Mine Watch Zambia Conference

Politics, economy, society, ecology and investments in Zambia

19-20 September 2008

Knocking on a wide open door: Chinese investments in Africa

By
Peter Kragelund
Danish Institute for International Studies
Strandgade 56
DK-1401 Copenhagen K
Denmark
pkr@diis.dk

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 article uses Zambia as a case study 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 in 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 are taking notice of African politics and economics. They do not stand passively aside, but actively provide aid to, trade with and invest in African economies to leverage international politics, obtain access to growing markets and acquire much needed raw materials (Klare and Volman 2006; Kragelund 2008).

Prominent among these 'new' actors is China, whose presence in Africa takes a multiple of (interwoven) forms, spanning migration, tourism, peace-keeping operations, development aid (including debt relief), trade (including tariff exemptions) and investments (both state and privately

driven). While the return of many other new players' to Africa has gone relatively unnoticed (for instance, 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).

While the overall aim of the criticism is often the same – namely to reduce China's firm grip on Africa's development – the means are different (see Mawdsley (2007) for a similar argument). First and foremost, the West plays the democracy/good governance card, arguing that China's support of 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 by arguing that groups in Africa that are hostile to the West can turn towards the East and thereby impede counter-terrorism activities in Africa (Brookes and Shin 2006). Thirdly, the unequal trade relationship card is played, according to which 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 the extraction of natural resources. Moreover, high commodity prices tend to lead local currencies to appreciate, thereby furthering the unequal relationship between the primary and secondary sectors in many African economies.

The strong reactions vis-à-vis China do not, of course, solely originate in China's activities in Africa. Rather, its presence in Africa is perceived as one element in its 'global rise' (Gu, Humphrey, and Messner 2008), which is perceived as a threat to US hegemony, as well as complicating '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) (Frynas and Paulo 2007; Klare and Volman 2006). Hence, criticism is articulated towards China's presence in Africa (and how China invests, trades and gives aid), but equally important for the critics is the fact that the West no longer enjoys a monopoly.

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

This article seeks to further our understanding of how Chinese companies have been able to acquire a strong foothold in Africa and how China has therefore been able to deepen its relationship with African economies while western governments have expressed their fears. 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 China and Zambia, the current significance of Chinese investments in all sectors of the economy, and the role of donors in the political and economic development of Zambia.

Section two of this article provides a brief overview of the scale of Chinese investments in Africa. In order to acquire 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. Section five looks in more detail at how Western donors have influenced investment policy in Zambia. Section six then examines the other side of the equation by providing 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 $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 on the continent. Not only do they 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 major players 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, in the 1980s Taiwanese companies were specifically invited to set up light industries in South Africa in areas with few employment opportunities; 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 up by changes in international trade regulation (Bräutigam 2003; Hart 2002; Morris 2006). In fact, Bräutigam (2008) estimates that (mainland) Chinese firms made more than 200 manufacturing investments in Africa in 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, Chinese companies especially 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, do not take the most recent upsurge of FDI into account. Although data on Chinese investments in Africa are indeed flawed, there is hardly any doubt that Chinese FDI to Africa is increasing rapidly – probably more rapidly than FDI originating from anywhere else.

Table 1 demonstrates the growing importance of Chinese companies on the African continent. First, it shows that the number of Chinese companies have increased tenfold in less than two decades and almost doubled in the first six years of this century. Secondly, it indicates the growing importance of smaller (partly private) Chinese investments in Africa: while the average size of investments in 2000 was almost $2 million, this figure decreased to approximately $1.4 million in 2006. Hence, even though Chinese investments in the oil sector receive the lion's share of public and academic coverage (Frynas and Paulo 2007; Klare and Volman 2006), Chinese FDI increasingly dominates investments in all sectors in many African countries. Based on figures 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 (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 ($ million)	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

Based on data from (Kragelund 2007)

Nevertheless, it is important to bear in mind that, although Chinese FDI to Africa has recently attracted considerable attention, it 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 or 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 are poor, and data on Chinese FDI 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, bringing the stock of Chinese FDI

to US$570 million (increasing from $3.2 million in 1990, to $134.4 million in 2003 and $316 million in 2005),[1] the number of Chinese investments approved by Zambia Development Agency (ZDA) had only reached 143 by 31 December 2006 – and not all of these have been implemented.

Nonetheless, they do point to the 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. However, 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. In relation to domestic companies too, the importance of Chinese companies is growing: while companies with Zambian majority ownership ranked first in 2005 (investing $63.4 million), they only ranked third in 2006 ($91.3 million). Meanwhile, China moved from being the third most important investor in ($40.8 million) to being the most important one ($209 million).[2]

Based on news bulletins in Zambia and elsewhere, one would assume that China only invested in resource-extraction activities, but this 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 other Chinese companies investing in other sectors of the economy. However, because of the politicised nature of Chinese investments, poor data quality and overlapping institutional responsibilities, it is difficult to obtain 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 31 December 2006. It has been drawn up 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 are listed by either ZDA or by ACCZ (or both), while columns two and three list the number of Chinese companies registered by ZDA and ACCZ respectively. Column four logs the companies that are still active in Zambia, even though ZDA has not registered them, as they are members of ACCZ, while column five provides an account of the Chinese investments in each sector (based on investment pledges from ZDA). Inasmuch as ZDA is not the only Zambian institution allowed to licence FDI, and because some investments may be re-classified for the sake of completeness, columns six and seven provide a revised breakdown of Chinese FDI.

To begin with, Table 2 underlines the fact that Chinese investment in Zambia is something more than the popular perception of Chinese investors seeking raw materials abroad: less than five

[1] Personal communication , China House, Lusaka, 250108.
[2] All data refer to investment pledges to the ZDA. Hence, they only indicate investment tendencies, not actual investments, first because only 70% of pledges are actually fulfilled, and actual investment figures may differ from the pledges; and secondly, because ZDA is not the only agency to approve investments – Zambian line ministries may also approve strategic investments. Personal communication, 270208, Lusaka.

per cent of Chinese companies in Zambia have invested (directly) in the mining sector; the rest have invested in manufacturing (43%), services (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 ($5.6 million), Chambishi Copper Smelter ($199 million) and Sino-Metals Leaching Plant ($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, $220 million of the just under $300 million in 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 ($ million)	Revised breakdown	
						Investments ($ 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 present author's knowledge, however, only the Ministry of Mines and Minerals has availed itself of this right. Nonetheless, this right radically changes the distribution of investments in dollar terms, as the Ministry of Mines and Minerals licenced the $150 million of investments in the Chambishi mine. In total, therefore, mining-related activities make up roughly three-fourths of the value of all registered Chinese investments in Zambia, as shown in the last column of Table 2.

Not all Chinese companies are registered 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 businessmen.[3] Although the owners are only to be seen in and around the shops in the early

[3] It is rumoured that the Chinese owners in fact also ran the businesses until the start of the 2006 Presidential campaign, when the opposition leader, Michal Sata, played the China card. This created a 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

morning and late afternoon, their activities are coordinated in a small office located on the outskirts of the Kamwala Market. Furthermore, the table fails to include the small manufacturing and construction companies set up by former employees of Chinese large-scale companies that have only registered their activities at the Registrar General's office.[4] Lastly, some companies, especially in the construction sector, are *de jure* Zambian, that is, a Zambian citizen owns more than 51 per cent of the company's shares, but in fact the Zambian partner is only used as a front in order to win tenders specifically targeted at Zambian small- and medium sized enterprises. Hence, these companies are *de facto* Chinese.[5]

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, then in the middle of a deep economic crisis, embarked on a series of Economic Recovery Programmes (ERP)[6] with the ultimate aim to increase economic growth by correcting imbalances between government spending and government revenues and thus raise the productive capacity of African economies. The most widespread measures used included trade liberalisation, exchange-rate liberalisation (devaluation), fiscal and monetary reforms, public enterprise reforms, and the de-regulation of investments, labour and prices. In most cases, the IFIs first paid attention to correcting basic macro-economic distortions and then to structural impediments to growth, including downsizing the public sector, as well as 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 in investing in African economies and thus bring about the expansion of production capacity, increase foreign-exchange earnings and create employment. Therefore, much emphasis was placed on providing an environment conducive to FDI. Although ERPs differed slightly from country to country, as did implementation of such policies, 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).[7]

The post-1994 creation of a New International Trade Regime implies that it would be impossible to reverse the policy liberalisations embarked upon in the late 1980s and at the

---

down his shops for a week following the elections and apparently also forced the Chinese shop-owners at Kamwala into the background.

[4] Personal communication, Lusaka, 300108 & 200208.

[5] Personal communication, Lusaka, 250208.

[6] ERP here covers both the IMF-led stabilization programmes, which aimed to resolve 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.

[7] The role of the IFI vis-à-vis the liberalisation of national investment policies did not stop with the ERPs: 26 per cent 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 (World Bank 2004).

beginning of the 1990s in Africa. Moreover, the agreements covered by the World Trade Organisation (WTO) have made it difficult for African countries to pursue their 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 a 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, as well as double taxation treaties (DTT) that provide foreign investors with tax-issue security and stability, and hinder the double taxation of corporate incomes. The number of BITs and DDTs has increased rapidly in recent years, indicating 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 seeking to apply international standards regarding the fair and equitable treatment of foreign investors and including 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 (Neumayer and Spess 2005; UNCTAD 2007b).

Both the TRIMs Agreement and the BITs represent an interference with the sovereignty of host governments, essentially reducing the policy space for developing countries. In the words of Wade, the New International Trade Regime 'ties the hands of developing country governments "forever" to the North's interpretation of a market opening agenda' (2003: 622). Essentially, the ability to design and customise investment policies to increase the desired benefits and minimise the negative effects of FDI has shrunk. Some of the very advantages of FDI vis-à-vis other financial flows to developing countries, such as its role in transferring technology and managerial knowledge, providing access to international markets, and building export capacity, may therefore not materialise.[8]

[8] Other advantages, which are not affected, include contribution to government spending and employment generation.

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, in April 1968, President Kaunda 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 take them away from Asian merchants), and ended with almost total nationalisation of the Zambian economy by the mid-1970s (Burdette 1988; Rakner 2003; Saasa 1987).

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 overall, which was soon to turn into a major financial crisis and then a longstanding relationship with the IFIs.[9]

This particular relationship, although characterised by its 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, in 1987 the Zambian government chose to discard the externally imposed programme, change the debt-service conditions and instigate an internal recovery programme. Zambia's refusal to maintain repayments to the IMF, however, meant that just about every donor decided to cut Zambia out of their list of aid recipients (Simutanyi 1996). In the words of Fraser and Lungu, 'Zambia learned the hard way not to try to resist [World Bank and IMF policies]' (Fraser and Lungu 2007: 9).

By the mid-1980s, Zambia, 'helped' by the IFIs, embarked upon an economic liberalisation programme that aimed to give room for the private sector to kick-start the economy. Private investors, however, did not react positively to these measures. First, the external liberalisation programme was soon replaced by an internal programme (again to be replaced by an IMF-designed programme in 1989). Secondly, the private sector, like other (external) actors, had lost faith in the Zambian economy. 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.

Although Kaunda did not pay particular attention to the role of foreign investors in the 1980s, 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. However, this situation changed just prior to the 1991

[9] To be precise, the Zambian state first turned to the IFIs in 1973 to obtain a loan to cope with falling copper prices. This loan, however, had no strings attached and as such did not interfere in Zambia's own development plans.

presidential elections, when parliament passed the 1991 Investment Act. This Act, among others, allowed foreign investors to retain 100 per cent of the foreign exchange earnings for three years, while simultaneously being exempted for company tax and custom duties for the same period. The 1991 Act thus deliberately offered generous incentives to foreign investors intending to set up new foreign exchange-earning ventures in Zambia (Rakner 2003; Saasa 1987).

The new Chiluba-led government basically continued these policies. It perceived liberalisation – the IMF way – as a means of attracting foreign investments. 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 an extension of a World Bank loan, the Chiluba-led government passed a new Investment Act. This Act introduced minor restrictions on tax holidays and the 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, which gave foreign investors particular incentives to invest in the mines. For instance, the Act stipulated that investors were exempt from custom duties on imported capital equipment, while simultaneously they could reduce income taxes by deducting investments from profits. Moreover, this 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). The picture of a very liberal investment climate 'encouraged' by the IFIs therefore remains (Fraser and Lungu 2007; EIU 1996).[10]

Currently, FDI in Zambia is governed by the ZDA Act, passed in May 2006 and in force from 1 January 2007, which 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 $250,000 and 200 employees, as opposed to $50,000 in the ZIC Act), it still offers investors a very liberal investment climate. For instance, it does not stipulate any requirements regarding local content, technology transfer, equity, employment or the use of subcontractors for foreign investors, even though foreign investors are encouraged to commit to local participation. It also allows investors to repatriate any capital investments freely and to send home profits, dividends, interest, fees and royalties, as well as permitting foreign nationals to transfer abroad wages earned in Zambia.

Like most other sub-Saharan African countries, Zambia has also paid attention to the BITs in order to attract FDI. Since the start of the new millennium, Zambia has signed 10 new BITs, making the total number 13 – just above the average for Sub-Saharan Africa (12), but significantly

[10] Zambia is perceived as an African pioneer in market-oriented reforms, and in the late 1980s it was ranked the most FDI-friendly country in Africa. Throughout the 1990s it stayed at the top, only being overtaken by Benin, Namibia and Chad at the beginning of the 1990s and by Namibia, Mali and Mozambique in the latter half of the 1990s (Morriset 2002).

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, these zones first being launched in the 2007 budget speech. This regulation replaces the Export Processing Zones Act 2001, which was restricted to investors exporting at least 80 per cent of their production, but otherwise they provide similar incentives to investors, that is, they allow the establishment of MFEZs throughout Zambia. Companies located in these zones enjoy special incentives, including duty-free imports of raw materials, capital goods and machinery for five years. So far two MFEZs have been approved. One, financed by the Japan International Cooperation Agency and significantly called 'Triangle of Hope', is located in Lusaka, and encourages Malaysian and Indian companies to set up joint ventures with Zambian companies. The other, located a stone's throw from the Chinese-owned Chambishi mine in the Zambian Copperbelt and 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.[11]

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 the support and guidance of the Chinese state, both at home and in the African economies, and at different levels.

Chinese Outward FDI (OFDI) was virtually non-existent until Deng Xiaoping initiated political and economic reforms in the late 1970s. Overseas investments were only made 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, in August 1979 the Chinese State Council 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, did Chinese OFDI take off. In 1992, internationalisation of Chinese enterprises was incorporated in the national economic policy, following which private Chinese enterprises began to invest overseas. Although 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 turn Chinese enterprises into internationally competitive players. On the whole, this policy reduced red

[11] Personal communication, 150208, Lusaka.

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

China's 'Go out' policy is by no means the only way in which 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', which 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, among other things, 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, in November 2006, China 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), which lays down the principles of Sino-African development, trade and investment cooperation, and specifies how the Chinese state will pave the way for future investments in Africa through development aid and soft loans. 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 three to five overseas economic and trade cooperation zones in African countries.

Moreover, the Chinese state facilitates Chinese OFDI by offering low-interest loans both directly and 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,[12] representing almost 50 per cent of the total BITs signed by China in the past decade. According to Berger, 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' (Berger 2008).

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 at guiding and helping Chinese TNCs.

In Zambia, the most important institution is the Chinese Embassy, in particular the Economic Counsellor's Office, which, through 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 the 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 the progress of Chinese companies in Zambia. While CCIPT mostly indentifies suitable investment projects and provides practical support to newly established Chinese companies currently, ACCZ essentially functions as the Chinese chamber of commerce in Zambia, taking care of the interests of Chinese companies, communicating and promoting the cause of Chinese investors, and instructing its members in Zambia's rules and regulations.

Likewise, the Zambian branch of the 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 operations of almost all Chinese companies in Zambia.

Lastly, the establishment of the $900 million ZCCZ in the Copperbelt, with an expected 50-60 Chinese companies, and the future establishment of a $500 million MFEZ in Lusaka are manifestations of the support that the Chinese state gives to 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'.[13] 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

[12] 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.
[13] Personal communication, Lusaka, 300108.

essential infrastructure and erects the required 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 show that we must modify our general perception of these investments as comprising solely resource-seeking activities. First, as pointed out in this article, Chinese companies come in all shapes and sizes. Among the first companies to return to Zambia were SOEs and provincial companies with previous experience of Chinese development aid projects. Only later did mining and supportive enterprises arrive 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. 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 the low profit margins in China. They did not choose Zambia *per se*, but found that investment codes were liberal and that the institutional setup supported them. Thus, they aimed to benefit from the existing combination of liberal investment codes, close networks and a 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 is indeed an important aspect of official Chinese OFDI policies.

Similarly, the literature on China in Africa tends to suggest that a lack of other investors is a deciding factor in the successful presence of Chinese enterprises in African economies. Put differently, the literature states that western companies have avoided certain African economies due to fears of bad governance and political instability. In this way, they have paved the way for Chinese SOEs that are governed neither by shareholder doctrines and the achievement of high returns on investments, nor by corporate reputation. This article has shown that this description highlights only one of several factors explaining the phenomenon. Of importance too are the deliberate policies of the Chinese state to support Chinese OFDI. Although the scale may be different, other countries also actively 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 support for Chinese TNCs in the 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 of the 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 their grand policies of vertical integration to control full value chains. Instead, Chinese companies would have had to link up with other companies. Likewise, China could not have established exclusive investment and trade zones for Chinese companies throughout Africa (Davies 2008), but would have had to 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 themselves in and around the main markets in Lusaka, driving out the domestic private sector in the process (Konings 2007).

Consequently, 'traditional' explanations do not account sufficiently for the presence of Chinese companies in Africa in general, nor in 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 include not only natural resources, large untapped markets and opportunities to learn how to internationalise, but also liberal investment codes and limited domestic competition.

Hence, if African development is indeed 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 in Chinese investments. Rather than placing more emphasis on liberalising African economies, Western donors should help African governments 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 – paid, for instance, by windfall taxes on rising commodity prices – could pave the way to more positive effects of Chinese (and other foreign) investments in Africa and thus curb Western criticism of Chinese interest in the continent.

References

Alden, C., and M. Davies. 2006. A Profile of the Operations of Chinese Multinationals in Africa. *South African Journal of International Affairs* 13 (1):83-96.

Bennell, P. 1997. Foreign Direct Investment in Africa: Rhetoric and Reality *SAIS Review* 17 (2):127-139.

Berger, A. 2008. Sino-African Bilateral Investment Treaties: Implications for Economic Development. In *12th EADI General Conference for Sustainable Development. The Need for Policy Coherence and New Partnerships*. Geneva.

Broadman, H. G. 2007. *Africa's Silk Road. China and India's New Economic Frontier*. Washington, D.C.: The World Bank.

Brookes, P., and J. H. Shin. 2006. China's Influence in Africa: Implications for the United States. Washington DC: Asian Studies Centre, The Heritage Foundation.

Bräutigam, D. 2003. Close encounters: Chinese business networks as industrial catalysts in Sub-Saharan Africa. *African Affairs* 102 (408):447-467.

———. 2008. 'Flying Geese' or Hidden Dragon'? Chinese Business and African Industrial Development. In *China Returns to Africa. A Rising Power and a Continent Embrace*, eds. C. Alden, D. Large and R. Soares de Oliveira, 51-68. London: Hurst.

Buckley, P. J., J. Clegg, A. R. Cross, X. Liu, H. Voss, and P. Zheng. 2007. The determinants of Chinese outward foreign direct investment. *Journal of International Business Studies* 38 (4):499-518.

Burdette, M. M. 1988. *Zambia. Between two worlds*. Boulder: Westview Press.

Campbell, H. 2008. China in Africa: challenging US global hegemony. *Third World Quarterly* 29 (1):89-105.

Cockcroft, L., and R. C. Riddell. 1991. Foreign Direct Investment in Sub-Saharan Africa. Washington D.C.: International Economics Department, The World Bank.

Davies, M. 2008. China's Developmental Model Comes to Africa. *Review of African Political Economy* 35 (1):134 - 137.

EIU. 1996. *Country Profile Zambia 1996-1997*. London: The Economist Intelligence Unit.

Fraser, A., and J. Lungu. 2007. For whom the windfalls? Winners & losers in the privatisation of Zambia's copper mines.

Frynas, J. G., and M. Paulo. 2007. A New Scramble for African Oil? Historical, Political, and Business Perspectives. *African Affairs* 106 (423):229-251.

Fues, T., S. Grimm, and D. Laufer. 2006. China's Africa Policy: Opportunity and Challenge for European Development Cooperation. Bonn: Deutsches Institut für Entwicklungspolitik.

Gibbon, P. 2002. Present-day Capitalism, the New International Trade Regime & Africa. *Review of African Political Economy* 29 (91):95-112.

Goldstein, A., N. Pinaud, H. Reisen, and M.-X. Chen. 2006. *The Rise of China and India: What's in it for Africa?* Paris: OECD Development Centre.

Government of China. 2006. China's Africa Policy.

Gu, J., J. Humphrey, and D. Messner. 2008. Global Governance and Developing Countries: The Implications of the Rise of China. *World Development* 36 (2):274-292.

Hart, G. 2002. Reworking Apartheid Legacies. Global Competition, Gender and Social wages in South Africa, 1980-2000. Geneva: UNRISD.

Hutchful, E. 2002. *Ghana's Adjustment Experience. The Paradox of Reform*. Geneva: UNRISD.

Kaplinsky, R., and D. Messner. 2008. Introduction: The Impact of Asian Drivers on the Developing World. *World Development* 36 (2):197-209.

Klare, M., and D. Volman. 2006. America, China & the Scramble for Africa's Oil. *Review of African Political Economy* 33 (108):297-309.

Konings, P. 2007. China and Africa in the Era of Neo-Liberal Globalisation. *Codesria Bulletin* (1&2):17-22.

Kragelund, P. 2007. Chinese Drivers for African Development? The effects of Chinese investments in Zambia. In *Africa in China's Global Strategy*, ed. M. Kitissou, 162-181. London: Adonis & Abbey Publishers.

———. 2008. The return of Non-DAC donors to Africa: New prospects for African Development? *Development Policy Review* 26 (5):555-584.

Mawdsley, E. 2007. China and Africa: Emerging Challenges to the Geographies of Power. *Geography Compass* 1 (3):405-421.

Morris, M. 2006. China's Dominance of Global Clothing and Textiles: Is Preferential Trade Access an Answer for Sub-Saharan Africa? *IDS bulletin* 37 (1):89-97.

Morriset, J. 2002. Foreign Direct Investment in Africa: Policies also matter. In *New Horizons for Foreign Direct Investment*, ed. OECD, 167-180. Paris: OECD.

Naím, M. 2007. Rogue aid. *Foreign Policy* March/April 2007.

Neumayer, E., and L. Spess. 2005. Do bilateral investment treaties increase foreign direct investment to developing countries? *World Development* 33 (10):1567-1585.
Rakner, L. 2003. *Political and Economic Liberalisation in Zambia 1991–2001*. Uppsala: The Nordic Africa Institute.
Schüller, M., and A. Turner. 2005. Global Ambitions: Chinese Companies Spread Their Wings. *CHINA Aktuell* 2005 (4):3-14.
Simutanyi, N. E. O. 1996. The politics of structural adjustment in Zambia. *Third World Quarterly* 17 (4):825 - 839.
Saasa, O. S. 1987. Zambia's policies towards foreign investments. The case of mining and non-mining sectors. Uppsala: The Scandinavian Institute of African Studies.
UNCTAD. 2007a. *Asian Foreign Direct Investment in Africa*. New York & Geneva: UNCTAD.
———. 2007b. *Bilateral Investment Treaties 1995-2006: Trends in Investment Rulemaking*. New York & Geneva: UNCTAD.
———. 2007c. *World Investment Report 2007. Transnational Corporations, Extractive Industries and Development*. New York & Geneva: UNCTAD.
Wade, R. H. 2003. What strategies are viable for developing countries today? The World Trade Organization and the shrinking of 'development space'. *Review of International Political Economy* 10 (4):621-644.
Wang, M. Y. 2002. The Motivations Behind China's Government-Initiated Industrial Investments Overseas. *Pacific Affairs* 75 (2):187-206.
World Bank. 2004. *World Development report 2005. A Better Investment Climate for Everyone*. Washington D.C.: The World Bank.
Wu, H.-L., and C.-H. Chen. 2001. An Assessment of Outward Foreign Direct Investment from China's Transitional Economy. *Europe-Asia Studies* 53 (8):1235-1254.