

Knocking on a wide open door: Chinese investments in Africa

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Abstract

The current strong foothold of Chinese enterprises on the African continent concerns many western observers. They fear that the West will lose leverage in Africa and simultaneously postpone development. Paradoxically, the advance of Chinese enterprises in Africa is not only the result of deliberate Chinese policies to gain access to resources and markets but also the consequence of liberal African investment policies imposed by Western donors in the past couple of decades. This paper uses Zambia as a case to show that we need to consider the strategic role of the state as well as the historical legacy of host country investment policies to account for the current trend of Chinese overseas investments.

1. Introduction

The West no longer enjoys monopoly over Africa's future development. For the first time since the end of the Cold War other nations take notice of African politics and economics (Klare and Volman 2006; Kragelund 2008). They do not stand passively aside, but actively provide aid, trade with and invest in African economies to leverage international politics, get access to growing markets and acquire much needed raw materials.

Prominent among these 'new' actors is China, whose presence in Africa takes a multiple of (interwoven) forms ranging from migration, tourism, peace keeping operations, development aid (including debt relief), trade (including tariff exemptions), and investments (both state- and privately driven). While many other new players' return to Africa has gone relatively unnoticed (e.g. India), Chinese interests in Africa have triggered strong reactions from the West – especially from the US but to a lesser extent also from Europe (Fues, Grimm, and Laufer 2006; Huliaras and Magliveras 2007; Mawdsley 2007).

While the overall aim of the critique is often the same – namely to reduce China's firm grip on Africa's development – the means are different (see also Mawdsley (2007)). First and foremost, the West plays the democracy/good governance card arguing that

China's support to authoritarian regimes in Africa 'with no strings attached' endangers the West's efforts to promote political reform in Africa. In fact, China's presence is said to undermine the very system put in place by Western donors to change the development path of developing country economies (Naím 2007). Secondly, the West plays the international security/terrorism card arguing that groups in Africa hostile to the West can turn towards the East and thereby impede counterterrorism activities in Africa (Brookes and Shin 2006). Thirdly, the unequal trade relationship card is played. According to this card, the rising Chinese demand for primary goods will impact on world commodity prices and hence, on industrialisation efforts in Africa, i.e. high commodity prices will direct decision-makers' attention away from manufactured goods towards natural resource extraction activities. Moreover, high commodity prices tend to appreciate local currencies thereby furthering the unequal relationship between primary and secondary sectors in many African economies.

The strong reactions vis-à-vis China of course do not solely originate in China's activities in Africa. Rather, Chinese presence in Africa is perceived as one element of its 'global rise' (Gu, Humphrey, and Messner 2008; 2007), which is perceived as a threat to US hegemony as well as complication of "*the tussle between the EU and the USA over the 'who controls Africa'*" (Campbell 2008: 91). Moreover, the reaction stems from the struggle for access to Africa's oil (and other resources) (Klare and Volman 2006; Frynas and Paulo 2007). Hence, the critique is articulated vis-à-vis China's presence in Africa (and how China invests, trade and gives aid) but equally important for the critics is the fact that the West no longer enjoys monopoly.

China to a large degree pursues its global strategy via its emerging transnational companies (TNC). They produce cheap consumer goods, extract resources, bring goods around the world, build infrastructure, and carry out Chinese development projects. This is also the case in an African context. In fact, Chinese TNCs are increasingly becoming a dominant factor in Africa (Broadman 2007; Goldstein et al. 2006) – not least due to lack of domestic and international competition.

This paper seeks to further our understanding of how Chinese companies have been able to get a strong foothold in Africa and thus, how China has been able to deepen its relationship with African economies while western governments have cried out their fear. It argues that a combination of deliberate Chinese policies (at home and abroad) and very liberal investment policies (enforced by western donors) has made the current situation possible. Zambia is chosen as an illustrative case because of the close historical ties between the China and Zambia; the current importance of Chinese investments in all sectors of the economy; and the role of donors in the political and economic development in Zambia.

Section two of this paper provides a brief overview of the scale of Chinese investments in Africa. In order to get a better understanding of the scope and magnitude of

these companies' activities, section three then delves into Chinese investments in Zambia. This is followed in section four by an analysis of how western governments, led by the major International Finance Institutions (IFI), have paved the way for Chinese companies in Africa by forcing African governments to liberalise their economies and section five, which looks in more detail at how Western donors have influenced investment policy making in Zambia. Section six then examines the other side of the equation. It provides an account of how China facilitates its investments abroad in general and in Zambia in particular. Section seven then concludes that China's rise in Africa could not have taken place without the assistance of western donors. Thus, in order to understand the current strong foothold of Chinese companies in Africa we not only need to consider the strategic role of these investments but also the historical legacies of host country investment policies.

2. Chinese investments in Africa: growing rapidly but still limited

Foreign direct investment (FDI) to Africa is currently growing at a very fast pace: between 2004 and 2006, FDI to the continent doubled, reaching US\$ 35.5 billion by 2006 (UNCTAD 2007c). The growth of FDI is not distributed equally among investors. While most FDI stock in Africa originates from Europe, the United States, and South Africa, Asian countries have recently emerged as powerful investors in Africa. Not only do Asian countries account for the majority of global inward FDI, they also increasingly dominate global outward FDI. While the majority of Asian FDI still targets nearby countries, Asian TNCs have recently become a major player in African economies.

Throughout the 1990s, TNCs from Asian countries invested heavily in a few textile and garment producing countries in South and East Africa in order to overcome trade restrictions. In one case, Taiwanese companies in the 1980s were specifically invited to set up light industries in South Africa in areas with few employment possibilities (Hart 2002); elsewhere Chinese companies relocated part of their production to African countries to make up for the quotas imposed on them by the Multi-Fibre Agreement. Some companies even moved from country to country to explore the business opportunities opened by changes in international trade regulation (Bräutigam 2003; Morris 2006)ⁱ. In fact, Bräutigam (2008) estimates that (mainland) Chinese firms made more than 200 manufacturing investments in Africa from 1979-2001. Half of these targeted South Africa and Nigeria, while the rest went to Kenya, Ghana and Zambia.

Nevertheless, the current boom in Chinese economic interest in Africa did not take off until 2001 when China joined the WTO and simultaneously passed a law to encourage Chinese companies to invest abroad (see also section six below). Since then, especially Chinese companies have taken advantage of the fact that a number of resource-rich African countries have been avoided by western investors due to political instability and

bad governance. This has made large-scale investment in resource extractive activities possible (Kaplinsky and Messner 2008; UNCTAD 2007a).

Today, therefore, China ranks fourth among the Asian investors in Africa in terms of FDI stock (after Singapore, India, and Malaysia) (UNCTAD 2007a). FDI stock data, however, does not take the most recent upsurge of FDI into account. Albeit data on Chinese investments in Africa are indeed flawed, there is hardly any doubt that Chinese FDI to Africa is increasing rapidly – probably more rapid than FDI originating from any other place.

Table 1 displays the growing importance of Chinese companies on the African continent. Firstly, it shows that the number of Chinese companies have increased ten-fold in less than two decades and almost doubled in the first six years of this century. Secondly, it hints at the growing importance of smaller (partly private) Chinese investments in Africa: while the average size of investments in the year 2000 was almost US\$2 million this figure decreased to approx. US\$1,4 million in 2006. Hence, even though Chinese investments in the oil sector gets the lion’s share of public and academic coverage (Frynas and Paulo 2007; Klare and Volman 2006), Chinese FDI increasingly dominate investments in all sectors in many African countries. Based on figures from approved investments in Ghana as well as from the World Bank’s recent survey of 450 companies in four African countries, it seems that these companies concentrate their activities in the manufacturing, construction and service sectors (GIPC 2005; Broadman 2007).

Table 1: Chinese companies in Africa, 1988-2006

| | 1988 | 1992 | 1995 | 1998 | 2000 | 2002 | 2003 | 2004 | 2006 |
|--------------------------------------|------|------|------|------|------|------|-------|------|-------|
| Number of companies | >80 | ND | ND | ND | 499 | 585 | >600 | 674 | 900 |
| FDI stock (US\$ mn) | ND | 54 | 91 | 259 | 990 | ND | 872 | ND | 1,250 |
| Average size of investment (US\$ mn) | NA | NA | NA | NA | 1,98 | NA | <1,45 | NA | 1,39 |

Source: (Kragelund 2007).

Nevertheless, it is important to bear in mind that although Chinese FDI to Africa recently has attracted considerable attention, Chinese FDI to Africa remains low compared to Chinese FDI to Asia and Latin America. Moreover, Chinese FDI only comprises one vector of the current Sino-African relationship, which also includes trade, development aid, bank credits and debt relief. These vectors, however, are closely interwoven and aid, bank credits, and debt relief are often used to catalyse trade and investments. In addition, not all sectors and all economies receive an equal amount of FDI: resource-rich African economies receive by far the largest share of Chinese FDI.

3. Chinese investments in Zambia

Like any other African economy, the quality and availability of FDI data in Zambia is poor, and data on Chinese FDI is even poorer (see e.g. (Schüller and Turner 2005)). Neither Chinese nor Zambian sources provide us with anything but aggregate figures and moreover, these figures are, on the face of it, often mutually contradictory: while an official Chinese statement claims that by 2006 more than 200 Chinese companies had invested in Zambia, making the stock of Chinese FDI reach US\$570 million (increasing from US\$ 3.2 million in 1990, over US\$ 134.4 million in 2003, to US\$ 316 million in 2005) (Personal communication, China House, Lusaka, 250108), the number of Chinese investments approved by Zambia Development Agency (ZDA) only reached 143 by December 31st 2006 – and hardly all of these have been implemented.

Nonetheless, they do point to a growing importance of Chinese investment in relation to total investments as well as in relation to other foreign investors. By 2006, China was the third largest investor in terms of FDI stock in Zambia – only surpassed by Great Britain and South Africa, but looking at the most recent FDI flows, China will become even more important in the near future. In 2006, for instance China was by far the biggest investor in Zambia, investing more the twice the amount of number two, France, and four times the amount of number five Great Britain. South African companies only invested one seventh the amount of Chinese enterprises. Also in relation to domestic companies, the importance of Chinese companies is growing: while companies with Zambian majority ownership ranked one in 2005 (investing US\$ 63.4 million), they only ranked three in 2006 (US\$ 91.3 million). Meanwhile, China moved from being the third most important investor in (US\$ 40.8 million) to being the most important one (US\$ 209 million)ⁱⁱ.

Based on news bulletins in Zambia and elsewhere, one would assume that China only invested in resource extraction activities. This, however, is not the case. All the major mines are owned by TNCs originating in other countries but China (Fraser and Lungu 2007). In fact, only eight Chinese companies are directly involved in mining activities in Zambia. The remainder of the Chinese companies invest in other sectors of the economy. Attributable to the politicised nature of Chinese investments, poor data quality, overlapping institutional responsibilities, however, it is difficult to get a clear picture of the scope and magnitude of Chinese investments in Zambia.

Table 2, nevertheless, provides an estimate of the distribution and magnitude of Chinese investments in Zambia by December 31, 2006. It is composed using investment pledges from ZDA and membership lists from the Association of Chinese Companies in Zambia (ACCZ). Column one lists the number of Chinese companies that either are listed by ZDA or by ACCZ (or both) whereas column two and three list the number of Chinese companies registered by ZDA and ACCZ, respectively. Column four logs the companies that in spite of the fact that ZDA has not registered them are still active in Zambia as they are members of ACCZ, and column five provides an account of the Chinese investments

in each sector (based on investment pledges from ZDA). In as much as ZDA is not the only Zambian institution allowed to license FDI and because some investments for the sake of completeness may be re-classified, column six and seven provide a revised breakdown of Chinese FDI.

Table 2 at first underlines the fact that Chinese investment in Zambia is something more than the public perception of Chinese investors seeking raw materials abroad: less than five percent of the Chinese companies in Zambia have invested (directly) in the mining sector; the rest have invested in manufacturing (43%), service (21%), construction (16%), agriculture (13%), and timber (2%). Concealed in the ZDA categorisation, however, is the fact that the majority of investments in the manufacturing sector are mining-related. For instance, the BGRIMM Explosives (US\$ 5.6 million), the Chambishi Copper Smelter (US\$ 199 million), and the Sino-Metals Leaching Plant (US\$ 12 million) investments are all registered as manufacturing investments even though they are clearly related to the mining industry. In fact, they are all subsidiaries of the same company, China Nonferrous Metal Mining Group, which also owns China's largest mine in Zambia, the Chambishi mine in the Copperbelt. In total, US\$ 220 million of the just under US\$ 300 million manufacturing investment pledges are more accurately represented as mining investments.

Table 2: Sectoral distribution of Chinese companies in Zambia

| | Number of companies | ZDA certified companies | ACCZ members | Non-ZDA certified ACCZ members | ZDA Investment pledges (US\$ million) | Revised breakdown Investments (US\$ million) | Distribution (%) |
|---------------|---------------------|-------------------------|--------------|--------------------------------|---------------------------------------|--|------------------|
| Agriculture | 23 | 21 | 8 | 2 | 10 | 10 | 2 |
| Construction | 28 | 20 | 14 | 8 | 35.5 | 35.5 | 7 |
| Manufacturing | 76 | 74 | 9 | 2 | 299 | 79 | 15 |
| Mining | 8 | 7 | 3 | 1 | 22.2 | 392,2 | 74 |
| Service | 37 | 21 | 21 | 16 | 11.9 | 11.9 | 2 |
| Timber | 3 | 0 | 3 | 3 | 0 | 0 | 0 |
| Total | 175 | 143 | 58 | 32 | 378,6 | 528,6 | 100 |

In Zambia, both line ministries and local governments are also allowed to licence investments. To the knowledge of this author, only the Ministry of Mines and Minerals has availed itself of this right, though. Nonetheless, this right radically changes the distribution of investments in dollar terms as the Ministry of Mines and Minerals licensed the US\$ 150 million investments in the Chambishi mine. In total, therefore, mining-related activities make roughly three-fourths of the value of all registered Chinese investments in Zambia as depicted in the last column of table 2.

Not all Chinese companies are registered either by the ZDA, the ACCZ or the line ministries. Numerous Zambian run shops - especially in and around the large markets - are in fact owned by Chinese businessmenⁱⁱⁱ. Albeit the owners are not to be seen in and around the shops but in the early morning and late afternoon, their activities are coordinated in a small office located at the outskirts of the Kamwala Market. Furthermore, the table fails include the small manufacturing and construction companies set up by former employees of Chinese large-scale companies that haven't registered their activities but at the Registrar General's office (Personal communication, Lusaka, 300108 & 200208). Lastly, some companies, especially in the construction sector are *de jure* Zambian, that is, a Zambian citizen owns more than 51 percent of the company's shares, but in fact the Zambian partner is only used as a front in order to win tenders specifically targeted Zambian small- and medium sized enterprises. Hence, these companies are *de facto* Chinese (Personal communication, Lusaka, 250208).

4. Western donors and the shrinking room for autonomous investment policies

After a couple of decades of state-led development in most African countries, the 1980s saw a shift in development thinking. Led by the IFIs Africa - in the middle of a deep economic crisis - embarked on a series of Economic Recovery Programmes (ERP)^{iv}, which ultimately aimed to increase economic growth by correcting imbalances between government spending and government revenues and thereby, raise African economies' productive capacity. The most widespread measures used included trade liberalisation, exchange rate liberalisation (devaluation), fiscal and monetary reforms, public enterprise reforms, and de-regulation of investments, labour and prices. In most cases, the IFIs first paid attention to correcting basic macro-economic distortions and then on structural impediments to growth including downsizing the public sector and liberalising investment codes to ensure that both domestic and foreign capital could flourish and that African economies could attract much needed skills and technology (Bennell 1997; Cockcroft and Riddell 1991).

A critical aspiration of the ERP-model was to stimulate the interest of foreign investors to invest in African economies and thereby bring about an expansion of the production capacity, increase foreign exchange earnings, and create employment. Therefore, much emphasis was placed on providing an environment conducive to FDI. Albeit ERPs differed slightly from country to country, and implementation of the policies also differed, in most cases the IFIs were successful in liberalizing the investment codes of African economies to accommodate a catalyzing role for FDI in the transformation process (Hutchful 2002; Tangri 1999)^v.

The post-1994 creation of a New International Trade Regime implies that the policy liberalisations embarked upon in the late 1980s and the beginning of the 1990s in Africa are impossible to turn back. Moreover, the agreements covered by the World Trade

Organisation (WTO) have made it difficult for African countries to pursue own (protectionist) trade, industrial and investment policies. Although the international system still lacks an agreed regulatory framework for all aspects of FDI (comparable to the WTO regarding trade), the WTO covers many aspects of FDI. Most importantly, the Trade-Related Investment Measures (TRIM) govern global FDI flows, but aspects of FDI are also covered by for instance the Agreement on Trade-Related Aspects of Intellectual Property Rights and the General Agreement on Trade in Services. The TRIM Agreement essentially seeks to “...outlaw host governments' use of most 'discriminatory' investment pre-conditions or performance requirements in relation to foreign investors” (Gibbon 2002: 105). Hence, although the WTO allows Least Developed Countries to deviate from the general rules (at least for some time) the end-goal remains: the TRIMs Agreement bans certain performance requirements related to local content, mandatory technology transfer, and export requirements.

Of greater importance for the governance of FDI, however, are bilateral investment treaties (BIT) that provide protection for investors via binding investor-to-state dispute settlement mechanisms, and double taxation treaties (DTT) that provide foreign investors with tax-issue security and stability and hinder double taxation of corporate incomes. The number of BITs and DDTs has increased rapidly in recent years indicating an increased competition for FDI especially among developing countries. BITs take many forms but they usually include principles central to the New International Trade Regime, namely that of most-favoured nation (privileges provided to one foreign investor must be provided to all investors) and national treatment (foreign investors may not be treated worse than domestic investors). Moreover, they include paragraphs to guarantee repatriation of profits and free transfer of capital as well as seek to apply international standards regarding fair and equitable treatment to foreign investors, and include guaranties of compensation for any expropriation. In addition, some BITs include bans similar to the bans included in the TRIMs regarding local content, employment and technology transfer (UNCTAD 2007b; Neumayer and Spess 2005).

Both the TRIMs Agreement and the BITs represent an interference with the sovereignty of host governments, essentially contracting the policy space for developing countries. In the words of Wade (2003: 622), the New International Trade Regime “...ties the hands of developing country governments 'forever' to the North's interpretation of a market opening agenda”. Essentially, the ability to design and customise investment policies to augment desired benefits and minimise negative effects of FDI has shrunk. Some of the very advantages of FDI vis-à-vis other financial flows to developing countries, that is, its role in transferring technology and managerial knowledge, providing access to international markets, and building export capacity, may therefore not materialise^{vi}.

5. External actors, FDI and the Zambian economy

Until shortly after independence foreign investments played a major role in the development of Zambia's copper dominated economy. Foreign investors in the Zambian economy could easily remit profits, and the Zambian state did not impose any constraints on imports from the Sterling area. Not surprisingly, the majority of businesses in Zambia were either in foreign hands or owned by resident expatriates. This situation radically changed when Kaunda in April 1968 launched his economic reforms. The original aim of these reforms was to Zambianise the private sector, but the end result was rather a shift from private to public ownership. The reforms began with buying controlling shares in major companies, continued with measures to reserve certain sectors of the economy, such as trade and construction, to Zambians (and thus away from Asian merchants), and ending with almost total nationalisation of the Zambian economy by the mid-1970s (Saasa 1987; Kaunda 1968; Burdette 1988; Rakner 2003).

Basically, the reforms ended the era of foreign investments in Zambia. Simultaneously, international demand for copper declined, Zambian ore grades deteriorated, and the state-owned mines faced technical problems. This immediately resulted in a slowdown of the Zambian economy at large, soon to turn into a major financial crisis and then a longstanding relationship with the IFIs^{vii}.

This particular relationship - albeit characterised by an on/off nature - was to revise the role of foreign investments in the Zambian economy. Facing widespread popular protest against the effects of the liberalisation programme, the Zambian government in 1987 chose to discard the externally imposed programme, change the debt-service conditions, and instigate an internal recovery programme. Zambia's refusal to maintain repayment to the IMF, however, meant that just about every donor decided to cut off Zambia from their list of aid recipients (Simutanyi 1996). In the words of Fraser and Lungu (2007: 9) therefore, "*Zambia learned the hard way not to try to resist [World Bank and IMF policies]*".

By the mid-1980s, Zambia, 'helped' by the IFIs, embarked upon an economic liberalisation programme, which aimed to give room for the private sector to kick-start the economy (Saasa 1987). Private investors, however, did not react positively to these measures. Firstly, the external liberalisation programme was soon replaced by an internal programme (again to be replaced by an IMF-designed programme in 1989) and secondly, the private sector - as well as other (external) actors - had lost faith in the Zambian economy (Rakner 2003). Therefore, the incentives that were given to FDI as part of the restructuring programmes in the 1980s did not result in the emergence of a vibrant domestic private sector.

Moreover, Kaunda did not pay particular attention to the role of foreign investors in the 1980s, but the passing of the 1986 Investment Act, which allowed foreign investors to retain part of their foreign exchange earnings, gave them export incentives and

preferential tax rates, and full exemption of tax on dividends for five years (Saasa 1987). This situation, however, changed just prior to the 1991 presidential elections when the parliament passed the 1991 Investment Act. This Act, amongst others, allowed foreign investors for three years to retain 100% of the foreign exchange earnings while simultaneously being exempted for company tax and custom duties for three years. The 1991 Act, thereby, deliberately offered generous incentives to foreign investors intending to set up new foreign exchange-earning ventures in Zambia.

The new Chiluba-led government basically continued these policies. It perceived liberalisation – the IMF way – as a means of attracting foreign investments (Baylies and Szeftel 1992). Moreover, encouraged by the IFIs, the government decontrolled foreign exchange in order to encourage foreign investments, and the Investment Code, passed in parliament in 1993, basically reinforced the 1991 Act. In 1996, as a condition for extension of a World Bank loan, the Chiluba-led government passed a new Investment Act. This Act introduced minor restrictions on tax holidays and duty-free import of capital goods, but more importantly, it established the Zambian Investment Centre (ZIC) to assist (foreign) companies to invest in the Zambian economy in the wake of the widespread privatisation programme. By the same token, the IFIs, assisted by prospective investors, pressed the Zambian government to pass the 1995 Mines and Minerals Development Act that gave foreign investors particular incentives to invest in the mines. The Act, for instance, stipulated that investors were exempted from custom duties on imported capital equipment while simultaneously they could reduce income taxes by deducting investments from profits. Moreover, it paved the way for confidential ‘Development Agreements’ between the Zambian state and the investors in which the terms of the privatisation of the Zambia Consolidated Copper Mines were specified. In the same vein, the IFIs used Zambia’s position as a Highly Indebted Poor Country to force it to privatise other strategically important state-owned enterprises (SOE) (Larmer 2005; Fraser and Lungu 2007; EIU 1996; Rakner 2003). The picture of a very liberal investment climate ‘encouraged’ by the IFIs therefore remains^{viii}.

Currently, FDI in Zambia is governed by the ZDA Act, 2006, passed in May 2006 and operating from January 1 2007. Thereby, it effectively replaced ZIC. Even though the ZDA Act introduces stricter rules on the minimum investment and employment creation requirements in order to obtain a Zambian resident permit (the limit is now US\$250.000 and 200 employees as opposed to US\$50.000 in the ZIC Act), it still offers investors a very liberal investment climate. The Act, for instance, does not stipulate any requirements regarding local content, technology transfer, equity, employment, or use of subcontractors for foreign investors even if foreign investors are encouraged to commit to local participation; it allows investors to repatriate any capital investments freely, and send home profit, dividends, interest, fees, and royalties; and it permits foreign nationals to transfer wages earned in Zambia.

Like most other sub-Saharan African countries, Zambia has also paid attention to the BITs to attract FDI. Since the start of the new millennium, Zambia has signed 10 new BITs making the total number of BITs reach 13 - just above the average of Sub-Saharan Africa (12), but significantly below the most active signatories of BITs, namely South Africa, Mauritius and Zimbabwe with 36, 33, and 31 BITs respectively. Zambia's BITs include nine European countries, two African countries, Cuba and China.

The most recent instrument for attracting foreign investors has been the passing of the Multi-Facility Economic Zones (MFEZ) Regulations, which was first launched in the 2007 budget speech. This regulation replaces the Export Processing Zones Act 2001 that was restricted to investors exporting at least 80 percent of their production, but otherwise they provide similar incentives to investors, that is, they allow the establishment of MFEZs throughout Zambia. Companies that are located in these zones enjoy special incentives, including duty free imports of raw materials, capital goods and machinery for five years. So far two MFEZ have been approved. One, financed by Japan International Cooperation Agency, is located in Lusaka. It encourages Malaysian and Indian companies to set up joint ventures with Zambian companies. It is tellingly entitled 'Triangle of Hope'. The other, located a stone's throw from the Chinese-owned Chambishi mine in the Zambian Copperbelt, called the Zambia-China Economic and Trade Cooperation Zone (ZCCZ), is exclusively for Chinese companies. Currently, the Chinese plan to set up yet another MFEZ in Lusaka East (Personal communication, 150208, Lusaka).

6. Catalysing investments at home and abroad: Chinese investment policies vis-à-vis Africa

The spread of Chinese companies throughout Africa, however, is not only rendered possible by liberal investment policies but also by support and guidance from the Chinese state both at home and in the African economies and at different levels.

Chinese Outward FDI (OFDI) was virtually non-existing until Deng Xiaoping in the late 1970s initiated political and economic reforms. Overseas investments only took place as part of government sponsored development assistance projects or were intended to facilitate trade. However as a consequence of the changing political discourse in China *vis-à-vis* the outside world, the Chinese State Council in August 1979 allowed certain SOEs to invest overseas. This political change became the starting point for emerging Chinese OFDI, and together with the sustained economic growth of the past three decades; it provided the basis for both the emergence and growth of Chinese OFDI.

The reforms, however, did not immediately lead to growth in OFDI. Rather, Chinese OFDI was an insignificant foreign economic activity for many years. Only from the mid-1980s, when the government initiated a liberalisation process, Chinese OFDI took off. In 1992, internationalisation of Chinese enterprises was incorporated in the national

economic policy and following this, private Chinese enterprises began to invest overseas. Albeit some Chinese OFDI did take place in the 1990s, the determining factor for its growing importance worldwide was the so-called 'Go Out' policy (*zou chu qu*) implemented by the Chinese government in 2001 to make Chinese enterprises become internationally competitive players. On the whole, this policy reduced red tape to make procedures more OFDI friendly. It entitled certain firms to tax incentives; cheap loans; direct or indirect subsidies; and various types of support from state institutions in China and in host country contexts (Buckley et al. 2007; Wu and Chen 2001).

Chinese ODFI originates in a home economy context with a high degree of political control and with a long tradition of central planning. Hence, it comes as no surprise that SOEs dominate, albeit not exclusively, Chinese OFDI. Of late, both provincial and private companies benefit from the Go Out policy. Notwithstanding their ownership structure, these companies are instruments of Chinese foreign policy, and the central government plays a determining role in directing FDI activities of the SOEs, because their transnational activities provides access to natural resources for the industrial production as well as to new markets as China's industrial capacity in many industries now exceeds the domestic demand; they may circumvent import quotas; and transfer of technological and managerial capabilities into the Chinese economy from more advanced economies and thereby strengthen Chinese national competitiveness. Moreover, the Chinese state sees the Chinese TNCs as a means to consolidate China's geopolitical position (Wang 2002; Schüller and Turner 2005).

China's 'Go out' policy is by no means the only way the Chinese state supports its TNCs. China has set a whole series of initiatives in motion to persuade and support them to invest in Africa. First and foremost, China dubbed 2006 the 'Year of Africa'. It marked the 50th anniversary of the establishment of the first Sino-African diplomatic relations (with Egypt). Secondly, the launch of the Africa Policy in January 2006, which sets the framework for current and future Sino-African relations, kick-started the Year of Africa. The Policy, *inter alia*, points to the importance of economic cooperation between China and African and states: "*The Chinese Government encourages and supports Chinese enterprises' investment and business in Africa, and will continue to provide preferential loans and buyer credits to this end ... [and] will continue to negotiate, conclude and implement the Agreement on Bilateral Facilitation and Protection of Investment and the Agreement on Avoidance of Double Taxation with African Countries*" (Government of China 2006). Thirdly, China in November 2006 hosted the third Forum on China-Africa Cooperation, which brought together African and Chinese heads of State. This Forum led to the Beijing Action Plan (2007-2009) that stipulates the principles of Sino-African development, trade and investment cooperation, and specifies how the Chinese state via development aid and soft loans shall pave the way for future investments in Africa. In particular, the Action Plan states that the Chinese government will support Chinese banks in setting up a Development Fund to support well-established and reputable Chinese

companies in investing in Africa, and encourage Chinese companies to set up 3-5 overseas economic and trade cooperation zones in African countries.

Moreover, the Chinese state facilitates Chinese OFDI by offering low-interest loans directly as well as indirectly to Chinese enterprises: directly via the Bank of China, and indirectly via non-commercial banks such as the Export-Import Bank of China, the State Development Bank, and the Agricultural Development Bank. All of these banks, but in particular the non-commercial banks, are related closely to the Chinese state's large infrastructural development projects in African countries. In addition, to create a secure investment climate overseas, by June 2007, China had signed BITs with 28 African countries^{ix} - representing almost 50 percent of the total BITs signed by China in the past decade. According to Berger (2008: 20f), the content of these BITs shows that "...*China generally agrees to international standards of FDI protection and thus to the current liberal global governance regime for FDI shaped by developed countries- policies*".

The Chinese state, however, does not confine itself to these general types of support in order to facilitate the further growth and expansion of Chinese companies in Africa; it also establishes institutions in the host economies aimed specifically to guide and help Chinese TNCs.

In Zambia, the most important institution is the Chinese Embassy and in particular, the Economic Counsellor's Office that via diplomatic attention and development aid to prestige projects facilitates a positive attitude towards Chinese investments among the political elite. Moreover, it provides investors with investment opportunities, maintains essential contacts with Zambian authorities, and makes inter-Chinese cooperation in Zambia possible.

Of importance is also the Chinese Centre for Investment Promotion and Trade (CCIPT) and ACCZ, established as a consequence of the implementation of the 'Go Out' policy. Both have been established by political decree and both seek to smooth Chinese companies' progress in Zambia. While CCIPT currently mostly identifies suitable investment projects and provides practical support to newly established Chinese companies, ACCZ essentially functions as the Chinese chamber of commerce in Zambia, taking care of the interests of the Chinese companies, communicating and promoting the cause of Chinese investors, and educating its members in the rules and regulations of Zambia.

Likewise, the Zambian branch Bank of China, set up in 1997 by political decree, helps to pave the way for Chinese large-scale investments in Zambia especially in the mining and construction sectors by offering cheap loans for capital investments, but also by easing the day-to-day banking operation of almost all Chinese companies in Zambia.

Lastly, the establishment of the US\$ 900 mn ZCCZ in the Copperbelt with an expected 50-60 Chinese companies (Burke, Corkin, and Tay 2007: 166) and the future

establishment of a US\$ 500 mn MFEZ in Lusaka is a manifestation of the support that the Chinese state gives Chinese companies in Zambia. In the words of the president of the ACCZ: “*Without this project if you tell someone in China that they should invest in Zambia he’ll think twice. Nothing is here when he comes. And he has to erect the buildings before he can even start. So we explained the problem to the economic counsellor. We told him, why don’t you build structures to attract investors? So far we have failed to attract industry and manufacture because of this. So we persuaded the government to set up this industrial zone and build the structures*” (personal communication, Lusaka, 300108). The overall aim of these Chinese MFEZs is to build export hubs for locally produced Chinese goods. In order to fulfil this aim, the Chinese state constructs the essential infrastructure and erects the needed buildings within the zones financed by Chinese development aid and carried out by Chinese companies. Moreover, it provides cheap loans via BOC (or any of the other four main banks in China) to potential investors in the zones.

7. Conclusion

Chinese TNCs have become increasingly active in African economies, but data from Zambia shows that we have to modify our general perception of these investments as solely comprising of resource-seeking activities. Firstly, as pointed out in this paper, Chinese companies come in all shapes and sizes. Among the first companies to return to Zambia were SOEs and provincial companies with previous experience with Chinese development aid projects. Only later, mining and supportive enterprises arrived in Zambia. Secondly, Chinese corporations are not the only mining companies in Zambia. In fact, the Zambian mining sector is dominated by other TNCs than Chinese. Thirdly, they do not differ radically from other resource extractive industries in Africa (UNCTAD 2007c) and finally, they do not operate in a vacuum: alongside the arrival of mining related Chinese companies several private Chinese companies of all sizes have chosen to invest in Zambia. They are not only pursuing raw materials. Many have been pushed out of China due to increasing demands for technological capabilities and low profit margins in China. They did not choose Zambia *per se*, but found that investment codes were liberal and the institutional setup supported them. Thus, they aimed to benefit from the existing combination of liberal investment codes, close networks, and lack of local competition. A simple explanation based on the need for resources for the ‘factory of the world’, therefore, is not sufficient to account for the rapid growth of Chinese TNCs in African economies even though securing access to resources indeed is an important aspect of official Chinese OFDI policies.

Similarly, the literature on China in Africa tends to suggest that lack of other investors is a deciding factor for Chinese enterprises' successful presence in African economies. Stated differently, the literature states that western companies have avoided certain African economies due to fear of bad governance and political instability. Thereby, they have paved the way for Chinese SOEs that are neither governed by shareholder doctrines and high returns on investments, nor by corporate reputation. This article shows that this description highlights only one of several factors explaining the phenomenon. Of importance are also the deliberate policies of the Chinese state to support Chinese OFDI. Albeit the scale may be different, other countries also support their corporations operating in Africa (Alden and Davies 2006). The Chinese way of catalysing investments in Africa, therefore, is not exceptional. Moreover, neither the 'Go Out' policy nor the support to Chinese TNCs in host economies are confined to Africa. Rather, they are part of China's global rise. In recent years, therefore, the acquisition of large international corporations by Chinese multinationals has triggered large headlines. This questions the implicit uniqueness of most current literature on Sino-African relations.

Moreover, the literature tends to forget the role of the West – especially that of Western donors – in Chinese TNCs' rise in Africa: without the very liberal investment climate in Africa, to a large extent imposed by the IFIs, Chinese companies could not have pursued its grand policies of vertical integration to control full value chains. Instead, Chinese companies would have had to link to other companies. Likewise, China could not have established exclusive investment and trade zones for Chinese companies throughout Africa (Davies 2008), but would compete on equal terms with domestic (and other foreign) companies. Lastly, the liberal investments policies (alongside the highly politicised nature of current Sino-African relations) have enabled thousands of Chinese small-scale traders to establish in and around the main markets in Lusaka driving out the domestic private sector (Konings 2007).

Consequently, 'traditional' explanations do not sufficiently account for the presence of Chinese companies in Africa in general or Zambia in particular. In order to understand what is happening we have to take both push and pull factors into account. Push factors include not only deliberate OFDI policies but also fiercer competition and lower profit margins at home. Similarly, pull factors not only comprise natural resources, large untapped markets, and possibilities to learn to internationalise but also liberal investment codes and limited domestic competition.

Hence, if African development indeed is a priority for Western observers, they should stop pointing their fingers at Chinese TNCs and instead assist African host economies to maximise the benefits of the current upward trend of Chinese investments. Rather than putting more emphasis on liberalising African economies, Western donors should help African governments to make use of the, albeit small, policy space in the form of temporary exemptions and longer implementation periods that exist within the New

International Trade Regime for most African countries. An efficient use of this policy space to build local subcontracting schemes combined with broad based capacity building in the domestic private sector, for instance paid by windfall taxes on rising commodity prices, could pave the more positive effects of Chinese (and other foreign) investments in Africa and thereby, curb Western critique of Chinese interest in Africa.

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ⁱ It is indeed very difficult to distinguish the different Chinese groups present in Africa. In fact, most authors mix Taiwanese and Hong Kong Chinese with national Chinese. Pan (1999: 15ff) distinguishes between the following groups of Chinese in Africa: Chinese nationals, migrant Chinese, overseas Chinese, i.e. Chinese by descent but not by citizenship or political allegiance, and Chinese assimilated to other cultures.

ⁱⁱ All data refers to investment pledges to the ZDA. Hence, they only hint at investment tendencies not actual investments firstly because only 70% of the pledges are actually carried out and actual investment figures may differ from the pledges (Personal communication, 270208, Lusaka) and secondly, because ZDA is not the only agency to approve investments - Zambian line ministries may also approve strategic investments.

ⁱⁱⁱ It is rumoured that the Chinese owners in fact also ran the businesses until the start of the 2006-Presidential campaign where opposition leader, Michal Sata, played the China card. This created an hostile atmosphere vis-à-vis the Chinese population in the major urban areas of Zambia, which forced the owner of a major Chinese owned retail store to close down his shops for a week following the elections and apparently also forced the Chinese shop owners at Kamwala in the background.

^{iv} ERP here covers both the IMF-led stabilization programmes, which aimed to achieve internal and external balance of payment problems in the short- to medium-term and the World Bank-led adjustment proper, which sought to free up market forces and thereby promote long-term growth.

^v The role of the IFI vis-à-vis liberalisation of national investment policies did not stop with the ERPs. According to the World Bank (2004: 190), 26 percent of all development aid from 1998-2002 targeted improvements of the investment climate (mostly infrastructural improvements, direct technical assistance, and policy-based support) in developing countries.

^{vi} Other advantages, which are not affected, include contribution to government spending and employment generation.

^{vii} To be precise, the Zambian state first turned to the IFIs in 1973 to get a loan to cope for falling copper prices. This loan, however, had no strings attached and as such did not interfere in Zambia's own development plans.

^{viii} Zambia is perceived as an African pioneer in market-oriented reforms (NORAD 2002). Hence, in the late 1980s, Zambia was ranked the most FDI friendly country in Africa and throughout the 1990s it stayed in the

top only overtaken by Benin, Namibia and Chad in the beginning of the 1990s and by Namibia, Mali and Mozambique in the latter half of the 1990s (Morriset 2002).

^{ix} Some of the BITs, however, have not yet been ratified. Information on BITs is available at <http://www.unctad.org/Templates/Page.asp?intItemID=2344&lang=1>.