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Chinese Economic and Trade Co-operation Zones in Africa: Facing the Challenges

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RECOMMENDATIONS

To African host countries:

- African hosts should integrate these zones into broader industrial policies and development strategies. This should include establishing soft and hard infrastructure in and around the zones.
- Based on China's experience with SEZs, African hosts should enforce policies and regulations to ensure a multiplier effect into the domestic economy.

To China:

- ETCZ feasibility studies should be more thoroughly conducted, covering existing infrastructure network, market structure and synergies, and communities' needs.
- Decision-making regarding ETCZs should be more market oriented rather than defined by political considerations.
- China would benefit from a more open and inclusive approach that considers not only the host government but also the local stakeholders, from business class to local authorities and communities. This would promote mutual trust and friendlier relations.
- A more efficient and attractive strategy should be developed to attract Chinese and other investors. This could involve more efficient co-ordination with the China–Africa Development Fund and Chinese policy banks.

EXECUTIVE SUMMARY

The idea of exporting Chinese special economic zones to Africa was adopted as an official policy within the Forum on China–Africa Cooperation (FOCAC) framework at the third meeting held in Beijing in 2006, when President Hu Jintao formally announced the establishment of three to five economic and trade co-operation zones (ETCZs) on the continent as one of the targets of FOCAC's 2007–09 Action Plan.

The current number of Chinese ETCZs in Africa has exceeded the target. At present there are eight Chinese ETCZs approved by China's Ministry of Commerce on the continent: two in Zambia, two in Nigeria, and one each in Ethiopia, Mauritius, Egypt and Algeria. However, of these, only the ETCZ in Egypt is operational, with the Chambishi (Zambia) one being partially operational. This policy briefing offers an analysis of the reasons for the current state of affairs, and the challenges that these zones are facing.

INTRODUCTION

Based on China's own successful experience of special economic zones (SEZs), the core idea behind establishing Chinese economic and trade co-operation zones (ETCZs) is to help promote Africa's development, by providing countries with the means to establish a manufacturing or industrial base through fostering technology and knowledge transfer and through job creation.[2]

ETCZs in Africa differ in size, structure and targeted sectors: some have been set up as joint ventures with local investors (eg Egypt, Nigeria), whereas others are projects that are fully managed by Chinese developers (eg Zambia, Mauritius). In most cases, zone developers

are provincial state-owned enterprises (SOEs), usually with strong backing from their respective provincial governments.

EXPECTATIONS

All parties engaged have a number of expectations, which are naturally entwined with their national or corporate interests. For Beijing, the establishment of ETCZs fits into its long-term engagement strategy with Africa, namely as an additional instrument to cultivate its political capital as a development catalyst on the continent. It also serves China's 'going out policy', representing a means to secure access to new markets and resources, and to promote the globalisation of Chinese enterprises. On the African side, a diversity of agents and stakeholders expect to benefit from the setting up of ETCZs in their country. These are the central government (tax revenue, significant investments inflows, industrialisation and increased competitiveness), business community (new business opportunities, economic spillovers, improved infrastructure and technology transfer) and local communities (job creation and capacity building).

The developers of the zones, on the other side, expect to gain a competitive edge in the trading network and to profit from renting out space and facilities inside the zones.[3] For Chinese private investors, the appeal of the ETCZs rests, in theory, in a potentially more friendly investment playground that minimises risks (through the provision of adequate hard and soft infrastructure under Chinese management); and in a geographical concentration that is perceived as an effective way of reducing operational costs, social conflict risks and safety concerns.

THE EXISTING CHALLENGES

Six years after the official announcement at the third Forum on China–Africa Cooperation, seven out of the eight existing ETCZs in Africa are yet to be fully operational. Although some ETCZs are at a very early stage of development, with the basic infrastructure being put in place, others have completed this phase but are yet to be populated. The Egypt ETCZ, presently at the second stage of development, is the sole exception, followed by the Chambishi ETCZ in Zambia, which is only partly operational.[4] This state of affairs suggests that Chinese ETCZs in Africa are struggling to take off.

In sharp contrast, a number of private Chinese industrial zones in Africa (private initiatives without any official support from the Beijing government), namely in South Africa (Hisense) and Botswana (Touchroad Group), seem to be faring far better.[5]

The success of the ETCZs will depend largely on their multiplier effect through spillovers and linkages to the local economy, namely job creation, capacity building and technological transfer. Although it is premature to rebuke these zones as a development catalyst for the host country, a number of challenges have surfaced that require urgent attention.

ON THE CHINESE SIDE

Almost everything seems to be in place to ensure success, namely political will, financial capacity and prior valuable experience, in setting up and managing the ETCZs. Shortcomings surface, however, at the implementation level.

Part of these shortcomings are closely related to the cultural shock (different business culture and work ethics), language barriers and insufficient knowledge of the host context experienced by the participants. In Zambia, respondents from both sides agree that these barriers are a significant challenge as they are the source of a lot of misperceptions and miscommunication, which have a negative impact on relationships.[6] The biggest challenges in this regard are labour related. In Chambishi (Zambia) the majority of labourers have been sourced locally, which has had a positive impact on job creation. Nonetheless, criticism remains high regarding safety standards, working hours and salaries practised by the China Nonferrous Metals Corporation (CNMC). Although these may replicate the practices in China, they fall below the host country's standards. Despite significant improvements in recent years, the CNMC still has limited experience in corporate social responsibility (CSR) practices, which are key to the way the project is perceived by the local community.

A different sort of shortfall on the Chinese side is the top-down approach used to nominate the developer in some cases. Evidence suggests that this kind of decision is often taken at the top level without a comprehensive understanding of the project. Although this top-down approach might be useful in some instances, it does not always ensure the best results. This is the case of the Jinfei ETCZ in Mauritius.[7] Following an official visit to

Mauritius in 2009, President Hu Jintao became aware of the lack of financial capacity of the original developer (Tianli Spinning Company) to take the project forward. Upon his return, Hu Jintao asked the Shanxi Provincial Government (Tianli's home province) to resolve the problem. Taiyuan requested the two largest provincial SOEs to join the project. The chosen enterprises were TISCO and Shanxi Cooking Coal, major steel and coal producers, respectively, which naturally had limited interests in the Mauritian services project. Consequently, Shanxi Coal is due to withdraw from the project and TISCO's stay is uncertain. Maintaining 'face' under these circumstances can thus become a problem, as China enters unfeasible deals and then feels politically obliged to keep them.

Added to this is the struggle of ETCZ developers to populate these zones.[8] Although the Mauritian zone has been ready for over a year, it has yet to attract any investors. Zambia has 17 companies registered inside its zone, but most of these are actually subsidiaries of the developer or construction companies undertaking the onsite infrastructure. The only ETCZ that seems to have been relatively successful in this regard in Africa is the one in Egypt, allegedly because this was one of the few areas in the North West Gulf of Suez economic zone (located near the port of Sokhna at the southern end of Suez canal) left for foreign investors to set up their businesses.[9]

ON THE AFRICAN SIDE

Host countries seem to be facing similar challenges, which are related mostly to governments' inability to deliver the soft and hard infrastructure necessary to ensure the benefits expected by the business sector and local communities.

The biggest challenge in this regard is the lack of comprehensive and effective policies and regulatory frameworks to ensure spillovers to the domestic economy. In the Chambishi zone, for instance, local suppliers complain that, despite numerous efforts on their side, there are still no regulations in place ensuring that Chinese investors will source services and materials locally, and the general perception is that Chinese enterprises prefer to use their own networks.[10] There are also considerable obstacles to local entrepreneurs' participation, one being investment thresholds that are set too high. Domestic spillovers are a serious concern in Mauritius, and have fuelled heated discussions in parliament.[11] Moreover, most host countries have few procedures in place to enforce technology and knowledge transfer.[12] Even though the benefits and opportunities that these initiatives present for local businesses are obvious, the reality is that the opportunity will be missed if there are no formal regulations defining how they will happen in practice. Other issues that may compromise the developmental role of these zones are the too generous incentive concessions granted by some governments, which result in low returns in the early stages of the project.

Another major challenge on the African side is the poor quality of offsite infrastructure (transportation network, water and electricity supply). Although a few countries seem to be doing well in this regard (eg Egypt, Mauritius), the majority are delivering below the expected standards. This is owing to a variety of reasons, including the remoteness of the chosen land plots, a lack of necessary capital, and structural infrastructure constraints. This is a major detractor for prospective investors, defeating the purpose of the whole project.

Other challenges relate to poor management of the land-allocation issue.[13] The leasing conditions vary from country to country (in terms of the number of years and cost) but, in general, are kept from the public and end up raising suspicions of being too generous (ie being allocated for free or at a very cheap rate). Other related issues include resettlement processes (namely in Mauritius and in the Lekki zone in Nigeria) as well as land expropriation and compensation processes, which delay the projects. Other problems that have had a negative impact on the development of some zones are misunderstandings between governments and developers regarding what has been agreed (ie Nigeria),[14] technical issues (ie Mauritius),[15] and sudden changes in the regulatory environment owing to political alternation (ie Algeria and Nigeria).

FINAL CONSIDERATIONS

The challenges and structural constraints discussed largely explain the difficulties being experienced in populating these ETCZs. Chinese developers admit they are struggling to attract Chinese private investors, and attribute this primarily to the global economic crisis, lack of knowledge of the African business environment, and cultural and language barriers.[16] Other reasons given include the preference of Chinese private investors to invest outside these zones, as they do not want to

be controlled by Chinese authorities or they are not willing to bear the costs of the zones (such as rent and utilities) should they remain underpopulated.[17] These last two explanations seem to be plausible, taking into consideration that Chinese private investment has risen considerably across the continent over the past decade. It is also corroborated by the more successful experience of industrial parks set up by private Chinese capital in a number of African countries.

In addition to the challenges listed above, there are a number of structural hindrances that need to be taken into account. SEZs are not a new experience in Africa, and the reality is that the majority of these have actually failed, largely owing to the aforementioned challenges of poor infrastructure, limited political support and planning shortfalls.

In addition, the African political and economic context is very different to that of China. Some of the factors that dictated the success of Chinese SEZs are not present in Africa. These include the more centralised institutional framework in China, which allows for a long-term view, strong co-ordination between central and provincial governments and steady implementation of the projects. Other factors include the strategic location of Chinese SEZs to major gateways; their integration with a broad industrial policy and development strategy; existing manufacturing bases and conditions to strive (abundance of cheap labour, and joint venture and technological transfer provisions); and strong investment in surrounding infrastructures. Africa may appear to be an alternative for the Chinese manufacturers in the context of rising land and labour costs in China. The reality, however, is that even though labour might be cheaper, Africa lacks the necessary soft and hard infrastructure to develop ETCZs. Transportation costs alone offset production gains. This might explain why Chinese ETCZs in Southeast Asia are doing much better.

Although it may be too early to set Chinese ETCZs in Africa aside as failed ventures, they are unquestionably at a crossroads. Now is the time to identify and tackle the hindrances that threaten to shut this window of opportunity for African development. Action that is taken now can salvage the project and allow African benefits to go beyond low-skilled labour employment and raw-materials supply.

ENDNOTES

1 Ana C Alves (PhD) is senior researcher at SAIIA (Global Powers and Africa programme), where she focuses on China and Brazil–Africa relations.

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16 Personal interview, ZCCZ, *op. cit.*; Personal interview, JFET, *op. cit.*

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