bissau, Iraq, Israel, Sao Tome and Principe, Somalia, South Sudan, and Swaziland. These countries are not included as a result of missing data for some or all of the variables during the study period. In particular, MOFCOM provides no data on outward FDI to all the aforementioned countries with the exception of Israel. Moreover, Israel and South Sudan both fall outside the scope of the model for other reasons. The former is considered a developed political system while the latter officially achieved independence in 2011.
trade.\(^8\) The statistics on Chinese trade and gross domestic product (GDP) as well as China’s consumer price index (base year 2005) were retrieved from the World Bank’s Development Indicators (various years) and the International Monetary Fund (various years).\(^9\) In order to measure the impact of natural resources in countries within the data set, statistics from the World Bank’s Development Indicators (various years) on ore and metals exports (as a percentage of a host country’s total manufactured exports, lagged by one year) are included in the analysis.

Next, to examine the ramifications of China’s dependence on oil imports, I use a variable for net oil exporters (exports-imports) in the recipient with a one-year lag. Countries are coded according to the amount of net oil they export on a daily basis. In the data set, the variable for net exports is coded in the following manner: “1” is indicative of 25,000 to 999,000 barrels per day; “2” denotes 1 to 1.99 million barrels per day; “3” signifies 2 to 2.99 million barrels per day; and “4” represents anything above 4 million barrels per day. Countries in the Middle East and Africa that have net oil exports that are less than 25,000 barrels per day, or who are net importers of the commodity, are coded as “0.” The information on net petroleum was obtained from the US Energy Information Agency (various years).\(^10\) Finally, to properly account for the influence of recipient market size on inflows of Chinese FDI, a natural log of total real GDP per

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\(^8\) Following Tuman and Shirali, (forthcoming 2015), my model uses combined trade data (that is, total imports plus exports) to avoid collinearity between measures of exports and imports.

\(^9\) The data on Chinese trade, gross domestic product, and consumer price index were gathered from the World Bank’s Development Indicators, which may be accessed at http://data.worldbank.org/data-catalog/world-development-indicators and the International Monetary Fund’s statistical database at http://www.imf.org/external/data.htm.

\(^10\) The data on oil exports was collected from the international energy statistics provided by the US Energy Information Agency at http://www.eia.gov/countries/.
capita (constant 2005 thousands of US dollars), lagged by one year, is used as an independent variable. The information on real GDP per capita comes from the World Bank’s Development Indicators (various years).11

Independent Variables: Political Influences

In order to explain the possible effects that domestic political conditions may have on Chinese FDI flows, I employ the following variables in the model. The first is a measure of human rights within a host economy. The variable is derived from the mean of the civil liberties and political rights score for each host country. The average scores are taken from a compilation of yearly surveys by Freedom House (2014).12 These annual reports that Freedom House produces assign each country a separate score for civil liberties and political rights using an ordinal seven-point scale, in which a higher score connotes fewer liberties and rights and vice versa (Freedom House 2014).13 Although these rankings are made by Freedom House’s own staff, the organization brings in scholars who act as external auditors by using their expertise to ensure that scores are accurate (Freedom House 2014).14 Thus, the civil liberties and political rights scores put out by the organization are regularly used in the quantitative literature on FDI and are considered to be reliable.

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11 Information on total real GDP per capita was also sourced from the World Bank’s Development Indicators at http://data.worldbank.org/data-catalog/world-development-indicators.
12 Freedom House scores were taken from annual Freedom in the World reports archived at https://freedomhouse.org/report-types/freedom-world#.U8N91S-d7s0.
13 See Ibid for a more detailed account of Freedom House’s methodology.
14 Ibid.
An additional indicator of political conditions is revolution and civil conflict in the host country. For this variable, I use data on the number of casualties from revolutions and civil wars in each recipient country, normalized to population (i.e., casualties per 100,000 members of the population) along with a one-year lag. Using the raw data, I constructed an ordinal variable with several categories: “1” is for 10-100 casualties per 100,000; “2” is for 101-1,000 casualties per 100,000; “3” is for 1,001-5000 casualties per 100,000; “4” is for 5,001-15,000 casualties per 100,000; and “5” indicates casualties totaling more than 15,000 per 100,000. The source of this information is the Stockholm International Peace Research Institute (various years). One important note regarding the potential effects of mass political violence is that it will be considered in a separate trial.

Descriptive Statistics

Overall, the descriptive statistics for the variables in Table 2 below suggest the following patterns: The standard deviations for the recoded variables are clustered around the mean with the exception of ore and metals exports. The variable on ore and metals exports has a significantly higher range (0 to 85.37) than any other statistic in the data set with some countries relying heavily on the export of these types of natural resources.

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15 The data on armed conflicts was retrieved from Appendix 2A of the Stockholm International Peace Research Institute’s 2011 Yearbook, which is available at http://www.sipri.org/yearbook/2011/02/02A.

16 As a result of the emphasis within the literature on China not concerning itself with internal politics when investing, the first model will include all economic indicators plus the Freedom House averages in order to determine the level of variation on Chinese FDI that human rights abuse can explain. Subsequently, civil conflict will be added in a separate model to understand the impact of instability on Chinese FDI.
while others, devoid of an abundant endowment of minerals, are not involved in the activity at all. However, the range and standard deviation for ore and metals are reasonable, and the data do not suggest the need for additional transformations.\textsuperscript{17}

Another important observation is that the means for the dependent variable and its lagged counterpart both come close to being in the middle of the range, which demonstrates that there are no major issues for or against Chinese FDI in the sample data. Thus, the descriptive statistics provide an overview that allows for better insight of what to look for when making inferences by analyzing the data further.

**Estimation Methods**

The data set employed in this study pools observations of FDI in each country across an eight-year period. Therefore, the data set may be described as a pooled cross-sectional time-series (PCSTS). During the past two decades, the use of PCSTS data has increased drastically in quantitative political analysis and is now considered the standard in the subfields of international relations, comparative politics, and comparative political economy.\textsuperscript{18} Since my time-series only covers a span of eight years, the data set may be described as cross-sectionally dominant.

As documented in the literature, pooling data for the purposes of estimation may result in several violations of the classical linear regression method.\textsuperscript{19} Panel

\textsuperscript{17} Additional trials with the log transformation of ore and metals produced results that are consistent with the models reported below.


heteroscedasticity and autocorrelation are common problems in PCSTS data sets. After performing diagnostics, I found that tests indicated the presence of heteroscedasticity and autocorrelation in the data.\textsuperscript{20} To correct for statistical bias introduced by heteroscedasticity, I followed standard econometric methods by using ordinary least squares (OLS) and panel-corrected standard errors.\textsuperscript{21} To adjust for potential autocorrelation issues, I estimate the model with a lagged dependent variable, Chinese real FDI\textsubscript{(t-1)}, as an independent variable in the model.\textsuperscript{22} Finally, the results of the model may be distorted by outliers and highly influential countries (i.e., unit effects). After examining the data, only two units were identified.\textsuperscript{23} In the next chapter, I present the statistical results of my model and analyze the data.


\textsuperscript{21} See Beck and Katz, 1995 and Beck and Katz, 2004, p. 4. For diagnostic analysis of multicollinearity, see Appendix A.

\textsuperscript{22} See Ibid.

Table 1: Determinants of Chinese FDI in the Middle East and Africa, 2003-2010

<table>
<thead>
<tr>
<th>Variable</th>
<th>Expected Direction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Chinese Trade with Recipient, log ( (t-1) )</td>
<td>+</td>
</tr>
<tr>
<td>Chinese FDI, log ( (t-1) )</td>
<td>+</td>
</tr>
<tr>
<td>Chinese FDI (Lagged), log ( (t-1) )</td>
<td>+</td>
</tr>
<tr>
<td>Inflation, log ( (t-1) )</td>
<td>-</td>
</tr>
<tr>
<td>Net Oil Exports from Recipient ( (t-1) )</td>
<td>+</td>
</tr>
<tr>
<td>Ore and Metals Exports (% of Total Manufacturing Exports) ( (t-1) )</td>
<td>+</td>
</tr>
<tr>
<td>Human Rights Abuse in Recipient ( (t-1) )</td>
<td>+</td>
</tr>
<tr>
<td>Revolutionary Conflict and Civil War (Deaths Per 100,000 in Recipient) ( (t-1) )</td>
<td>-</td>
</tr>
<tr>
<td>Real GDP Per Capita (Lagged), log ( (t-1) )</td>
<td>+/-</td>
</tr>
</tbody>
</table>
Table 2: Descriptive Statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Chinese Trade with Recipient, log (_{(t-1)})</td>
<td>5.991635</td>
<td>1.93932</td>
</tr>
<tr>
<td>Chinese FDI, log (_{(t-1)})</td>
<td>4.316666</td>
<td>.4054868</td>
</tr>
<tr>
<td>Chinese FDI (Lagged), log (_{(t-1)})</td>
<td>4.270246</td>
<td>.3642838</td>
</tr>
<tr>
<td>Inflation, log (_{(t-1)})</td>
<td>.0494334</td>
<td>.5407755</td>
</tr>
<tr>
<td>Net Oil Exports from the Recipient (_{(t-1)})</td>
<td>.4686717</td>
<td>.9685486</td>
</tr>
<tr>
<td>Ore and Metals Exports (% of Total Manufacturing Exports) (_{(t-1)})</td>
<td>7.972851</td>
<td>16.40259</td>
</tr>
<tr>
<td>Human Rights Abuse in Recipient (_{(t-1)})</td>
<td>4.502506</td>
<td>1.582328</td>
</tr>
<tr>
<td>Revolutionary Conflict and Civil War (Deaths Per 100,000 in Recipient) (_{(t-1)})</td>
<td>.1025</td>
<td>.4152407</td>
</tr>
<tr>
<td>Real GDP Per Capita (Lagged), log (_{(t-1)})</td>
<td>7.177947</td>
<td>1.547789</td>
</tr>
</tbody>
</table>
CHAPTER 4

DATA ANALYSIS OF CHINESE FOREIGN DIRECT INVESTMENT IN THE MIDDLE EAST AND AFRICA

The purpose of this chapter is to provide the statistical findings of this study through an examination of two models that focus on economic and political determinants of Chinese FDI to the Middle East and Africa. Initially, there will be a presentation of the results of the statistical models along with accompanying commentary analyzing the explanatory power of the data. Subsequently, a discussion of case studies assesses how well the qualitative literature reinforces the quantitative approach that this study is based on. Last, a brief final section concisely summarizes the main findings of the data analysis before moving on to the concluding chapter.

Statistical Findings

The analysis begins with the basic model of Chinese FDI, which is presented in Table 3. The statistical results of the model lend support to some of the major hypotheses and theories on Chinese foreign direct investment that were described earlier in the dissertation. First, the coefficient for net oil exports is positive and statistically significant. This suggests that after adjusting for other influences in the model, Chinese FDI, on average, was attracted to net oil exporters. This finding is also consistent with the hypothesis on state-guidance to secure oil. As highlighted in the literature review, Beijing has encouraged firms from the Mainland to go abroad in order to obtain access to fossil fuels. China’s dependency on natural resources is a byproduct of its desire to maintain a relatively high level of economic growth. Oil imports from the Middle East
and Africa, where an absolute majority of the world’s proven oil reserves are located, have played a particularly visible role in this process as much international attention has been directed toward FDI activities by Chinese multi-nationals operating in this sector in both the region and continent.¹

The coefficient for ores and metals exports in the recipient is positive and statistically significant as well. This result indicates that Chinese FDI activities in the Middle East and Africa have a tendency to gravitate toward countries that have significant ores and metals exports.² As with the procurement of oil, the continuation of economic development in China has also made the country dependent on other types of raw materials. The imperative to secure access to mineral wealth has been a key source of commercial activity emanating from China in the Developing World. While policymakers are cognizant of the potential for tensions to arise as a result of competition with the US, Japan, or European powers for energy and resource extraction, the drive to ensure a steady supply of ores and metals, an abundance of which is deposited in the Middle East and Africa, further supports the claim that Chinese government officials attempt to use FDI as a vehicle to acquire strategically important natural resources.³

¹ The second part of this chapter will consist of a discussion section that builds upon the statistical results and provides further analysis along with contemporary cases that demonstrate and reinforce some of the findings.

² Although the African states in the sample account for most of the ores and metals exports, several Middle Eastern states also had small to modest levels of ores and metals exports too (e.g., Syria, Oman, Iran, and Jordan).

The coefficient for the natural log of real GDP per capita is negative and significant. Despite the propensity to focus on market size when investing in mature economies, the results here demonstrate that, in the Middle East and Africa, Chinese firms are not necessarily market oriented for the time period under investigation. After adjusting for the effects of oil and ores/metals exports, the model indicates that Chinese FDI was heavily concentrated in economies with lower per capita income. This may be the consequence of Chinese multi-national corporations consciously deciding to target countries with lower per capita income due to fewer entry barriers, less competition, reduced labor costs, and possible sales growth opportunities.4 Along the same lines, the coefficient for inflation is not statistically significant, and therefore does not explain variation on the dependent variable during the period in question.

The coefficient for the natural log of Chinese trade with the recipient is positive and highly significant. This clearly suggests that prior levels of trade have a strong effect on Chinese FDI.5 This finding is consistent with earlier expectations on the importance of trade vis-à-vis FDI and the theory of state-guidance. The state-centered approach explains that trade can serve as an antecedent to FDI. Similarly, the Chinese government also directs firms to utilize trade and commerce as a path to market entry in the Middle East and Africa. Beyond permitting firms to gain a foothold in a host country’s market, trade gives firms an opportunity to assess the feasibility of expanding market share. Subsequently, if trade yields positive sales results, firms may elect to further consolidate their market presence in the host through FDI. The linkage between these two activities

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4 Broadman, pp. 181-183. Also, see Tuman and Shirali, (forthcoming 2015) for a similar finding.
5 Broadman, 2007 and Chen and Lin, 2008 both found a positive connection between trade and Chinese FDI.
can serve other mutually advantageous purposes as well. As part of a larger strategy, Chinese firms may also use FDI as a catalyst to increase bilateral trade.

Table 3: Determinants of Chinese FDI in the Middle East and Africa, 2003-2010 (Model 1)

<table>
<thead>
<tr>
<th></th>
<th>Coefficient</th>
<th>Panel-Corrected Standard Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Chinese Trade with Recipient, log (t-1)</td>
<td>0.0512547***</td>
<td>0.0198177</td>
</tr>
<tr>
<td>Chinese FDI (Lagged Dependent Variable), log (t-1)</td>
<td>0.3175535</td>
<td>0.2421584</td>
</tr>
<tr>
<td>Inflation, log (t-1)</td>
<td>-0.0180585</td>
<td>0.0275093</td>
</tr>
<tr>
<td>Net Oil Exports from the Recipient(t-1)</td>
<td>0.062249*</td>
<td>0.0324223</td>
</tr>
<tr>
<td>Ore and Metals Exports (% of Total Manufacturing Exports) (t-1)</td>
<td>0.002865***</td>
<td>0.001039</td>
</tr>
<tr>
<td>Human Rights Abuse in Recipient (t-1)</td>
<td>-0.0226325*</td>
<td>0.0131072</td>
</tr>
<tr>
<td>Real GDP Per Capita (Lagged), log (t-1)</td>
<td>-0.0358643**</td>
<td>0.0159664</td>
</tr>
<tr>
<td>Intercept</td>
<td>2.930908***</td>
<td>1.018616</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.3083</td>
<td></td>
</tr>
<tr>
<td>Wald Chi-square</td>
<td>95.49</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>371</td>
<td></td>
</tr>
</tbody>
</table>

Entries are unstandardized OLS regression coefficients; panel-corrected standard errors are reported in the right-hand column. *p<0.10; **p<0.05; ***p<0.01
In addition to economic determinants, the model factors in political influences to examine whether domestic political conditions in the host affect Chinese FDI patterns. In the model presented in Table 3, this is done by analyzing the impact of human rights abuse on FDI flows in host countries. The results in Table 3 show that the coefficient for human rights abuse is negative and statistically significant. In fully interpreting this data, it is useful to examine the average for human rights abuse within the model. For the countries from the Middle East and Africa under consideration in the data set, the average score for human rights abuse is 4.5, which means most states in the model do not exhibit a high degree of democratization. While the coefficient suggests that for every increase of one point or more in abuse is associated with a reduction in FDI, the result here is indicative of Chinese FDI trending toward Middle Eastern and African regimes that are mildly authoritarian. Indeed, analysis of the data suggests that approximately 42% of the Chinese FDI (log) during this period was concentrated in states that had a mean rights and liberties abuse score ranging from 4 to 5.5, indicating regimes with moderate restrictions on rights and liberties. By contrast, only 17% of Chinese FDI (log) was directed to states with a mean score of 1 to 2.5.

The results in the model also indicate that, other than ensuring governments enforce property rights and honor contractual obligations, China, generally speaking, does not focus on internal politics in its economic relationship with the Middle East and Africa. The data further suggests that China, while tolerating electoral competition, may invest in regimes that impose moderate restrictions on political rights, associational freedoms, and civil liberties. What might account for this pattern? Firms are sensitive to the perception that China’s growing presence in the region and continent may be viewed
as eastern neo-imperialism and/or corporate recolonization. Therefore, host governments that limit press freedoms, assembly rights, and other aspects of civil society are possibly seen as more attractive targets for FDI since public criticism of Chinese economic activities can be suppressed, political arrangements are viewed as being stable, and investments are considered secure. This phenomenon is also similar to the institutional environment in China, where the regime restricts political rights while permitting increasing economic freedoms. The resemblance may play a role in precipitating FDI to parts of the Middle East and Africa that display these characteristics due to increased Chinese comfort as a result of familiarity.

Also, the variable for Taiwan did not yield enough observations for analysis. Last, the coefficient for the lagged dependent variable, Chinese FDI logged (t-1), is positive, but fails to achieve statistical significance. The reason may be that Chinese FDI to the Middle East and Africa is a relatively new phenomenon. Consequently, this variable within the model fails to completely capture the consistency of FDI flows across countries in both the region and continent.

Table 4 includes all the same covariates as the previous model, but adds another political indicator in civil conflict as an independent variable to measure the impact of civil war casualties. The addition of deaths (per 100,000 in the recipient) from civil conflict in the Middle East and Africa did not achieve statistical significance. Moreover, the inclusion of this coefficient had a negligible effect on the overall model as all other

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6 See Manji and Marks, pp. 51-52 and 161.

7 Previous research has shown that states that no longer recognize Taiwan and adopt the One-China policy begin to receive more Chinese FDI. See Tuman and Shirali, (forthcoming 2015) for an example. However, there was insufficient variation as a result of not enough countries within the data set recognizing Taiwan to include it as a variable in the models.
variables remained consistent with the model in Table 3. This suggests that political instability associated with civil conflict in these two parts of the Developing World does not have any effect on Chinese FDI.

This result from the analysis reinforces the notion that internal political conditions in countries do no impact recipient FDI from China. This subsequently lends explanatory power to the notion that Chinese firms, unlike their counterparts in advanced industrialized states, have a higher tolerance for political risk in a host economy. While firms from the West have an arguably greater chance at becoming the targets of popular discontent, due to imperial footprints and colonial legacy, if or when political unrest emerges, China’s historical lack of interventionist politics in the region and continent bolsters Beijing’s willingness to accept certain levels of political risk.8

Although regime type and stability are important to China insofar as contracts are honored and property rights are respected, firms from the Mainland have been concentrating their investment activities in states that can be characterized as authoritarian. Chinese firms, again, may view authoritarianism as a positive development due to institutional familiarity and the belief that restrictive regimes may be safer destinations for FDI due to the political stability they can provide. While this outlook may ultimately carry more inherent political risk than investments in democratic countries, China seems willing to accept the potential long-term consequences of this approach in order to take advantage of its immediate benefits. Thus, in principle, the

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8 Firms from the US and Europe may also have to deal with the fallout from perceived or actual support provided by their governments for unpopular regimes in the Middle East and Africa. Whereas China, on the other hand, attempts to practice a “hands-off” approach in dealing with domestic politics in other countries. See Kemp, 2010.
finding on deaths resulting from civil conflict might be viewed as consistent with the
results yielded from the variable on human rights abuse.

Table 4: Determinants of Chinese FDI in the Middle East and Africa, 2003-2010 (Model 2)

<table>
<thead>
<tr>
<th>Coefficient</th>
<th>Panel-Corrected Standard Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Chinese Trade with Recipient, log ( t-1 )</td>
<td>0.0500061***</td>
</tr>
<tr>
<td>Chinese FDI (Lagged Dependent Variable), log ( t-1 )</td>
<td>0.3171181</td>
</tr>
<tr>
<td>Inflation, log ( t-1 )</td>
<td>-0.0163808</td>
</tr>
<tr>
<td>Net Oil Exports from the Recipient( t-1 )</td>
<td>0.0642499*</td>
</tr>
<tr>
<td>Ore and Metals Exports (% of Total Manufacturing Exports) ( t-1 )</td>
<td>0.0029301***</td>
</tr>
<tr>
<td>Human Rights Abuse in Recipient ( t-1 )</td>
<td>-0.0228868*</td>
</tr>
<tr>
<td>Revolutionary Conflict and Civil War (Deaths Per 100,000 in Recipient) ( t-1 )</td>
<td>0.0307934</td>
</tr>
<tr>
<td>Real GDP Per Capita (Lagged), log ( t-1 )</td>
<td>-0.0354828**</td>
</tr>
</tbody>
</table>
| Interce...
Discussion

The qualitative evidence on outward Chinese FDI to the Middle East and Africa helps support the statistical analysis in this chapter. This is particularly evident in relation to commodities. As mentioned above, the coefficients for oil and ores/metals exports are positive and statistically significant. This supports the idea that Beijing guides firms to invest in countries that possess natural resources that are strategically important for emerging sectors in China. It is important to reiterate that China’s rapid economic expansion has made the country dependent on these raw materials in order to sustain future growth.

We can see the relationship between state guidance and Chinese FDI in natural resources through an examination of recent investment projects in Africa. In this context, the multi-billion dollar Sino-Congolese Cooperation Agreement signed in 2007 is a fairly representative example of the use of FDI by China to acquire access to valuable mineral resources. The Democratic Republic of the Congo, even by African standards, possesses a diverse array and vast amount of natural resources. Diamonds, gold, copper, zinc, uranium, cobalt, coltan, tantalum, and other ores and metals can be found in tremendous abundance in different parts of the country. Beijing directed state-owned enterprises (SOEs) to form a joint venture with the Congo where China would receive $9 billion worth of resources to be exchanged for the same amount in infrastructure.9 The agreement allowed two Chinese SOEs, Sinohydro and the China Railway Construction Corporation, to retain two-thirds majority ownership with the remaining portion of the

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joint venture belonging to the Congo. Consequently, there was a sharp spike and continued increase in Chinese FDI after this agreement was finalized. The joint venture was ultimately given exclusive rights to develop multi-billion dollar mines consisting primarily of copper, cobalt, and gold while the Congo received the largest infrastructure investment in the country’s entire history.

Similar patterns of the strategic use of Chinese FDI to gain control over supplies of energy and ores/metals resources can be found in others parts of Africa as well as the Middle East. The GDPs of Botswana and Zambia heavily rely on ores/metals exports and mining activities.\(^{10}\) As part of a larger package giving China a stake in the mineral wealth of these two economies, Botswana and Zambia, as was the case in the Congo, agreed to allow Chinese SOEs to build modern infrastructure in both places.

Oil and petroleum related products account for the absolutely majority of exports from Nigeria, Angola, and the Republic of the Congo for the years that fall within the scope of this study.\(^{11}\) Sinopec and the China National Offshore Oil Company, two of the largest Chinese SOEs in the field of energy, in 2005, 2007, and the first half of 2010 gained multiple oil concessions, a stake in Nigerian oil production, and a large share of the country’s reserves.\(^{12}\)

\(^{10}\) In 2006, the mining and extraction of diamonds, gold, and copper made up approximately half of Botswana’s GDP while Zambia’s GDP was almost entirely copper-dependent. See Anonymous. “African Economic Growth: The Twilight of the Resource Curse?” *The Economist*, p. 42.


\(^{12}\) These deals are particularly significant due to the fact that Nigeria contains the second largest amount of proven oil reserves in all of Africa.
Angola, Africa’s second largest producer of oil, signed multiple agreements with Sinopec and established a joint venture with the company for oil exploration, production, and refinement from 2004-2009. Angola agreed to accept three major multi-billion dollar infrastructure improvement projects in return. Likewise, as of 2007, China received half of the Republic of the Congo’s annual oil production in exchange for an equivalent amount of infrastructure development.

One of the key economic dimensions of Sino-Iranian relations revolves around Chinese efforts to procure natural resources from the Islamic Republic. To this end, Sinopec and the Chinese National Petroleum Corporation, beginning in the early 2000s, signed numerous billion dollar contracts with the National Iranian Oil Company (NIOC) that range from join ventures in developing oil fields to exclusive drilling rights to modernizing upstream and downstream capabilities to multi-year agreements on importing Iranian fossil fuels. Around the same time, the imposition of punitive United Nations Security Council resolutions aimed at sanctioning Iran for its controversial nuclear program did little to prevent economic cooperation between Iran and China as FDI levels increased significantly in the late 2000s.

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13 The joint venture, along with previous agreements, was between Sinopec and Sonangol, Angola’s national oil company.

14 One unique aspect of Iranian joint ventures with foreign firms in the energy sector is that these are usually equal partnerships where ownership is split evenly. These agreements can also feature a “buy-back” clause that allows Iran to purchase the remaining share from the firm at a profit in order to retain full ownership.

15 It is important to mention that navigating through the myriad of international and unilateral sanctions that have been imposed on Iran by different actors within the international community is no easy task. However, Iran has become adept at doing so as a consequence of its lengthy experience in dealing with various forms of sanctions since the inception of the Islamic Republic. Although Iran usually prefers
Even with Chinese firms moving in the direction of trying to reach consumer markets via FDI, the coefficient for the natural log of real GDP per capita, highlighted above, was negative and statistically significant. Therefore, the direction of FDI flows in the Middle East and Africa typically targeted hosts with low levels of per capita income as opposed to being market oriented. This could represent the desire of Chinese firms to gear FDI to relatively poorer countries in the region and continent due to the potential for sales growth in newer markets. In this area, China has a distinct advantage over domestic producers and international competitors in that firms from the Mainland are able to produce goods and provide services that are of comparable quality at lower costs.\textsuperscript{16}

China’s economic relationship with Ethiopia provides an example that helps illustrate the above-mentioned statistical finding. In many instances in the Developing World, China has leveraged its excess industrial and manufacturing capacity through non-resource related FDI by utilizing cheap labor, favorable entry conditions, and weak competition to reach untapped markets. As noted in \textit{The Economist}:

A Chinese government survey of 1,600 companies shows the growing use of Africa as an industrial base. Manufacturing’s share of total Chinese investment (22\%) is catching up fast with mining (29\%).\textsuperscript{17}

Thus, market-seeking FDI in Ethiopia, a low-income economy, has led to two out of three Chinese firms being manufacturers.\textsuperscript{18} Although not much overlap exists between local markets and manufacturing investments made by Chinese firms in the Middle East

to receive hard currency for its oil and natural gas exports, China has increasingly used infrastructure development projects as substitutes when processing payments has become extremely challenging.

\textsuperscript{16} Kemp, p. 12.

\textsuperscript{17} Anonymous. “Trying to pull together: Africans are asking whether China is making their lunch or eating it.” \textit{The Economist}, 399, 8730 (April 23\textsuperscript{rd}-29\textsuperscript{th}, 2011): 10.

\textsuperscript{18} Ibid.
and Africa, occasionally there is an adverse impact that comes with China’s competitive advantage in this area. Textiles and labor-intensive consumer goods are usually the hardest hit. Chinese competitors in Ethiopia, due to better overall design, price, and quality, were able to take full command of the footwear industry by either supplanting most local producers or forcing them to downsize considerably.\footnote{See Tegegne Gebre-Egziabher. “Impacts of Chinese imports and coping strategies of local producers: the case of small-scale footwear enterprises in Ethiopia.” \textit{The Journal of Modern African Studies}, 45, 4 (November 2007): 647-679.}

Jordan and Yemen serve as two more cases that demonstrate the negative effect of market wealth on Chinese FDI in the region and continent. The non-resource investments made by firms from China in both countries are mainly in the form of manufacturing facilities and providing services. Huawei Technologies, the largest telecommunications equipment maker in the world, made its first ever foreign sale in Yemen, which, along with subsequent investments by the firm, provided the necessary groundwork for the establishment of the first 3G mobile telecommunications network in the entire country.\footnote{Winter Nie, William Dowell, and Abraham Lu. \textit{In the Shadow of the Dragon: The Global Expansion of Chinese Companies–And How It Will Change Business Forever}. New York: AMACOM, 2012, p. 71.} Chinese companies have agreed to build power plants, upgrade airports, develop container ports, and modernize factories that produce basic materials.\footnote{See Chris Zambelis. “Burgeoning China-Yemen Ties Showcase Beijing’s Middle East Strategy.” \textit{The Jamestown Foundation China Brief}, 6, 11 (May 2006).} This flurry of economic activity has allowed China to become Yemen’s top import partner.

Chinese investment habits in Jordan have taken on much of the same non-resource characteristics as FDI in Yemen. Firms from mainland China have signed
agreements to provide the Hashemite Kingdom with broad improvements in infrastructure designed to achieve sustainable socio-economic development. This includes a series of memorandums on constructing hospitals, creating low-income housing, upgrading water supply facilities, and building oil shale, wind energy, and solar power plants.\textsuperscript{22} These deals opened a gateway for Chinese companies to successfully penetrate the Jordanian textile market and take advantage of the country’s unique position in the industry as a leading supplier of garments and apparel to the United States.\textsuperscript{23} As of 2008, wholly or partially owned firms from China already accounted for over 30\% of the textile presence in Jordan.\textsuperscript{24} Overall, China’s economic involvement in Jordan has resulted in trade flourishing between the two with the former now occupying a leading role in exporting goods, especially textile fabrics, electronics, and machinery, to the Hashemite Kingdom.

The coefficient for the natural log of Chinese trade with the recipient was identified above as being positive and statistically significant. This confirms the hypothesis in the literature that China may use FDI to establish commercial operations in recipient countries that promote Chinese imports. Beijing has also encouraged firms to use trade patterns as a precursor to market entry through FDI. Likewise, FDI may be used to help create subsidiaries in recipients that can function to increase trade and/or focus on exporting strategically important resources back to China.

\textsuperscript{22} Specific information on these projects may be retrieved from official press releases located on the Jordanian government’s Ministry of Planning and International Cooperation’s website at http://www.mop.gov.jo/.

\textsuperscript{23} This is the result of a 2001 free trade agreement with the United States.

China’s pre-existing trade relations with South Africa, particularly in the textile industry, laid the foundation for Chinese FDI.\textsuperscript{25} From 2005-2010, there was a dramatic increase in bilateral trade accompanied by an exponential growth in Chinese FDI.\textsuperscript{26} South Africa, one of the continent’s largest economies, had now become China’s leading trade partner in Africa. South Africa turned into a top target for Chinese textiles and manufactured goods while firms from the Mainland invested in infrastructure and agricultural projects and successfully sought the extraction of platinum, gold, diamonds, titanium, chromium, niobium, tantalum and other ores/metals.

China’s trade relations with Saudi Arabia cover a multitude of areas, including petrochemicals, construction, and consumer commodities.\textsuperscript{27} Bilateral trade between the two sides grew at a minimum annual rate of at least 30\% from 2002-2009.\textsuperscript{28} The rapid growth of commercial ties between China and Saudi Arabia, which have their origins in the late 1970s, led to the Kingdom becoming the Mainland’s leading trade partner in the Arab world and paved the way for an influx of Chinese FDI. Outward FDI from China either increased or remained constant from 2003-2010 as Chinese firms, such as Sinopec, partnered with Saudi Aramco in oil exploration, field development, and building and increasing refining capacity. Over this same time period, the Kingdom became the leading provider of crude oil to China as well.

\textsuperscript{25} See Tuman and Shirali, (forthcoming 2015).
\textsuperscript{27} Olimat, p. 143.
\textsuperscript{28} From 2002-2007, trade increased anywhere from 30\%-50\% on a yearly basis while a 64.7\% jump occurred in 2008. See Ibid., pp. 143-144.
The core component of Chinese economic cooperation with the United Arab Emirates centers on trade. China’s commercial relationship with the United Arab Emirates traces its roots back to the mid-1980s and has become fairly comprehensive in nature as it encompasses a wide-range of sectors. As Olimat explains:

China exports textiles, electronics, motor parts, chemicals, foodstuffs, high-tech equipment, machinery, solar energy…In return, the UAE exports oil, natural gas, merchandise, and services.29

The value of bilateral trade between China and the UAE appreciated almost every year from 2001 to 2011.30 The steady increase in Sino-Emirati trade activity during the first decade of the 21st century was a harbinger that set the stage for a similar pattern of outward Chinese FDI to the UAE.31 Currently, there are approximately 3,900 Chinese companies that operate in the United Arab Emirates with these firms occupying leading positions in providing engineering, construction, and other related services to the sheikhdoms that comprise the country.32

As noted previously, the coefficient for human rights abuse, as measured by the Freedom House average, was negative and significant while the independent variable for civil conflict, in terms of deaths per 100,000 in the recipient, did not cross the threshold of statistical significance in the model. This data points to Chinese firms seeking out developing countries that, similar to China itself, restrict rights and liberties in the interest of maintaining political stability to the extent it takes to achieve a favorable investment climate. Thus, firms from China may be prone to avoiding political risk if they believe

29 Ibid., p. 165.
30 See Table 8.1 in Ibid.
31 External FDI from China to the UAE progressively increased for the majority of the years in the data set (2003-2010).
32 See Olimat, pp. 164-166.
that property rights, contractual obligations, and other investment related activities may be jeopardized.

The cases of Sudan and the Democratic Republic of the Congo capture the complex nature of China’s political risk analysis when it comes to FDI and trade. As the Second Sudanese Civil War between the government in Khartoum and the Sudan People’s Liberation Army was winding down in 2005, the conflict in Darfur was beginning to heat up.\textsuperscript{33} During the first decade of the 21\textsuperscript{st} century, China had cultivated a strong economic relationship with Sudan as firms from the Mainland provided development finance and assistance while Khartoum agreed to export petroleum to the People’s Republic. Sudan also gave the China National Petroleum Company the largest stake in the country’s biggest oil firm, the Greater Nile Petroleum Operating Company.\textsuperscript{34}

As conflict continued to persist, Omar al-Bashir’s regime was accused of systematic human rights violations by members of the international community as the death toll from violence continued to increase in Darfur. In addition to instability in the western part of the country, questions still remained on how Khartoum would react to the southern region of Sudan voting for independence.\textsuperscript{35} The Sudanese government was put under the spotlight as a humanitarian crisis emerged in the Darfur region that was

\textsuperscript{33} The Second Sudanese Civil War ended when the belligerents on both sides agreed to a peace deal that would allow the people living in the southern portion of Sudan to hold a referendum six years later on whether the region should become independent or remain part of Sudan. An overwhelming majority voted yes for independence and the new nation-state of South Sudan was created in 2011. The conflict in Darfur began in 2003.

\textsuperscript{34} The Greater Nile Petroleum Operating Company is a joint venture that was established in 1997 and the China National Petroleum Company was given a 40\% stake.

\textsuperscript{35} The southern third of the country is where much of Sudan’s oil is located.
accompanied by harsh rebukes, condemnations, accusations of genocide, and various unilateral and multi-lateral sanctions.

China did not escape criticism either for being one of Sudan’s largest economic partners. Despite instability in Darfur, increased pressure on Khartoum, and uncertainty in the southern part of Sudan, from 2003-2010, Chinese FDI, on average, remained constant and overall trade with Sudan increased as conflict escalated. China’s reaction highlights some of the conclusions that were made when interpreting the data on human rights abuse and civil conflict. It demonstrates Beijing’s strict adherence to a policy of non-interference in the internal politics of recipient states. It underscores the relatively high levels of tolerance that Chinese firms can have for political risk in environments that are unstable as long as investments seem protected. By extension, it also shows that, while host regime type is not of paramount importance, firms from China may have a preference for authoritarian regimes that impose moderate to strong restrictions on political rights and civil liberties.

China’s recent experience with the Democratic Republic of the Congo mirrors many of the facets of Sino-Sudanese relations. The DRC has recently emerged from the ashes of the deadliest conflicts since WWII. As a result of the First Congo War from 1996 to 1997, the Second Congo War from 1998 to 2003, and the Kivu Conflict (2004-2013), millions have either lost their lives or become refugees due to war, disease, and starvation.

36 China was accused of providing the Sudanese regime with weapons and aid. The PRC has had to deal with similar types of criticism for its continued relationship with Iran in spite of sanctions on the latter.
Sino-Congolese economic cooperation primarily focuses on FDI in the DRC’s natural resources, which are complimented by a reciprocal exchange of investments in the finance and development of infrastructure inside the country. Although conflict in the Congo failed to receive the same type of popular attention as civil war in Sudan for the time-frame in the data set, the DRC still had to contend with a large amount of internal strife that made the nation-state highly unstable. The relative weakness of the Congolese government exacerbated the challenges facing the regime as Kinshasa lacked the ability to effectively project power and control the territory within its borders.

These inherent political risks did not deter or obstruct investment from China as FDI levels increased dramatically from 2003-2010 and transformed the Congo into a leading destination for Chinese goods. Once again, China exhibited a remarkable level of resiliency in tolerating risk as long as it felt its investments would suffer no negative consequences resulting from instability. China’s lack of historical hostilities with the Middle East and Africa is another key component that Beijing utilizes in assessing political risk. The PRC believes the absence of both a colonial history and imperial past provides it with an extra layer of protection in ensuring its commercial activities do not come under threat. Beijing is also conscious of the neo-imperialist characterizations of its new role in the Developing World and goes to great lengths to portray its presence as a partner striving to establish relationships based on equality, respect, and mutually beneficial cooperation.
Conclusion

The analysis employed in this chapter has summarized the statistical findings in order to identify the economic and political determinants that influence Chinese foreign direct investment in the Middle East and Africa. The results of the models are stable and suggest that the Chinese state has guided outward investment to help meet broad national interests. First, the models suggest that FDI concentrates in African and Middle Eastern economies that are major oil producers and ores and metals exporters. Next, the models demonstrate that Chinese firms target poorer countries with lower per capita income for investment in these two developing regions. Third, the existence of previous trade relations was a strong indicator of FDI within both models. Finally, the findings on human rights abuse lend support to the claim that Chinese firms prefer operating in environments that institute moderate restrictions on political rights and civil liberties similar to the domestic political landscape back home. In what follows, a discussion that describes the broader implications of the findings and limitations of the study will take place in the concluding chapter of this dissertation.
CHAPTER 5
CONCLUSION

The goal of this dissertation has been to explain the relatively recent pattern of outward Chinese foreign direct investment in the Middle East and Africa. As discussed in Chapter 2, I have argued that a state-centered approach offers a useful framework to understand Chinese FDI decisions. After discussing the data and methods in Chapter 3, the prior chapter presented the results of the statistical models and offered some brief case studies to illustrate the aggregate statistical findings. In this concluding chapter, I offer several observations about whether the results support the theory developed in Chapter 2. In addition, I discuss the broader policy implications of the findings, while also commenting on some of the limitations of this study.

Theory and Findings

As noted, the quantitative analysis lends support to some of the hypotheses that are part of the OLI framework. The decision to internationalize by Chinese firms can be the result of advantages based upon location and competition. Due to its tendency to downplay the role of the state, the OLI model, however, must be modified to factor in the influence of the PRC in this process. The importance of natural resources (oil, ores, and metals exports in the recipient) within the model was consistent with the theoretical expectation that the Chinese state guides firms and facilitates FDI to meet national interests and sustain development. While the results for natural resources demonstrate the explanatory power of state-centered approaches on Chinese FDI decision-making, there remains much room for future research. China’s transformation into a more
industrialized economy coupled with a rise in per capita income may affect domestic consumption habits (i.e., a shift to conservation), energy needs, and overall FDI strategy.\textsuperscript{1} Thus, further investigation analyzing the impact of impending economic growth on the direction of Chinese FDI is necessary to paint a much clearer picture.

The statistical findings and case studies also show that pre-existing trade has a significant influence on external Chinese FDI to the Middle East and Africa. In addition to trade serving as a portent of FDI, this finding was consistent with the claim that the Chinese state encourages firms to leverage trade by using it as an instrument for market penetration. Furthermore, Chinese FDI in these two regions primarily targets countries with lower per capita income. This may suggest an inclination by Chinese firms to look for opportunities to expand sales in poorer hosts due to fewer obstacles to market entry from firms based in more mature economies, minimal competition, and cheap labor.

An examination of political variables on flows of Chinese FDI assisted in informing our understanding of the issue as well. The interpretation of the data on human rights abuse and civil conflict within recipient countries highlights the gravitation of firms to states that resemble the institutional environment within China itself. Therefore, Chinese firms seek hosts in these two parts of the Developing World that impose moderate restrictions on political rights and civil liberties to establish an investment atmosphere that is sufficiently stable. The findings also suggest that Chinese firms are capable of absorbing relatively high levels of political risk as long as FDI is believed to be secure. Scholars may find it necessary to test these assertions once new data becomes available to determine long-term trends. Particularly, once MOFCOM decides to release

\textsuperscript{1} See Tuman and Shirali, (forthcoming 2015).
post-2010 statistics on outward Chinese FDI, more research can be done to measure the impact, if any, of contemporary political phenomena on investment behavior, including further consolidation of democracy in sub-Saharan Africa and the Arab Spring in the Middle East.

**Research Limitations**

Diagnostic tests for a variety of issues (e.g., multicollinearity, unit effects, etc.) suggested that the findings were not compromised by problems that frequently cause statistical bias.² The data does, however, have its limitations. The pooled cross-sectional time-series employed in this study is not very long due to MOFCOM’s decision to only release FDI statistics from 2002-2010. It is possible that observations for additional years would change the results of the models. The results are also preliminary and the overall model itself contains just a moderate number of independent variables. Still, the independent variables in the model capture a number of broad influences that have been hypothesized to have an effect on Chinese FDI. Thus, while the inclusion of additional variables might be useful, it is unlikely that a major factor has been omitted from the statistical analysis. Indeed, despite these shortcomings, one can confidently say that the findings are relatively robust and supported by qualitative examples that have allowed for generalizable statements to be made regarding the data.

In addition, this study has not examined competing theoretical explanations of the causes, or effects, of Chinese FDI. While it is beyond the scope of this dissertation to provide an in-depth analysis of alternatives approaches, a brief treatment of rival theories

² In some cases, the introduction of appropriate controls in the methods addressed the potential problems (e.g., heteroscedasticity and autocorrelation).
may be useful in presenting a more well-rounded discussion on the topic. System studies are broadly categorized as paradigms that explain how different components within a political system interact with each other. As a result, systems analysis can provide an important school of thought in addressing the root causes and/or consequences of Chinese FDI from a contending point of view.

In particular, world-systems theory may hypothesize that Chinese FDI is creating a new core-periphery relationship with China as a new entrant to the core that is causing a shift in relations from the periphery. Parts of this perspective argue that structural changes in the international system along with sub-systemic actions have provided the impetus for regional alterations. Therefore, China’s position as a rising super power within the overall international system allows it to capitalize on its status by using hegemony to transform sub-systemic relations in the Middle East and Africa. The ability of China to undermine the sub-systemic status quo within these two developing areas and alter the structure to its benefit through the injection of FDI certainly falls within the framework of a world-systems outlook. Although a systemic lens emphasizes that the system is kept in place through coercion, which China is attempting to avoid,

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aspects of world-systems theory may be able to contribute to an improved conceptualization of Chinese FDI to the Middle East and Africa.  

Policy Implications

China’s decision to go global in terms of outward FDI provides opportunities for greater academic scholarship on a number of inter-related issues with important policy implications. China’s relatively new presence in the Middle East and Africa being a form of corporate recolonization or neo-imperialism is one characterization that has become a critique of the Mainland’s economic activities in the Developing World. Certain aspects of the approach adopted by Chinese firms are similar to traditional European colonialism. The building of infrastructure with the sole purpose of maximizing the extraction of resources is reminiscent of the uneven development that was a trademark of colonial exploitation. Claims of questionable labor practices and poor working conditions also plague Chinese factories within the region and continent.

On the other hand, China is aware of these comparisons and strives to portray its relationship with developing areas as an equal partnership. Consequently, Chinese FDI extends beyond the singular goal of acquiring oil, ores, and metals. Chinese firms and policy makers are quick to emphasize their role in financing projects to build schools, roads, and hospitals that are meant to benefit countries as a whole. They underscore the

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4 Lateral pressure theory may also provide another useful lens in explaining external Chinese FDI patterns. In particular, as it relates to China’s domestic growth serving as the basis for its international expansion, especially in relation to securing access to strategically vital natural resources. For an in-depth account of lateral pressure, see Nazli Choucri and Robert C. North. “Lateral Pressure in International Relations: Concept and Theory.” in Manus I. Midlarsky, Editor. *Handbook of War Studies*. Winchester, Mass.: Unwin Hyman, Inc., 1989, pp. 289-326.

5 See Manji and Marks, Chapter 6 for a representative example of this outlook.
domestic job creating measures that are part of joint venture deals as well. Additionally, China, unlike the West, can cite cultural bonds and traditional ties, such as the Silk Road, that date back over two thousand years and a non-existent history of colonial and imperial practices to help solidify the notion of seeking mutually beneficial cooperation. Despite this very careful approach, China, as it deepens its presence in the Middle East and Africa, may find itself contending with security dilemmas that challenge Beijing’s ability to maintain strict adherence to its policy of neutrality and non-intervention in internal host politics.

Another byproduct of China going global is the potential for confrontation between Beijing and other states as the former seeks to secure multiple avenues for the finite natural resources it needs to continue economic growth and further industrialization. In particular, the economic activities of Chinese firms in the Middle East and Africa provide an opportunity for tensions to emerge between China on one side and the US and Europe on the other as competition for natural resource acquisition intensifies. Given the large and visible presence of the United States in both the region and continent, American policy makers have begun to closely monitor Chinese FDI projects and analyze the possible negative economic consequences they may have for the

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6 These agreements often times carry a clause that for every Chinese worker there needs to be either an equivalent or greater number of native laborers. For example in the DRC, the Sino-Congolese Cooperation Agreement dictates that there must be a two-to-one ratio of Congolese to Chinese workers in joint ventures. In South Africa, there is a stipulation that an equal number of South African workers must be employed alongside their Chinese counterparts.

7 In addition to shielding China from criticism, this fact may help firms accept more political risk in the hopes that antagonistic politics at the domestic level does not target Chinese entities due to their policy of non-intervention in internal affairs. Another factor that, in the eyes of policy makers, may serve to embolden FDI from China in more unstable markets and insulate it from risk is that Chinese firms actually pay fair market value for the goods they purchase rather than engaging in occupation and theft.
US. Even if America lowers its public profile in these developing areas, bilateral friction as a result of the pressure to procure strategically important raw materials can still lead to the adoption of adversarial policies that set the stage for confrontation.8

The growing magnitude of Chinese FDI in the Developing World may hasten another source of tension with strong policy implications. The possibility of indirect clashes between China and international financial institutions with Middle Eastern and African regimes caught in the middle has the chance to become a salient issue that deserves observation and analysis. Chinese development aid has in some ways supplanted the International Monetary Fund (IMF) in poorer countries in the region and continent.9 While the IMF and other related organizations still provide the majority of health and educational aid, development finance and investments in infrastructure inside these countries by China and its firms continues to increase rapidly.

The latent struggle for economic influence in the Developing World between China and international financial institutions has already begun to surface in certain cases to reveal its conflictual nature. The multi-billion dollar Sino-Congolese Cooperation Agreement of 2007 offers one such example as the IMF chose intervention to voice the organization’s objections to the terms of the deal. The IMF felt that the contract as it was initially negotiated could cause the Congo to go deeper into debt and withheld a multi-

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8 It is useful to briefly mention whether or not Chinese FDI has displaced US FDI thus far. Tuman and Shirali, (forthcoming 2015) have found that there was little overlap between the determinants of Chinese and US FDI in Latin America and Africa with the exception of oil. Moreover, there does not seem to be many examples in the literature where Chinese firms in a specific host have displaced US firms.

9 This turn of events is not just the result of the availability of assistance from China. Chinese FDI and IMF failures, whether perceived or actual, have converged to create this new set of circumstances. For examples from the African context, see Dambisa Moyo. Dead Aid: Why Aid is not Working and How There is a Better Way for Africa. New York: Farrar, Straus and Giroux, 2009.
billion dollar debt forgiveness package until the two sides revised the Sino-Congolese Cooperation Agreement. Ultimately, while this particular dispute was resolved without much escalation, future dissension may not end as amicably.\textsuperscript{10}

Different Paths Forward and Suggestions for Future Research

This dissertation has sought to fill a scholarly gap by providing an analysis based on a cross-sectional time-series that incorporates both economic and political variables in understanding the determinants of Chinese foreign direct investment in the Middle East and Africa. The results of this quantitative framework answer some important questions about the recent flow, pattern, and disposition of external Chinese FDI to hosts in the region and continent. Despite data limitations, the preliminary findings within this study can also present useful starting points for inquiry once more information becomes available. Examining this relatively new phenomenon over time can substantiate or disprove the claims made here, potentially identify new underlying factors that impact outflows of Chinese FDI to the Middle East and Africa, clarify residual concerns on the effect of China’s ambitions in developing areas, and delineate the long-term trajectory of Chinese FDI in the Developing World.\textsuperscript{11} I hope my research can play a small role in this process.

\textsuperscript{10} Although the core tenets of the agreement essentially remained the same, China and the Congo agreed to placate the IMF and acquiesce to their demands by reducing the overall value of the deal from $9 billion to $6 billion.

\textsuperscript{11} In particular, scholars may want to examine additional measures, such as the World Bank’s Ease of Doing Business data set and the number of veto players within each host state’s government, to determine if they have any effect on Chinese FDI to both regions.
APPENDIX A: DIAGNOSTIC CHECK FOR MULTICOLLINEARITY

In order to diagnose for multicollinearity, I obtained the last estimates from each equation and then examined the variance inflation factors (VIFs). The results are provided below. The average VIF for each equation, and for each covariate, are well below established thresholds for tolerance (less than 5 for any covariate, and less than 10 the mean VIF for any equation).\(^1\)

Model 1

<table>
<thead>
<tr>
<th>Covariate</th>
<th>VIF</th>
<th>1/VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Chinese Trade with Recipient, log ((t-1))</td>
<td>2.14</td>
<td>0.466796</td>
</tr>
<tr>
<td>Net Oil Exports from the Recipient ((t-1))</td>
<td>1.82</td>
<td>0.548382</td>
</tr>
<tr>
<td>Real GDP Per Capita (Lagged), log ((t-1))</td>
<td>1.70</td>
<td>0.588927</td>
</tr>
<tr>
<td>South Africa</td>
<td>1.38</td>
<td>0.722225</td>
</tr>
<tr>
<td>Human Rights Abuse in Recipient ((t-1))</td>
<td>1.36</td>
<td>0.737519</td>
</tr>
<tr>
<td>Seychelles</td>
<td>1.32</td>
<td>0.754750</td>
</tr>
<tr>
<td>Chinese FDI (Lagged Dependent Variable), log ((t-1))</td>
<td>1.32</td>
<td>0.759665</td>
</tr>
<tr>
<td>Inflation, log ((t-1))</td>
<td>1.20</td>
<td>0.833842</td>
</tr>
<tr>
<td>Ore and Metals Exports (% of Total Manufacturing Exports) ((t-1))</td>
<td>1.13</td>
<td>0.883734</td>
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<tr>
<td>Mean VIF</td>
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Model 2

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<th>1/VIF</th>
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<td>Net Oil Exports from the Recipient((t-1))</td>
<td>1.84</td>
<td>0.542241</td>
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<tr>
<td>Real GDP Per Capita (Lagged), log ((t-1))</td>
<td>1.70</td>
<td>0.588215</td>
</tr>
<tr>
<td>South Africa</td>
<td>1.39</td>
<td>0.719989</td>
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<tr>
<td>Human Rights Abuse in Recipient ((t-1))</td>
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<tr>
<td>Seychelles</td>
<td>1.33</td>
<td>0.754498</td>
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<td>Chinese FDI (Lagged Dependent Variable), log ((t-1))</td>
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<td>0.759580</td>
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<td>Inflation, log ((t-1))</td>
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<tr>
<td>Ore and Metals Exports (% of Total Manufacturing Exports) ((t-1))</td>
<td>1.14</td>
<td>0.878469</td>
</tr>
<tr>
<td>Civil Conflict</td>
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<td>0.966573</td>
</tr>
<tr>
<td>Mean VIF</td>
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<td>n.a.</td>
</tr>
</tbody>
</table>
APPENDIX B: MEAN LEVELS OF CHINESE REAL FDI, BY COUNTRY

<table>
<thead>
<tr>
<th>Country</th>
<th>Mean Level of Chinese FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>61.87405</td>
</tr>
<tr>
<td>Angola</td>
<td>8.861823</td>
</tr>
<tr>
<td>Bahrain</td>
<td>-0.415693</td>
</tr>
<tr>
<td>Benin</td>
<td>6.071393</td>
</tr>
<tr>
<td>Botswana</td>
<td>3.504202</td>
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<tr>
<td>Cameroon</td>
<td>.8355352</td>
</tr>
<tr>
<td>Cape Verde</td>
<td>.2644923</td>
</tr>
<tr>
<td>Chad</td>
<td>3.35476</td>
</tr>
<tr>
<td>Congo, Dem. Rep.</td>
<td>21.44444</td>
</tr>
<tr>
<td>Congo, Rep.</td>
<td>6.546314</td>
</tr>
<tr>
<td>Cote d'Ivoire (Ivory Coast)</td>
<td>1.46646</td>
</tr>
<tr>
<td>Djibouti</td>
<td>.9408844</td>
</tr>
<tr>
<td>Egypt</td>
<td>11.08841</td>
</tr>
<tr>
<td>Equatorial Guinea</td>
<td>4.394052</td>
</tr>
<tr>
<td>Eritrea</td>
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<td>Ethiopia</td>
<td>8.522317</td>
</tr>
<tr>
<td>Gabon</td>
<td>8.966294</td>
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<tr>
<td>Gambia</td>
<td>.0423106</td>
</tr>
<tr>
<td>Ghana</td>
<td>2.995679</td>
</tr>
<tr>
<td>Guinea</td>
<td>8.810956</td>
</tr>
<tr>
<td>Iran</td>
<td>13.77145</td>
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<tr>
<td>Jordan</td>
<td>-1.491258</td>
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<tr>
<td>Kenya</td>
<td>5.793137</td>
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<tr>
<td>Kuwait</td>
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<tr>
<td>Lebanon</td>
<td>.0203643</td>
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<tr>
<td>Lesotho</td>
<td>.39386</td>
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<td>Liberia</td>
<td>1.002057</td>
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<tr>
<td>Libya</td>
<td>6.859822</td>
</tr>
<tr>
<td>Madagascar</td>
<td>13.78583</td>
</tr>
<tr>
<td>Malawi</td>
<td>2.511526</td>
</tr>
<tr>
<td>Mali</td>
<td>3.367536</td>
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<tr>
<td>Mauritania</td>
<td>.282935</td>
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<tr>
<td>Mauritius</td>
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<td>Morocco</td>
<td>2.206121</td>
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<tr>
<td>Mozambique</td>
<td>4.54709</td>
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<tr>
<td>Namibia</td>
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<tr>
<td>Niger</td>
<td>22.00077</td>
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<td>Nigeria</td>
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Note: This table reports the average level of real Chinese FDI received during the study period. The dependent variable employed for the regressions is the natural log of Chinese FDI.


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CURRICULUM VITAE

Majid Shirali
3900 East Sunset Road #2043
Las Vegas, NV 89120
512-294-1375
shiralim@unlv.nevada.edu

Education

B.A., Government and Middle Eastern Studies with Honors, May 2002
The University of Texas at Austin
GPA: 3.70

M.A., Middle Eastern Studies, May 2005
The University of Texas at Austin
GPA: 4.00

M.A., Politics, September 2006
New York University
GPA: 3.78

Ph.D., Political Science, May 2015
University of Nevada, Las Vegas
Dissertation: The Political Economy of Going Global: Understanding the Determinants of Chinese Foreign Direct Investment in the Middle East and Africa
GPA: 3.72

Experience

Academic Success Center
University of Nevada, Las Vegas
Tutor, November 2014 – Present
• Main duties include providing academic support and tutoring for all political science related courses for student-athletes.

Department of Arts and Sciences
Embry-Riddle Aeronautical University
Instructor, March 2014 – Present
• Responsible for curriculum development, administration, and teaching introductory level courses on American politics and history in-person, remotely, and online.
Department of Political Science
University of Nevada, Las Vegas
**Instructor, September 2010 – Present**
• Responsible for curriculum development, administration, and teaching courses on American politics and international relations.

Marketing Department
Oxford University Press
**Market Development Reviewer, May 2012 – May 2013**
• Main duties included reviewing, editing, and providing feedback to help inform and shape texts in development in the subfields of American Politics and International Relations.

Department of Social Sciences
College of Southern Nevada
**Instructor, January 2011 – January 2013**
• Responsible for curriculum development, administration, and teaching introductory level courses on American politics.

Center for International Development and Conflict Management
University of Maryland, College Park
**Research Assistant, June 2009 – June 2010**
• Primary research assistant for a government funded initiative through a grant by the Department of Homeland Security for examining the relationship between international terrorism and organized crime.

Department of Political Science
University of Nevada, Las Vegas
**Graduate Assistant, September 2008 – September 2010**
• Primarily conducted research support, teaching activities, and administrative work for senior faculty members for upper-division courses on American politics, Latin American politics, and international relations.

Department of Politics
New York University
**Teaching Assistant, September 2006 – May 2007**
• Primarily conducted research support, teaching activities, and administrative work for senior faculty members for upper-division courses on American politics and international relations.
Department of Middle Eastern Studies
The University of Texas at Austin

Teaching Assistant, August 2003 – May 2005

• Primarily conducted research support, teaching activities, and administrative work for senior faculty members for introductory courses on the Middle East.

Publications


“Japan’s Foreign Aid Program and American Military Interventions in the Age of Terror” with John Tuman and Jonathan Strand. (in progress).

Professional Presentations

“Leadership and Radical Nationalism in the Middle East and Africa: The Prime Ministerships of Mohammad Mossadegh and Patrice Lumumba” presented at the Graduate Student Symposium on the Middle East at The University of Texas at Austin, April 11, 2005.

“Grass Roots Activism, Civil Society, and Populism: Explaining Political Movements in Modern Iran” presented at the Annual Meeting of the Southwestern Social Science Association, Houston, TX, March 31-April 3, 2010.


Awards and Honors

*University Honors*, 2001-2002
The University of Texas at Austin

*Dwight D. Book Scholarship*, 2001-2002
The University of Texas at Austin

*College Scholar*, 2002
The University of Texas at Austin

*Tuition Fellowship*, 2003-2005
The University of Texas at Austin

*Foreign Language and Area Studies Fellowship*, 2004
University of California, Los Angeles

*Houtan Scholarship for Iranian Studies*, 2005-2006

*Graduate and Professional Student Association Grant*, 2010 (Spring), 2010 (Fall), and 2012 (Spring)
University of Nevada, Las Vegas