CHAPTER 4

China's Investment in Special Economic Zones in Africa

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China's Overseas Special Economic Zones: Aims and Objectives

In 2006, as part of the implementation of its 11th five-year plan, the Chinese government announced that it would establish up to 50 overseas economic and trade cooperation zones. In the experimental manner that characterizes many Chinese policy innovations, the rollout of these zones has been gradual. In Africa, two competitive tenders (discussed in section 2) have led to the selection of seven proposals for overseas zones, all of which became eligible for incentives from the Ministry of Commerce and other Chinese government agencies. This chapter outlines the background of this policy innovation, describes the current status of the seven African zones, sheds light on the variety of mechanisms by which these zones have been established and operated, provides a preliminary assessment of the benefits and drawbacks of the zones, and provides recommendations that might be helpful in allowing African economies to fully maximize potential benefits from these investments. The chapter draws on the authors' field research done,[1] as well as on a literature review and telephone interviews.

Background

China's efforts to attract foreign investment relied at first on SEZs. In 1979, four SEZs were established in the southeastern coastal region of the country (a fifth zone was later added on Hainan Island). These were patterned after similar zones established in Taiwan, China; the Republic of Korea; Singapore; and Hong Kong, China. In 1984, 14 Chinese coastal cities set up industrial and technological development zones, many of which nurtured clusters targeting a particular industry. More than a hundred zones of various kinds now have been established around the country, offering low taxes[2] and infrastructure at international standards. These zones have become one of the principle means by which the Chinese government, at the local, provincial, and national levels, provides preferential policies to foster the development of technology and industry.

China has some experience with international partnerships in the development of these zones. In 1983, the Japanese government helped develop a master plan for the port of Qingdao, and in the early 1990s, Japan's International Cooperation Agency (JICA) provided foreign aid for the Jiaozhou Bay Highway, a railway, and a sewage treatment plant, all connected to the Qingdao Economic Development Zone. In 1993 and 1994, the Jiangsu province cities of Wuxi and Suzhou developed industrial parks with Singaporean partners to learn from Singapore's model. These zones were run on a commercial basis, as joint ventures. The Singaporean interests held majority shares, and took the lead in developing and marketing the zones until around 2001–02 when the capital and management were restructured and Chinese interests became the major shareholders and decision makers in both zones. The Chinese government closely followed this process: the Suzhou zone even had a vice premier as chairman of its board. In recent years, several Chinese development zones have invited institutes from the US, Japan, Australia and UK to participate in planning.

In the mid-1990s, after nearly 20 years of "bringing in" (*yin jinlai*) foreign investment, technology, and skills, the Chinese government began to emphasize "going out" (*zou chuqu*) or "going global." Going global involved finding new markets for Chinese goods and services, building up Chinese brand names, and ratcheting up China's own foreign investment. In an experimental fashion, the Chinese government and Chinese companies began to establish overseas industrial and trade zones, as early as 1998. In 2006, a policy decision was made to establish up to 50 special economic cooperation zones in other countries as a central vehicle for this aim.

The China-Africa Development Fund (CADF), a venture capital instrument set up by one of Beijing's policy banks, China Development Bank, is one of the key tools for the going global strategy. First announced at the November 2006 Summit of the Forum on China-Africa Cooperation (FOCAC), CADF was established with US$1 billion in assets and is expected to rise to US$5 billion over time. CADF's role is to invest in Chinese companies, Sino-Africa joint ventures, or African companies, with the commercial objective of at least breaking even. CADF has taken equity shares in some of the overseas zones projects.

Objectives

Overseas economic zones were believed to meet several strategic objectives. First, they would increase demand for Chinese-made machinery and equipment, while making it easier to provide postsales product support. Second, by producing overseas and exporting to Europe or North America, Chinese companies would be able to avoid trade frictions and barriers imposed on exports from China. Third, the zones would assist China's efforts to boost its own domestic restructuring and move up the value chain at home.[3] Fourth, they were intended to create economies of scale for overseas investment, and in particular, to assist less experienced small and midsize enterprises to venture overseas "in groups." Finally, fifth, they were viewed as a way to transfer one element of China's own success to other developing countries, a strategy that the government believed would be helpful for recipient countries, while also benefiting China. These multiple objectives mean that Chinese companies also have a variety of objectives in constructing and investing in these zones. Indeed, evidence from the zone in Egypt, which is the most advanced of the projects, supports the perspective that companies investing in the Chinese zones are not following one model. Some Chinese manufacturers in the zone are producing for the European market (garments), others are serving the Egyptian market (oil rig assembly, women's sanitary products), and yet others are exporting back to China (marble).

Brief History of China's Overseas Economic Zones

The policy established in 2006 built on earlier overseas experiments. For more than a decade, Chinese companies already had ventured into establishing a variety of overseas industrial and trade zones. For example, in 1999, the Chinese government signed an agreement with Egypt to assist in the establishment of an industrial zone in the Suez economic area. Also in 1999, the giant Chinese appliance firm Haier built its first industrial complex outside of China: a 46-hectare industrial park in South Carolina, United States. Fujian Huaqiao Company built an industrial and trade zone in Cuba in 2000. In 2001, Haier and a Pakistani company, Panapak Electronics, constructed a joint industrial park near the Pakistani city of Lahore. A Chinese company began to implement an industrial zone in the Chambishi area of Zambia in 2003. In 2004, China Middle East Investment and Trade Promotion Center and Jebel Ali Free Trade Zone constructed a US$300 million trade center, designed to host 4,000 Chinese companies in Dubai. Similarly, also in 2004, Tianjin Port Free Trade Zone Investment Company and the United States Pacific Development Company set up a Chinese trade and industrial park in the South Carolina city of Greenville.

Thus, the decision to establish overseas zones as a part of the going global" policies was made after Chinese companies already had set up industrial and trade zones overseas. China's Ministry of Commerce and the National Development and Reform Commission studied the experience of these companies in formulating the policies of support.

China's Overseas Zones in Africa: Current Situation

Chinese support for the development of "economic and trade cooperation zones" is not limited to Africa. To date, the Chinese government has selected 19 overseas zone proposals (see Appendix 4.A) across 15 countries for official support under the going global policies. Seven of these projects, across six countries, are in Africa (five projects in four countries are located in Sub-Saharan Africa with two in North Africa), with the goal of developing at least 10 overseas Chinese economic and trade cooperation zones during the 11th five-year plan (2006–10), and stimulating overseas investment of US$2 billion from some 500 Chinese companies.[4] These zones are not expected to conform to a single model. They can be science and technology parks, manufacturing and processing bases, or multiuse facilities. They can emphasize domestic markets (import substitution) or export processing. In addition, some mainland Chinese and Hong Kong, China, companies have established industrial estates and other spatially delimited areas for trade, logistics, or manufacturing in Africa and elsewhere, outside of the scope of official government support.

This section outlines the overall plans for the zones. Their results to date are discussed in section 4.

China's Seven Approved Zones in Africa

China's Ministry of Commerce has approved seven African zones for special funding under the going global initiatives; six had commenced construction as of November 2009. These zones are located in Zambia, Mauritius, Egypt, Ethiopia, Nigeria (two), and Algeria. This section provides an overview of the seven zones, including their location, participants, investment, industry focus, and current status. It discusses the future of the Chinese initiative and briefly looks at Chinese investments in industrial parks and other SEZs in Africa, but outside of the special initiative. In addition to these seven zones, other Chinese companies and provincial governments have experimented with the establishment of industrial parks and free trade zones in Africa. Some of them sent proposals to the Ministry of Commerce (MOFCOM) tenders, but did not win. Most are quite recent, and their experiences vary widely: some failed at an early stage, but others have survived and grown. In comparison with the seven official zones, their sizes vary, forms are more diversified, and strategies are more flexible. Among these are the Guoji Industry and Trade Zone in Sierra Leone, the Nigeria Lishi-CSI Industrial Park, Linyi (Guinea) Industrial Park, China Daheng Textile Industrial Park in Botswana, and the Shandong Xinguang Textile Industrial Park in South Africa. Several other proposals for industrial parks or zones have been mentioned in various media, but they either are at an early stage, remain under discussion, or failed to begin.

Zambia-China economic and trade cooperation zone/Chambishi multi-facility economic zone. China Nonferrous Mining Co. (CNMC Group) began planning the Zambia-China Economic and Trade Cooperation Zone in 2003 in Chambishi, about 420 kilometers north of the capital of Lusaka. CNMC's decision to open a zone for mineral processing and related industries allowed the company to make full use of the 41-square kilometer surface area of its Chambishi copper mine. In 2006, CNMC won official support from MOFCOM for the Chambishi zone. In a sign of the political importance of this initiative, in February 2007, China's president Hu Jintao presided at the opening ceremony of the zone.

The Chambishi Zone focuses on the value chain of copper and cobalt: mining, processing, recycling, machinery, and service. It aims to attract 50 to 60 enterprises, create some 6,000 jobs for Zambians, and reach an annual output of more than US$1,500 million by 2011. By July 2009, 11 enterprises had been established in the zone, including the Chambishi copper mine, copper smelters, a sulfuric acid plant, and a foundry, for a total investment of US$760 million.

CNMC's Lusaka subzone project, adjacent to the Lusaka airport, was launched, at least symbolically, in January 2009. The zone is planned to have an area of 5 square kilometers. A master plan for the zone is expected to be completed by the end of 2009, with construction slated to begin in 2010. Although the focus of the zone remains to be determined, CNMC has indicated a wish to focus on services (hotels, a conference center), light industries such as food and tobacco processing, and assembly of home appliances and electronics. The strategic purpose of the Lusaka subzone may be to diversify out of resource-intensive investment as well as to accommodate the Zambian government's desire for urban employment opportunities. China Development Bank has set up a Zambia team to provide funding support for the zones and CNMC activities in Zambia. The Chambishi and Lusaka zones were the first of five Multi-Facility Economic Zones (MFEZs) planned by Zambia. Malaysian interests are also constructing an MFEZ near Lusaka, with technical assistance from JICA.

Egypt Suez Economic and Trade Cooperation Zone. Egypt Suez Economic and Trade Cooperation Zone is located in Section 3 of the North-West Suez Canal Economic Area just outside Egypt's new deep-water Sokhna Port, just below the southern entrance of the Suez Canal, 120 kilometers from Cairo. It is being developed by Egypt TEDA Investment Co., a joint venture between Tianjin Economic-Technological Development Area (TEDA) Investment Holdings, Egyptian interests, and the China-Africa Development Fund. The Suez project has a long and complicated history (see box 4.1). Discussions on a transfer of China's experience were initiated by Egypt in 1994. TEDA Investment Holdings was tasked by Beijing to set up a zone project in the Suez area in 1998. A joint consortium, Egypt-Chinese Corporation for Investment (ECCI), was set up to implement this initial project. TEDA relied on the experience of their Egyptian partners to learn how to operate in Egypt. The venture began long before the area infrastructure was complete and the initial years were not very successful, but with time a number of companies have set up operations in Sector 3 of the zone.

In November 2007, TEDA participated in the second tender of MOFCOM for overseas zones. After winning the bid, they bought additional land in Sector 3 of the zone and formed a new joint venture with Egyptian interests. The zone builds on the earlier investment and will be

Box 4.1

Timeline: Tianjin TEDA in Egypt

1994 Egypt and China begin discussion of cooperation in economic zone development

1998 Chinese and Egyptian governments sign a memorandum of understanding to construct a free trade zone in NorthWest Suez. TEDA assigned the task. Sets up Suez International Cooperation Co.

1999 ECCI was formed by TEDA, Arab Contractors Co., National Bank of Egypt, National Investment Bank, and the Suez Canal Authority. TEDA had 10 percent of the shares. ECCI acquires rights to 21.95 square kilometers of land in NWSEZ (all of Sector 3).

2000 TEDA sets up Suez International Cooperation Co., which is 100 percent TEDA because they believed the joint venture business plan was not viable. They plan to develop 1 square kilometers for small and medium enterprises (SMEs) on their own. They started construction.

2003 After slow start, ECCI releases most of its land rights in Sector 3, retaining 6 square kilometers. The infrastructure is established. Some companies are established (a marble company).

2004 January. Egypt-China Joint Working Group established to boost cooperation at zone. TEDA concentrates on Sector 3 of North-West Suez, 1 square kilometer. White Rose (a Chinese textile machine company), drilling equipment joint venture, and companies in steel tableware, luggage, and women's sanitary products.

2004 October. International Development Ireland wins contract to design overall plan for Suez zone and trains staff of Egypt's General Authority for Free Zones and Investments (GAFI).

2007 November. TEDA's proposed Suez Economic and Trade Cooperation Zone won the Chinese MOFCOM tender.

2008 July. Egypt TEDA established by TEDA (75 percent), ECCI (20 percent), and Suez International (5 percent) to develop the industrial park over three 3-year phases.

2008 October. China-Africa Development Fund signed an agreement to invest in TEDA's Suez Economic and Trade Cooperation Zone. They set up a new holding company with TEDA (on a 60%/40% ownership basis). This new company now holds the 75 percent of shares originally held by TEDA.

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Box 4.1 *(continued)*

2009	March. Chinese-Egypt TEDA wins Egyptian tender for SEZ development in North-West Suez.
2009	July 17. TEDA and Egyptian government sign contract to develop part of Sector 3 in North-West Suez as an SEZ. TEDA will invest US$280 million for infrastructure within zone.
2009	November. Chinese and Egyptian premiers presided at the opening ceremony of the North-West Suez Special Economic Zone in Sector 3.

Source: Authors.

established on a cluster model. Currently plans exist for four clusters: textile and garments, petroleum equipment, automobile assembly, and electrical equipment. In the second phase, electronics and heavy industries may be added (Interview, Vice Director of the Suez TEDA Zone, 2009).[5] As of July 2009, 16 enterprises already had moved into the first one square kilometer start-up zone. This start-up phase is planned to conclude around 2011, when the zone aims to have around 50 companies. Chinese companies with high energy consumption and high labor intensity are especially encouraged to invest in this zone.

In March 2009, TEDA won an international Egyptian tender, competing against 29 other companies for the right to develop Egypt's first "Chinese-style" SEZ ("Chinese-style" means that part of the zone will be developed for residential use). Phase I of the SEZ is located in an undeveloped portion of Section 3 of the North-West Economic Zone. It will develop approximately 6 square kilometers (600 hectares) out of the available area of 20.4 square kilometers, adjacent to TEDA's existing Section 3 industrial development. TEDA's investment in infrastructure and basic construction was expected to amount to between US$200 million and US$280 million.

Ethiopia Eastern Industrial Park. The Ethiopia Eastern Industrial Park is located 30 kilometers from Addis Abba. It originally was formed by two private Chinese steel product makers: Yonggang Group and Qiyuan Group from Zhangjiagang city. Qiyuan initiated the idea of building an industrial zone in Ethiopia and the participation of Yonggang, a much larger conglomerate, guaranteed financing so that it won the second MOFCOM bidding in 2007. Later, two additional Zhangjiagang companies, Jianglian and Yangyang Asset Management, joined the project.

Zhangjiagang Free Trade Zone was brought in as a technical partner, but not as a shareholder. Because of financial difficulties, however, Yonggang left the project early in 2009 and the smaller company, Qiyuan, has become the major shareholder and executor (Interview, Eastern Industrial Park Management, 2009). Originally, the park planned to attract 80 projects in five years and create 10,000 to 20,000 jobs for Ethiopians. This plan will be subject to substantial revision after the capital restructuring.

Because of the Chinese partners' financial difficulties (related to the global economic crisis), the area of the zone has been reduced from 5 to 2 square kilometers (500 to 200 hectares) and the investment from renminbi (RMB) 1 billion (US$146 million) to RMB 690 million (US$101 million). The start-up area is 100 hectares and is expected to cost US$22 million to launch. It currently is under construction, with an expected completion date of 2010. The zone developers still are negotiating with China Eximbank for loan finance (Foreign Trade Information and Survey Newsletter 2009), while CADF is also studying the feasibility of equity participation. Meanwhile, the first project in the zone, the a cement plant, began production in 2010. Eleven enterprises with US$91 million total investment have signed letters of intent to move in—these enterprises cover such industries as construction materials, steel products (plates and pipes), home appliances, garment, leather processing, and automobile assembly.

Mauritius Jinfei Economic and Trade Cooperation Zone. JinFei Economic and Trade Cooperation Zone is located in Riche Terre, an undeveloped area 3 kilometers northwest of Port Louis, near the Free Port. The sole original developer was the Shanxi province Tianli Group, a provincial SOE active in trade, construction, real estate, and textiles. Tianli arrived in Mauritius in 2001, establishing a state-of-the-art spinning mill, which since has expanded several times. Tianli's plant supplies much of the demand for cotton and synthetic thread in the Mauritius textile industry, as well as exports to other countries.

Tianli's proposal for an overseas zone was one of the winners of the first MOFCOM tender in 2006. Securing land and resettling farmers caused delays, however, and the zone ran into further difficulties after the developer was hit by the global economic slowdown. The Chinese central government then instructed Shanxi province to coordinate capital restructuring of the Tianli zone. Two much bigger partners, Shanxi Coking Coal Group and Taiyuan Iron and Steel Company, joined the team. CADF also invested in the zone. Construction finally began on September 16, 2009.

The zone has an area of 211 hectares; the first development phase is on 70 hectares (0.7 square kilometers) with an expected investment of US$220 million. On completion in early 2012, the zone is expected to provide a manufacturing and service base for Chinese enterprises doing business in Africa. A second phase, targeted for 2016, aims to focus on solar energy, pharmaceuticals, medical equipment, and processing of seafood and steel products, as well as housing, hotels, and real estate. If fully implemented, the total project is estimated to cost US$720 million and hopes to create from 30,000 to 42,000 jobs.

Nigeria Lekki Free Trade Zone. The Lekki Free Trade Zone (LFTZ) is located 60 kilometers east of Lagos alongside a new planned deepwater port. The project is a joint venture between a consortium of four Chinese companies and Nigerian interests, including the Lagos state government. The government of Lagos state provided 165 square kilometers (16,500 hectares) of land—of which 30 square kilometers (3,000 hectares) has been officially transferred to the joint venture so far—and the right to a 50-year franchise. CADF also will provide equity finance, and a proposal to include CADF on the board of directors still is under negotiation.

The project was initiated in 2003 by China Civil Engineering Construction Corp. (CCECC), which has been operating in Nigeria for more than a decade. In March 2006, a Chinese consortium, CCECC-Beiya ("Beyond"), was set up in Beijing. In May 2006, the consortium partnered with Nigerians to establish the LFTZ Development Co. In November 2007, the Lekki zone won support in the second MOFCOM tender.

The development of the initial 3,000 hectares is divided into three phases. The first phase (1,000 hectares) is the official China-Nigeria Economic and Trade Cooperation Zone. Construction on these 1,000 hectares (designed to support 200 companies) began in October 2007. An investment of approximately US$267 million is planned for the first three years and the total investment is estimated around US$369 million. The zone will be divided into six sections: (1) transportation equipment, (2) textile and light industry, (3) home appliances and communication, (4) warehousing, (5) export processing, and (6) living and business. According to an interview with a Beijing representative of CCECC-Beiya (2009), this first phase will serve only or mainly Chinese companies.

Sources from the Nigerian partner, however, indicate that the zone is open to all investors, and the list of investors that have signed MOUs includes mainly non-Chinese companies. An initial group of companies (all Chinese) was expected to begin construction in March 2009, in interviews management indicated this was expected to be delayed until early 2010; however, this timeline has also slipped.

Nigeria Ogun-Guangdong Free Trade Zone. Nigeria Ogun-Guangdong Free Trade Zone is located in the Igbessa region of Ogun state, 30 kilometers from Lagos International Airport. Its shareholders include Guangdong Xinguang International Group, China-Africa Investment Ltd., Chinese CCNC Group, and the Ogun state government. The project originated from a 2004 study of South China University of Technology on the feasibility of setting up a Guangdong economic trade cooperation zone in Nigeria. This report was used for the successful bid by Xinguang International Group in the first MOFCOM tender in 2006. The project originally was sited in Imo state, but the developers apparently ran into high administration fees imposed by the state government, experienced a general climate of insecurity, and relocated to Ogun state (Soriwei 2008). This delayed the project, and construction began in Ogun only in the first half of 2009. By July 2009, several Chinese enterprises had begun to build staff housing.

The zone has a total area of 100 square kilometers, which will be developed in two phases. Phase I utilizes 20 square kilometers (2,000 hectares) with an estimated investment of US$500 million; within this, the start-up zone will be developed on 250 hectares, with an investment of US$220 million. The zone will focus primarily on light manufacturing, including construction materials and ceramics, ironware, furniture, wood processing, medicine, small home appliances, computer, lighting, and paper. A high-tech agricultural demonstration park may be added in the future. The developers aim to attract more than 100 enterprises to the zone within five years, and 700–800 companies within 10 years. As of the middle of 2010, 36 companies had registered to invest in the zone; six had begun construction.

Algeria-China Jiangling Free Trade Zone. Algeria-China Jiangling Free Trade Zone in Algeria will be developed by Jiangling Automobile Group from Nanchang, Jiangxu province and Zhongding International Group (there is no local partner at present). Jiangling Automobile, one of China's flagship companies, has more than 40 sales agents in Algeria and, by 2007, had taken one-third of Algeria's automobile market. Zhongding International Group is the arm for overseas construction and engineering of Pingxiang Coal Group (PKCC). PKCC has been operating in Algeria for more than 17 years and contracted dozens of medium and large projects there. Responding to MOFCOM's call for applications, the Jiangxi provincial government coordinated an effort to link PKCC and Jiangling Automobile Group, both based in Jiangxi, to establish a platform for the enterprises of Jiangxi province to go global. They won in the second MOFCOM bidding round in 2007.

The Algeria zone was projected to have a total investment of US$556 million and a land area of 500 hectares, with a first development phase on 120 hectares. It planned to attract 30–50 Chinese enterprises into an industrial park focusing on automobiles and construction materials. In March 2008, Zhongding International and Jiangling sent a combined team to Algeria for preparation. The zone has been in limbo since May 2008. Legislative reforms in Algeria's investment regime, passed in early 2009, require foreign investors to form joint ventures with Algerian partners as majority shareholders).[6] This may not be acceptable to the Chinese developers. Negotiations with the Algerian government were still ongoing as of November 2009 (Interview, Ministry of Commerce, 2009).

China's Overseas Zones: Mechanisms

The Chinese government built on earlier experiences working with Chinese companies to establish Investment, Trade, and Development Promotion Centers in Africa and elsewhere, beginning in the mid-1990s, and studied experiences such as TEDA's in Egypt. Officials also considered China's past difficulties in ensuring that development projects established in Africa would be sustainable once Chinese involvement ended. This dictated a new model of engagement,[7] in which the Chinese government gave Chinese enterprises incentives to build and operate the zones.

Chinese enterprises take the lead in proposing and developing the zones for profit, but they compete for subsidies and support from the Chinese government. They propose the location, invest their own capital, negotiate with the host government, and compete with other Chinese companies for support through an open tender system. Once the zones are developed, the enterprises will rent space and offer services to other companies, replicating the model developed earlier in China's overseas

Investment, Trade, and Development Promotion Centers. As with many Chinese policy innovations, the zones are treated as an experiment, with a variety of approaches encouraged. The results of the first two sets of pilot projects (i.e., those projects approved during the two MOFCOM tender calls; see next subsection, "The tender process in China") will be examined for lessons learned before the effort is scaled up.

The Tender Process in China

After developing guidelines for the tendering process, China's MOFCOM asked its branch offices in the provinces and municipalities to promote the idea and the guidelines among enterprises in their region, and help them to apply. Two rounds of tenders were held, in 2006 and 2007, after which the government paused to see the initial results of the pilot projects. Although MOFCOM was primarily concerned with the potential for the projects to succeed as businesses, the Ministry of Foreign Affairs also had to provide a political sign off on the projects, as they were to receive official government subsidies. There does not seem to have been any specific strategy for locating the zones in particular countries and, indeed, two separate proposals were funded for projects in Nigeria, one of Africa's largest markets. As a counter example, the Tanzanian government was interested in having a zone, and political ties between Tanzania and China are close, but no Chinese company was interested in proposing a zone in Tanzania (Interview, Dar es Salaam, 2008; Interview, Beijing, 2009).

More than 60 companies submitted expressions of interest in the first tender round held in 2006. About half of these companies were invited to submit formal proposals, documenting the market potential and investment environment, and providing written evidence of support from the host country. Twelve companies were invited to Beijing as finalists to appear before a panel of independent outside experts (officials from Chinese special zones and university professors). Eight were selected, with the major criteria being the proposal (including the market potential, investment environment, and support from the host government), the financing capacity of the developer, and the developer's proven capacity to implement a major construction engineering project (Interview, Ministry of Commerce, 2009).

Based on lessons from the first tender round, the government added new requirements in the second round in 2007. The most important requirement was a stipulation that companies proposing zones for support needed to demonstrate an annual turnover of RMB 15 billion (about US$2 billion) for at least the two previous years. This was an effort to ensure that companies would have the resources to successfully finance the development of the zones, with the Chinese government playing only a supportive role. More than 50 companies applied in the second round, 20 of which were invited to submit formal proposals, with 11 proposals finally selected. At least two of the losing proposals were located in Africa, including the Guoji Industrial Zone in Sierra Leone, and the Nigerian industrial estate proposed by Ningbo CSI (Zhongce) Power and Machinery Group and Nigeria Lishi Group.

Chinese Government: Mechanisms of Support

In addition to the general going global policies in support of Chinese overseas investment, MOFCOM assists companies with winning proposals in a number of ways. Winning companies receive RMB 200 to 300 million (US$29 to US$44 million) in grants and long-term loans of up to RMB 2 billion (US$294 million). Subsidies can cover up to 30 percent of specific costs of zone development for preconstruction (feasibility studies, visits for planning and negotiating, securing land, the costs of preparing a bid) and actual implementation (the purchase or rent of land, factory or office space, legal and notary fees, customs, and insurance) through MOFCOM's Trade and Economic Cooperation Zone Development Fund. These costs can be retroactive to January 1, 2004, for preconstruction and January 1, 2006 for implementation.

Chinese enterprises moving into the zones are eligible for a number of incentives. First, they can be reimbursed for up to half of their moving expenses. They receive export and income tax rebates or reductions on the materials sent for construction and get easier access to foreign exchange in China's strict capital control system. They also can apply to a second MOFCOM fund, the Special Fund for Economic and Technological Cooperation, to receive a rebate on up to 100 percent of the interest paid on Chinese bank loans, a benefit good for five years. In addition, the stamp of approval from the government is expected to help Chinese policy banks (China Development Bank or China Eximbank) or funds like CADF look more favorably on companies' applications for low-cost finance or equity participation. For example, China Development Bank established a dedicated Zambia team to provide funding support for the Zambia zone and NFC African Mining activities in Zambia. Finally, Chinese embassies provide diplomatic support in negotiations with the host government over land, tax incentives, or work permits.

Some provinces and municipalities have provided additional funds for these overseas zones.[8] For example, Jiangsu province and Suzhou municipality have awarded the Ethiopian Eastern Zone more than RMB 100 million (US$14.6 million). In the Egypt zone, the government of Tianjin has promised to provide a subsidy of 5 percent of the actual investment amount, pay the utility costs (rent, gas, water, and electricity) for service enterprises in the zone, and provide full foreign investment insurance and overseas personal accident insurance for three years. The Tianjin government has given RMB 10,000 (US$1,470) for every Chinese employee in the zone as a food subsidy in the first year.

SEZs, industrial parks, and science and technology zones in China usually are managed by special authorities, which often are subsidiaries of provincial or local governments. Some of these authorities have established investment companies to explore opportunities overseas. At least three of these companies are among the firms and consortia involved in the winning bids for the zones in Africa. These include TEDA, the largest multi-industry, economic-technology development area in China, which is involved in Egypt's Suez zone; Nanjing Jiangning Development Zone, one of China's first national-level high-tech development zones, which is a minority partner in the Chinese consortium leading the development of the Lekki project in Nigeria; and Zhangjiagang Free Trade Zone, a satellite city and EPZ in Suzhou municipality, which is a technical advisor to the Eastern Zone in Ethiopia.

Strategy and Financial Commitments: Local Partners, Other Investors, and Incentives

The overseas economic zones have a variety of models with regard to local partners; level of financial commitments; managerial, development, and marketing roles; and openness to non-Chinese companies (local African companies and other FDI). The Chinese companies developing these zones include national and provincial SOEs, and also include some private firms (*minying*). The majority of the companies winning bids already were operating businesses in the respective countries for some time, at least a decade, in many instances. Ethiopia and Nigeria-Ogun are exceptions, and, in Algeria, Jiangling had been involved only in exports of its vehicles but had developed relationships with a network of agents.

The first overseas zone established under the new MOFCOM program was in Pakistan. A large Chinese appliance company, Haier, had earlier constructed an industrial park near Lahore with a Pakistani company, [[AU: Please provide citation for Table 4.1]]

Table 4.1 Structure of investment in China-Africa SEZs

Zone (country)	*Model*	*Details/Comments*
Jiangling (Algeria)	100% Chinese	• Jiangling Automobile • Zhongding International (construction)
Suez (Egypt)	JV (75%+ Chinese)	• Tianjin TEDA (45%) • CADF (30%) • ECCI, formed in May 1998 by TEDA, Egyptian banks and other interests, and the Suez Canal Authority (20%) • Tianjin Suez International Cooperation Co. (5%)[1]
Eastern (Ethiopia)	100% Chinese	• Qiyuan Group (steel) • Jianglian and Yangyang Asset Management
JinFei (Mauritius)	100% Chinese	• Three partners: Taiyuan Iron and Steel Company (50%); Shanxi Coking Coal Group (30%); Tianli Group (20%) • CADF recently announced it would become an equity partner
Lekki (Nigeria)	JV (60% Chinese; 40% local) using special purpose vehicle: Lekki Free Zone Development Co. Ltd.[2]	• Chinese partners: CCECC-Beiya consortium (four partners); in 2009 CADF joined as an equity partner • Nigerian partners: Lagos state (20%): Lekki Worldwide Investments Limited (20%); Note that Lekki Worldwide Investments Limited is an investment company also owned largely by the Lagos state

		• Lagos state received its shares in return for provision of land and 50-year franchise to operate the zone; it is expected to contribute US$67 million to construction costs • The Chinese consortium is to invest US$200 million • Negotiations with communities affected by the project resulted in an agreement to transfer five percent of the shares of the Nigerian consortium (i.e., 2% of total project shares) to local communities, making them a stakeholder in the success of the project[3]
Ogun (Nigeria)	JV (82% Chinese; 18% local)	• Chinese consortium based in Guangdong • Nigerian share owned by state government—provided land and 100-year concession in return for shares[4]
Chambishi (Zambia)	JV (95%+ Chinese)	• CNMC (95%) has provided all the capital • NFC African Mining PLC (15%) is a JV between CNMC (85%) and Zambia Consolidated Copper Mines Ltd., a Zambian government-owned holding company (15%)

Note: CADF = China-Africa Development Fund; CCECC = China Civil Engineering Construction Corp.; CNMC = China Nonferrous Mining Co.; Egypt-China Corporation for Investment = ECCI; JV = joint venture; TEDA = Tianjin Economic-Technological Development Area.

1. Interview, Vice Director of Zone, 2009.

2. CCECC-Beiya (Beyond) was an entity formed by four Chinese companies: China Railway Construction Corp with 35 percent share, Nanjing Beyond Investment Ltd. with 35 percent, Nanjing Jiangning Economic and Technical Development Co. with 15 percent, and CCECC with 15 percent. In 2009, when the CADF joined the project, the ratios in the consortium shifted to China Railway Construction Corporation Limited (35 percent), CADF (20percent), CCECC (15 percent), Nanjing Jiangning Economic and Technological Development Corporation (15 percent), and Nanjing North Asia Investment Co., Ltd. (15 percent, "Beyond/Beiya" consortium). Forty percent of Lekki Worldwide Investments is owned by LSDPC, the Lagos State Government Development Corporation, and 40 percent is owned by Ibile Holdings, the investment company of Lagos State. The proportions were confirmed in a telephone interview with the Lekki Chinese Consortium Office (2009).

3. Interview, Lekki Worldwide Investments, Lagos, December 14 and 16, 2009.

4. Mthembu-Salter (2009), 22.

Panapak Electronics, the distributor of Panasonic electronic products. In 2006, Haier proposed to establish the China Pakistan Enterprise Zone, an overseas trade and economic cooperation zone, and along with Ruba General Trading Company, became the first overseas economic zone to be launched. The Haier-Ruba zone ran into problems with the acquisition of land, however. According to some sources, Haier-Ruba insisted that land for the project be provided without cost, or with heavy subsidies, while the local government resisted this demand. In Africa, the partnerships and policies for the zones vary. Some are 100 percent Chinese owned, and others are African-Chinese joint ventures, usually with host governments as minority partners. In fact, the African private sector has no investment in these zones.

The Chinese government initiated the concept of overseas zones and established a framework for support for Chinese companies on an experimental basis. MOFCOM has had a role in negotiating double-taxation treaties and general investment protection treaties with host governments, but several of the zones have been established in countries in which there is no double-taxation agreement (e.g., Ethiopia and Zambia) or no investment protection agreement (e.g., Algeria, Mauritius, Nigeria, and Zambia). MOFCOM has stepped in to help Chinese companies in their negotiations, particularly when by stepping in, they were able to ensure host governments that companies did have Chinese government support in their plans. From all accounts, however, the Chinese government has taken a hands-off attitude toward African policies on these zones. The Chinese government does not impose conditionality on host governments in return for investment in these zones, which is in keeping with long-standing Chinese policies that regard conditionality as interference in the internal affairs of another government. Chinese companies take the lead in negotiations with host governments over particular incentives.

Incentive structures for the Chinese invested zones appear to take no standard form and are dependent on individual negotiations and existing laws in each country. In most cases, the negotiation does not appear to be around tax and other fiscal incentives, but more around land values and pricing (Interview, Lekki Worldwide Investments, December 14, 2009), and the host partner's commitment to infrastructure provision. For the most part, the projects are governed by existing SEZ legislation in the host country and thus conform to the standard set of incentives offered through these regimes. One exception is Mauritius, where special incentives were negotiated to attract the Tianli investment, but at the request of Tianli, the agreement remains a secret (this is a bone of contention in democratic Mauritius). Several incentives have come to light: the Mauritian government agreed to supply land at a favorable rent, with a 99-year lease; investors meeting certain requirements could obtain Mauritian passports, whereas usually the policy is to allow only for permanent residence; investors apparently were allowed licenses to carry out banking and lottery businesses; and, although Mauritius has long used laborers from China (and elsewhere in Asia), the Jinfei Zone apparently has been given flexible permission to employ a high percentage of Chinese workers.

Development and Management: Division of Responsibilities

In China, most zones have infrastructure provided by various branches of the Chinese government. In some cases, such as the Qingdao Zone, foreign donors (Japan Overseas Economic Cooperation Fund) provided development assistance loans for some of the infrastructure (port, highway, and water supply) in the zone areas. In Africa, most of the development responsibilities inside the zones are carried out by the Chinese developers, with African governments responsible for providing infrastructure outside the zones, but there are exceptions (see below). In all cases, the master plans and development strategies for the zones are provided by the Chinese partner. The Tianli Group hired a Shanghai firm to work on the concept for the zone in Mauritius; CCECC-Beiya hired Shenzhen Institute of Planning and Design (Shenzhen Guihua Sheji Yuan) to plan the Lekki Zone in Nigeria; and, in Zambia, CNMC brought in the China Association of Development Zones. Consortium partner Jiangning also held an evaluation meeting in China, bringing in experts and consultants from Nanjing University, Southeast University, and Nanjing Planning and Design Institute to advise and comment on the security, transportation, layout, and other aspects of the initial zone design.

Construction responsibilities usually are shared between the Chinese and African partners, with the Chinese consortiums handling the on-site infrastructure. In Mauritius, for example, Tianli was expected to contribute US$3.3 million for external infrastructure, while the government of Mauritius invested US$16 million to enlarge a reservoir and extend water lines to the JinFei Zone, and US$5.6 million to build a new link road and bring wastewater, electricity, and telecoms to the project site.[9] In Nigeria's Lekki project, the joint venture consortium is responsible for building a gas-fired power plant, water, and wastewater treatment plants, as well as communication switching stations. The Lagos state government is responsible for off-site access roads. In Zambia, however, the government announced in 2010 that it had budgeted US$4.2 million for its share of infrastructure required for the Lusaka subzone.[10]

In terms of operations and management, Chinese companies tend to handle the day-to-day management, but administration takes place in several layers. For example, Egypt has an informal joint China-Egypt Task Force for the Suez Economic Zone addressing high-level problems; an Egyptian SEZ Authority for the zone, which operates under the prime minister and which has its own board of directors; a licensed joint-venture Main Development Company (MDC) with authority to develop the zone; and a development company (Egypt TEDA) that executes what has been licensed to the MDC (Government of Egypt 2002, 2). Ethiopia also has a layered structure, with (1) a bilateral coordination committee between the Chinese and Ethiopian governments; (2) the Ethiopian management and service agency of the industrial park, which will regulate the zone; and (3) the 100 percent Chinese-owned Eastern Industrial Park Ltd. Co., which will invest in and operate the park.

The Chinese developers often market the zone to Chinese companies (although their websites usually are bilingual English and Chinese). Their African counterparts, particularly state investment agencies, market it to local firms and other international firms. For example, in Nigeria, Lekki Worldwide Investments Ltd. has a website and is actively marketing the LFTZ, and the Chinese consortium has a separate website and has held a number of marketing events in China. In Mauritius, marketing is managed jointly by the Mauritius Board of Investment and Tianli. The most comprehensive approach can be found in Egypt. Tianjin municipality formed a leadership panel for the Egyptian Suez Economic and Trade Cooperation Zone. Coordinated by this panel, the Tianjin municipal State-owned Assets Supervision and Administration Commission promotes SOEs to invest in the zone, the Science and Technology Committee encourages technology enterprises, and the Agriculture Committee and the Construction Committee promote investment by agricultural enterprises and construction materials firms. TEDA also has formed the China-Egypt Commercial Association in Suez, organizing market information seminars, participation in large-scale trade fairs, and so on. TEDA has produced promotional materials both in Chinese and in Chinese and English. At the same time, Egypt's government agency, GAFI, does some marketing of the zone through its general promotional materials for investment in Egypt, and the General Authority for the Economic Zone North-West Gulf of Suez also markets the SEZ.

Chinese Enterprises and Chinese Labor

The Chinese developers appear to be open to investment from other foreign firms as well as local firms, although most are aiming for a majority of Chinese investors. In most cases, the expectation (from both parties) is clear that the Chinese partners will bring in a substantial Chinese investment. MOFCOM insists that because of the subsidies coming from China, the subsidized cooperation zones primarily must serve Chinese enterprises. Although no explicit limit is stated, MOFCOM hopes that Chinese companies can make up 70 to 80 percent of the enterprises in the cooperation zones. In some zones, however, they also have set specific, non-Chinese foreign investment targets.

- *Nigeria (Ogun):* The six companies that have started construction in Ogun, and indeed all of the 36 companies that have registered to invest, are from China (specifically, Guangdong). Initially, the plan was to have a mix of half SOEs and half private companies; this target was later reduced to 30 percent SOEs. In reality, all the existing companies that have begun construction are private companies.
- *Zambia:* Zambia's MFEZ regulations, which apply to the Chambishi Zone, require a minimum investment of US$500,000 to be able to take advantage of government incentives, but Chambishi does not prohibit Zambian firms or other foreign investors. Zone developers aim to have 40 Chinese companies and at least 10 from other countries by 2011, and they have developed bilingual promotional materials. According to Felix Mutati, Zambian minister of commerce, trade and industry, the Zambian government initially wished for the zone to be solely Chinese, but the Chinese wanted the zone to remain open to other investors. That said, at present, only Chinese investors have committed to open factories in the zone.
- *Mauritius:* Local investors are not allowed in the zone, at least in the first phase. This requirement, the only one of its type among the Chinese zones, was set by the Mauritian government, not the Chinese.[11] Non-Chinese foreign investors are specifically welcome, however.

Finally, responding to concerns about Chinese incentives being limited to Chinese companies, the Chinese government announced in November

2009 that it would establish two new programs. First, as part of the Action Plan for 2010–2012, the Chinese would assist African SMEs to invest in the zones. Second, a fund of US$1 billion, will be set up for African SMEs. It is not yet clear how they will be carried out.

The zones vary with regard to the regime for Chinese labor during construction and operating phases. Most of the zones for which information exists state that local laws on the use of expatriate labor apply. Because only two of the zones have begun to operate (Egypt and Zambia), it is not possible to determine the degree to which this is actually the case. In these two zones, the workforce of the companies operating in the zones is primarily local; however, it does appear that a relatively large percentage of Chinese are employed during the construction and start-up phases in most of the projects. In Egypt, there is a clear national regime for foreign labor: one foreign employee is allowed for every nine Egyptians employed. The first stage of the TEDA zone has more than 1,800 local workers and (an informal estimate) about 80 Chinese staff, putting the share of Chinese workers at below 5 percent. The general contractor for the zone is an Egyptian company and some of the construction work was subcontracted to local Egyptian companies. In Zambia's MFEZ, approximately 400 Chinese and 500 Zambians were employed during the early phase of construction, machinery installation, and training, putting the Chinese share of employment at 45 percent. At present, with the installation and commissioning of specialized machinery at many of the factories, the percentage of Chinese employees is in flux. In the Chambishi Zone as a whole (including the mines), in late 2009, there were approximately 700 Chinese and 3,300 Zambians (Haglund 2009). CNMC's already commissioned factories have an average of two Chinese to every eight Zambians (20 percent Chinese workforce).

Information on the use of local and Chinese labor in other zones is patchy and is available only for the construction phase. According to Chinese sources, the first phase of construction of the Lekki Zone initially employed more than 50 engineers from China and 100 Nigerian workers. Chinese partners state that the project currently has a ratio of 20 Chinese to 80 Nigerians.[12] Nigerian officials confirm that informal agreements have increased the number of Nigerians employed, particularly from the project-affected community.[13] In Mauritius, the construction phase of JinFei began only in September 2009, so it is early to assess the situation. Overall, Mauritius has the most open approach to Chinese workers among the six countries. During the first phase of construction, 60–65 percent of the workers reportedly have been Chinese (Minister of Finance cited in "Zone Économique JinFei: Ce Que Vous Devez Savoir" 2009, 8). The zone was at first expected to use 8,000 Chinese contract workers at full development, while creating 5,000 local jobs (and another 2,500 indirect jobs). Later revisions of the plan predicted the creation of 34,000 jobs, with "more than half" expected to be local, although the actual expected numbers have been much debated in the media. Foreign workers have long been a staple of the island's manufacturing and construction industries. Concerns have been raised in Mauritius, however, about the sheer number of Chinese expected as a result of this project.

Progress, Challenges, and Potential

The Experience to Date and Key Challenges

China's initiative to develop SEZs in Africa is still in its early stages. Of the five zones, only the Chambishi Zone in Zambia is operating—the SEZs in Nigeria (LFTZ and Ogun Guangdong Free Trade Zone) and Mauritius are in relatively advanced stages of construction, and the Eastern Zone in Ethiopia began construction in 2010. To date, some high-level knowledge sharing and training of local managers has taken place, but local employment, supply chain linkages, and technology transfer remain limited. The most advanced zone (Chambishi in Zambia) had, as of November 2009, attracted 11 companies and US$760 million in investment, with five additional companies expected in 2010. The zone employs about 4,000 workers (80 percent of whom are local). However, most of the 11 companies invested to date are subsidiaries of the CNMC developer and were present in 2006. Moreover, of the 4,000 workers employed, only 600 are in the zone, with the majority working in the mines or at other CNMC subsidiaries.[14]

All the zones have attracted interest from a number of (mainly Chinese) enterprises. Chinese companies, especially those new to Africa, appreciate the "feels-like-home" environment, convenient services, information network, and proven credibility. The expectation is that enterprises within a value chain will cluster together in a planned zone and increase their competitiveness. Furthermore, these zones are widely publicized and promoted in China. Embassies and provincial governments recommend the zones to companies planning to invest in Africa. Tax incentives and facilities are an extra bonus.

Yet, despite many expressions of interest, most of the zones have been slow to fill up with companies. It is still early in a process that may take

10 years or more, but several factors may explain the slow start. One is the global economic crisis and, perhaps more broadly, challenges of obtaining financing. The developers of the zones in Ethiopia and Mauritius encountered serious problems at home, which were related to the financial crisis. These problems required substantial modification of their plans. Both developers, however, have begun construction. Likewise, the main company developing the Ogun Zone, Xinguang International, has run into financial constraints at home, slowing progress on the zone.

The (in)experience of some of the developers has been a contributing cause of uneven progress. The Zambia Chambishi Zone already had a copper mine, copper smelters, sulfuric acid plant, and foundry before 2006. In Egypt, TEDA has been developing an experimental zone for nearly 10 years and knew the market and environment. For both, the inclusion into the MOFCOM program simply facilitated their expansion. On the contrary, developers for the Ethiopia and Algeria zones had no experience investing in those countries, and their plans were possibly less realistic. In Ethiopia at least, tested by the economic crisis, revised plans now account for such factors as the exchange rate, the need to plan for foreign exchange shortages, and, relatedly, risk diversification. Whereas the zone initially was going to focus in part on construction materials and the production of steel, the developers may add nonferrous metal mining to generate foreign exchange and diversify risks.

Another problem in some zones has been the failure to deliver a world-class investment environment. For example, in Egypt during the first years of the TEDA participation, a gap existed between the promised services, facilities, and other benefits and the reality of what was offered. Over time, the Egyptian government was able to fulfill most of its promises, but enterprises, understandably, do not want their investments to rest on promises. Egypt still has not been able to ensure a permanent supply of adequate water to the Suez Zone, for example. The greater Lekki peninsula is slated to get a new airport and port, the latter of which is critical to the competitive offering of the LFTZ, but progress has been slow.

Finally, several zones are located at some distance from a large city. Enterprises in the zones sometimes find it difficult to employ qualified workers and arrange their daily commute. Chinese promotional activities so far mainly target Chinese companies, often companies in their own province, which limits the sources of possible investment and can hamper the benefits clustering provides for the transfer of technology between firms (local personnel still can be a vehicle for transfer, however, if hired at a high enough skill level, which is another challenge).

Although it is premature to draw any conclusions, it is clear that while some positive progress is evident, its pace is slow, and the challenges that have arisen suggest that success is by no means guaranteed. Indeed, these projects not only face many of the typical difficulties that afflict large infrastructure projects, particularly in Africa, but additional issues of cross-cultural communication, governance, political factors, and power relations (see box 4.2 for an example of the challenges faced in one project).

Box 4.2

Challenges in the Lekki Free Zone in Nigeria

Nigeria's Lekki Free Trade Zone (LFTZ) is perhaps illustrative of some of the challenges facing both sets of partners in executing the joint venture SEZs in Africa. The project has been under planning since 2003. Although it has made significant progress, the development path of the project has faced many obstacles along the way. Among them are the following:

- *Financing constraints and partnership disputes:* Construction was delayed for a period because of financial constraints on the part of the Chinese consortium; this was apparently linked to a dispute over partnership terms within the Chinese consortium and a subsequent restructuring of the consortium.
- *Miscommunications over terms of partnership:* Nigerian partners expected the Chinese consortium to deliver their share of investment in capital, whereas the Chinese partners expected to deliver it in-kind through infrastructure development. In addition, there have been concerns from the Chinese partners on infrastructure responsibilities of the Nigerian partners (e.g., access to the gas for the power plant). Chinese partners have raised concerns over the Nigerian partners' potential to ensure that the enabling policies critical to the success of the zone actually will be implemented by the Nigerian federal authorities.
- *Local community disputes:* Local communities around the project protested over resettlement terms, the construction of utilities lines through their communities, as well as the employment of Chinese workers for construction. This caused project delays and resulted in transferring 5 percent of the shares of the Nigerian partner to the local community. In addition, negotiations resulted in increasing employment opportunities for workers from local communities.

Source: Authors.

On the basis of their experience at home, Chinese developers expect host governments to support zone development actively; instead, they are finding in some projects (e.g., Ethiopia) that governments allocate land to developers and do little else. Developers have been frustrated by the lack of progress or poor quality of infrastructure provided by some local governments outside the zones. In addition, many of the projects have faced difficulties related to land acquisition and compensation. Although these issues normally have been the responsibility of host governments, they have contributed to project delays and friction with the local communities (e.g., Lekki). Finally, although the political situation in the countries hosting zones generally is stable, abrupt policy changes and conspicuous gaps between de jure policy and de facto implementation has been problematic. Chinese companies have found that promises of services like "one-stop shops" fail to materialize (e.g., in Ethiopia). Even when express registration of investments has been set up, obtaining licenses and work permits has caused delays (e.g., Nigeria, Zambia).

African governments and civil societies have raised concerns on a number of levels. One of the biggest issues relates to lack of transparency and poor communication. Although governments are privy to the contracts signed for these zones, in most cases, they have not been published. This not only is problematic for civil society but also contributes to misunderstandings among the partners (see box 4.1). Some of these problems relate to language—for example, at one of the zones, African officials reported that relations improved when their Chinese partners brought in a couple of high-level officials who were fluent in English. Some African officials also worry that Chinese companies may use the zones to bring in Chinese goods for reexport with African labels into areas where African exports receive special incentives, as well as to enter local markets without paying duties, as occurred in Sierra Leone. The use of Chinese rather than local materials and labor has been a concern in certain projects (e.g., Mauritius). Chinese nationals tend to take most of the management and technical positions, at least in the initial project stages. For unskilled jobs, concerns about wages and working conditions have been raised, although at this early stage of development most of these concerns are still theoretical. Finally, there are concerns that the zones will become Chinese enclaves, unconnected with the rest of the domestic economy. Although all the zones are open to any foreign and (with the exception of the Mauritius Zone) domestic investors and no explicit preferential treatment is given to Chinese investors, the reality to date in most of the zones is that investor interest has come primarily from Chinese companies. Thus, in the absence of proactive efforts to promote integration, Chinese enclave zones are a real risk.

Despite these risks and the challenges experienced to date, these zones have the potential to deliver benefits to both parties. Benefits for African economies should include those associated with foreign investment more generally: employment, transfer of more advanced technologies, spin-offs to local firms and foreign exchange earnings from exports. The more African firms invest in the zones, the greater the opportunity for technology transfers and spin-offs, although technical skills also can be taught on the job to African employees of Chinese firms. Furthermore, the zones should contribute to the government revenue, at least moderately. For Chinese enterprises, benefits include the reduction in transport costs from being closer to African or European markets, lower labor costs in some cases, cluster economies, as well as the discussed incentives. Chinese zone developers expect to profit from the increased value of the land, fees, and rents. Some (Lekki, Mauritius) have planned extensive residential, commercial, and entertainment areas, making the zones multiuse.

Maximizing Benefits

The partnership to develop of SEZs is part of a long-term process of strategic engagement between China and Africa. It offers a significant opportunity to contribute to job creation, industrialization, and poverty reduction in the region. To fulfill this potential, however, the projects must be successful from a business, social, and environmental perspective. This will require a partnership framework that includes the following elements:

- *High-level commitment and active engagement from host governments*: As noted, China learned many aspects of SEZ management through building zones with overseas partners. These lessons were widely applied throughout China's SEZs and have become common practice. African governments have been less strategic at managing the projects as learning experiences. Few participate actively in the management of the projects or have set up specific programs aimed at developing SEZ expertise over the long term. Assigning specific individuals, preferably Mandarin-speaking, to work with Chinese development teams can help, as can high-level participation on boards.
- *Ensuring the provision of quality off-site infrastructure*: Worldwide, getting zones off the ground has proven difficult in part because of

infrastructure inadequacies (power, roads, water, sanitation). PPPs or other models, such as independent power producers, are options that can accelerate this development, bringing employment and other benefits online earlier. Involving the local private sector, in addition to Chinese investors, will be critical.

- *Communicating and enforcing standards*: Local job creation, environmental sustainability, and labor standards all depend on African governments enforcing existing standards and regulations. It may help to have these translated into Mandarin, as Mozambique has done for labor regulations.
- *Implementing programs to promote domestic market linkages*: African countries will not profit from the dynamic benefits of SEZs without ensuring closer links between the (mostly Chinese) foreign investors in the zones and the domestic private sector. Supplier development programs and initiatives to facilitate local companies to set up inside the zones can play an important role in creating these linkages. The recently announced funding from the Chinese government to support African SMEs and plans to assist these SMEs to invest in the zones could provide a foundation to improve linkages.
- *Transparency and community relations:* When contracts and agreements for these important zones are not made public, suspicion can fester. For the zones to be sustainable, they need to have buy-in from local communities who understand the nature of the agreements. The agreement in the Lekki project for example, where 5 percent of the shares of the Nigerian consortium were transferred to local communities, may be one way of addressing some of these concerns.

Appendix 4.A. China's Official Overseas Economic and Trade Cooperation Zones

Country	*Zone*
2006 Tender	
1. Pakistan	Haier-Ruba Home Appliance Industrial Zone
2. Zambia	Chambishi Nonferrous Metal Mining Group Industrial Park
3. Thailand	Luoyong Industrial Zone
4. Cambodia	Taihu International Economic Cooperation Zone, Sihanouk Harbour
5. Nigeria	Guangdong Ogun Economic and Trade Cooperation Zone
6. Mauritius	Tianli (now JinFei) Economic and Trade Cooperation Zone

(continued next page)

Country	*Zone*
7. Russian Federation	St. Peterburg Baltic Economic and Trade Cooperation Zone
8. Russian Federation	Ussuriysk Economic and Trade Cooperation Zone
2007 Tender	
9. Republica Bolivariana de Venezuela	Lacua Tech and Industrial Trade Zone
10. Nigeria	Lekki Free Trade Zone
11. Vietnam	Chinese (Shenzhen) Economic and Trade Cooperation Zone
12. Vietnam	Longjiang Economic and Trade Cooperation Zone
13. Mexico	Ningbo Geely Industrial Economic and Trade Cooperation Zone
14. Ethiopia	Eastern/Orient Industrial Park, Jiangsu Qiyaan Investment Group
15. Arab Republic of Egypt	Tianjin TEDA Suez Economic and Trade Cooperation Zone
16. Algeria	Chinese Jiangling Economic and Trade Cooperation Zone
17. Republic of Korea	Chinese Industrial Zone
18. Indonesia	Chinese Guangxi Economic and Trade Cooperation Zone
19. Russian Federation	Tomsk Siberia Industrial and Trade Cooperation Zone

Source: Brautigam 2009, 315–16.

Notes

1. Some of this information has been published in Deborah Brautigam, *The Dragon's Gift* (Oxford University Press, 2009).
2. China amended introduced a new tax regime in 2008 that essentially did away with the tax holidays that previously were offered in the SEZs and harmonized the tax structures between SEZ and domestic firms. This new regime is in compliance with the WTO.
3. As China prepared to join the WTO, policy makers sought ways to assist Chinese firms to face the increased competition and inevitable restructuring that trade liberalization would bring. Helping mature "sunset" industries to move offshore, where they could be closer to their markets or raw materials, would reduce costs and increase competitiveness. For example, Chinese companies with high energy consumption and high labor intensity are especially encouraged to invest in the Egypt zone (see Suez.TJCOC.gov.cn (2008)).
4. "Jiangxi Province plans to invest RMB 3.8 billion in Algeria" (2008).
5. The difference between the 19 zones chosen by tender, and the public goal of 10, allows for a comfortable margin. The Chinese government would prefer to overshoot its goals, rather than come up short. In Africa, for example, the official goal was announced in November 2006 as "three to five" zones by 2009. Seven actually were approved, and six were announced as under way in November 2009 at the FOCAC meeting in Egypt.

6. "Aerjiliya Xincuoshi jiang dui Woqiye Chukou he Touzi Chansheng Yingxiang" (2009).
7. This is discussed further in Brautigam (2009).
8. "Dongfang Gongyeyuan, Kaipi Feizhou Taojinlu" (2008); "Suyishi Jingwai Jingmao Hezuoqu 10 yue Jiepai" (2008).
9. "JinFei Project—Infrastructure Works, Terms and Conditions of Agreement" (2009).
10. "Government allocates K 20 billion for Lusaka South Multi Facility Economic Zone" (2009).
11. The government wanted the special incentives for the zone to be used to attract additional new investors from overseas, and not investors already present in Mauritius (Interview, Minister of Finance, 2008).
12. Interview, Lekki Zone Representative (2009); "Weida de Kaituo – Laiji Zimaoqu Jianshe Jishi" (2008).
13. Nigerians reported that they had asked the Chinese to send some of their construction workforce of about 200 back to China and hire Nigerians. One researcher reported that an agreement negotiated between the two sides calls for at least 40 percent of the workforce to be Nigerian. However, Nigerians officials we spoke with denied that this was the case (Mthembu-Salter 2009), 3; interview, Lekki Worldwide Investment officials, December 14, 2009 and December 16, 2009).
14. The mining activities and the CNMC subsidiaries are not technically considered part of the zone.

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