IMPACT OF CHINA-AFRICA INVESTMENT RELATIONS: THE CASE OF ZAMBIA

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Abstract

Chinese investments in Zambia are primarily resource seeking and have been concentrated in the mining sector. There are investments in construction, trading manufacturing sectors too. The growth of these investments has been steady over the year and indications are that they are likely to remain that way.

Most of the Chinese firms operating in Zambia are state owned and/or are strongly supported by the Chinese state, which advantages them over other competitors. In Zambia, this has been buttressed by the opening of a Chinese bank to serve their firms.

The Chinese businesses do not operate like conventional profit maximizing firms, often willing to provide concessions in order to gain access to markets. Some the practices include bidding at very low prices, settling for low profit margins, sourcing cheap inputs from China, and using fairly skilled Chinese workers.

To the extent that the Chinese investigators are doing business in Zambia, they are contributing to the development of the country through the direct creation of employment opportunities for the whole population. However, others have contended that the type of jobs created are of low quality.

The Chinese FDI contributions to Zambia notwithstanding, there has also been marked with widespread criticism. Commentators have observed noted the lax workplace practices in Chinese firms. The reported accidents in Chinese owned mines and strikes render credence to this observation. That one Chinese owned mine was actually closed amid safety concerns bears testimony to gravity of the situation.

The discontent of workers employed in Chinese firms has had political ramifications, with the major opposition leader using this in his political campaigns during the 2001 general and 2008 presidential elections, which the incumbent political party almost lost. These ramifications have highlighted pitfalls of Chinese firm practices, and drawn attention to similar experiences in other African countries.

In the light of these findings, recommendations are suggested with regard to: checking the risks to economic diversification; monitoring the working conditions in Chinese firm, managing the political ramification of investments, maximizing linkages with local suppliers, and protecting indigenous small scale businesses.

1.00: Background to Chinese Economic relations with Africa

1.10: Growth of the Chinese economy

In a background document on the Challenges and Opportunities of China's engagement with Africa, Ajakaiye (2006) observes that during the last 25 years, China's economy has changed from a centrally planned system that was largely closed to international trade to a more market-oriented economy that has a rapidly growing private sector and is a major player in the global economy. The restructuring of the economy and resulting efficiency gains have contributed to a more than tenfold increase in China's GDP since 1978. As a result of the unprecedented economic growth, China's role in the global economy has become very significant and growing stronger since the beginning of this century. In 2005, the People's Republic of China (PRC) became the world's second largest consumer of petroleum products after the USA, and its imports of natural gas, copper, cobalt and other key resources are rising by as much as 20% annually.

China's resources crisis is exemplified by its being the second largest world oil consumer (2003) and third global importer (2004). Although it is the fifth major oil producer (4.8%), this only provides for less than half of its domestic oil needs, with its oil consumption having doubled in the past decade and expected to reach 15 mn b/d by 2030 (OPEC). Over the past decade, China became the world's leading consumer of most base metals (aluminium, iron ore, copper, manganese, lead, zinc). This increasing need for natural resources naturally makes Africa an attractive destination of Chinese economic interests. The African resource bounty is exemplified by having the 3rd largest oil reserves (9.5% in 2007). South African is the leading producer of platinum (80%). The DRC leads in cobalt (36%) and diamonds (1/3 of total). Other significant producers include Gabon (Manganese), Zambia (copper and iron ore), Zimbabwe (platinum) and Angola (diamonds, copper and iron ore).

The phenomenal economic expansion and consequent rising demand for raw materials has led the PRC to strengthen and forge new ties with Africa. Indeed, there has been some disquiet in the West regarding the buoying ties between China and Africa. Given the rising profile of China on the global stage, especially its remarkable economic performance, it is reasonable to expect that it will play greater roles in the global economy than many of the OECD countries. For example, China is now a donor nation and in January 2006, it released its policy toward Africa dubbed, China-Africa Policy. The China-Africa Policy aims at carrying forward the long tradition of China-African friendship involving enhancing solidarity and cooperation with African countries. For this purpose, China pledges to establish and develop new types of strategic partnerships with Africa featuring political equality, mutual trust, economic win-win cooperation and cultural exchange. In the policy document, China articulates its strategy for engaging with Africa in the political, economic, education, science, culture, health and social, peace and security fields. Observers of the activities of China on the continent over time will notice that the key elements of the policy had been implemented long before the 2006 policy was released.

1.20: China-Africa Investment relations

1.21: The levels and type of Chinese FDI

It has been observed that China is now next to Japan in terms of foreign reserve holdings. China is investing massively in raw material deposits overseas, and is multiplying its trading partnerships in order to secure regular supplies (Lafargue, 2005 - quoted in Ajakaiye, 2006). In 2005, it was estimated that the cumulative value of Chinese investment in Africa was US$4.5 billion, which was over 12% of total FDI stock of US$37 billion in Africa (China Monitor, May 2006 - quoted in Ajakaiye, 2006).

A feature of Chinese investment in Africa is its concentration in a few sectors that are of strategic interest to China, especially in the extractive industries. Another feature of China's investment in Africa, as elsewhere in the world is that they are carried out largely by state-owned enterprises or joint ventures. Chinese FDI are primarily resource seeking and secondarily market seeking.

Perhaps the most important opportunity offered by Chinese FDI in Africa is the increase of investment in transformation activities. It is also evident that China can be very responsive to the complaints by Africa. However, there have been few and limited complainants, South Africa and Nigeria being the possible exceptions. This might be a reflection of limited capacity of African countries to develop partnerships with Chinese FDI. The challenge, therefore, is for African countries to invest the inflow of resources from the commodity booms in improving the investment climate, developing human resources necessary to support investment in new industries and establish development banks necessary to provide financial support to nascent private investors.

A comparison of Chinese investment by regions shows that it is tilted in favour of Africa. While the historical links between China and Africa partly explain their link, there are other factors. Chinese engagement with Latin America and Sub-Saharan Africa, for instance illustrates this. Notwithstanding the fact that they are both among the most promising regions of the world for future oil production, they have the lowest and the highest levels of Chinese oil interests (COI).

According to Mariera (1990), the different levels of Chinese Oil Interests (COI) are explained by "contract stability and enforceability" (CSE). CSE is a function of the revenue imperative of the government and the political autonomy of the oil bureaucracy. COI will be higher in Sub-Saharan Africa than in Latin America because CSE is higher in SSA.

Latin America and Sub-Saharan Africa have two opposite regime preservation strategies. In Latin America, in order to strengthen populist coalitions, it is necessary to inflame resource nationalism – a phenomenon which is much stronger than in Africa - and increase direct control of the oil sector. Political competition reinforces the revenue imperative to the detriment of the stability of the oil sector. In Sub-Saharan Africa on the other hand, there is a premium on preserving the sector open to international investment.

Regardless of who is in power at a certain given time, oil revenues are the source from which elites derive the resources that will ensure state survival and give them a competitive advantage over their rivals to stay in power. The more fragile African states offer more contract stability and enforceability than their stronger Latin American counterparts.

As indicated above, the observed increased interest by the Chinese in Africa is mostly driven by the China's need for natural resources, which is vital for its continued economic growth. The Chinese companies secure such commodities through a variety of formats, including joint ventures with local firms. Unlike other FDI from the west, Chinese FDI tends to be marked with increased Aid, mostly in infrastructure development.

In its engagement with Africa, China is not only accessing the much needed natural resources, but also bringing complementary Chinese enterprises in Africa, sometimes to the displeasure of African countries. There has for instance been a growth in the number of Chinese banks operating in Africa. By having Chinese suppliers and clients on the ground, the risk to Chinese banks is reduced.

In some cases, the Chinese banks have partnered with African Banks. Large, international banks indeed seem to prefer earnings diversification to ensure earnings stability. Knowledge of the local market is imperative and investment decisions are often driven by cultural, linguistic and economic ties. The Chinese purchase of shares in Standard Bank (ICBC's 20% share in SA Standard Bank) is one such step toward enhancing their presence in Africa. Based on the strong position of Standard in Africa, the bank will help ICBC serve its corporate customers in Africa and Standard Bank will use the capital to expand its footprint, with US$450m of capital being earmarked to support organic African growth.

1.22: The challenges of Chinese FDI

While the increasing Chinese FDI in Africa could enhance attainment of the Africa's development agenda, there are potential risks, which ought to be guarded against.

China's incessant demand for raw materials may undo Africa's efforts at economic diversification, leaving African countries as enclaves for raw materials, facing limited opportunities for sustained development.

To the extent that Chinese enterprises in Africa import inputs, such as labour from their homeland, there may be limited linkages with local firms, which pose negative effects on the local economy. Even in cases where local sources of labor are utilized it has been observed that this tends to be on a limited scale, with little capacity development, and hardly any opportunities for technology transfer.

It has further been argued that Chinese FDI may be at the expensive of safeguarding civil liberties as they tend to deal with Governments irrespective of their democratic credentials, and have in the worst cases been accused of supporting dictatorial regimes. Further, it has been argued that Chinese firms often disregard local labor and environmental considerations.

Lack of transparency in Chinese investment/economic co-operation packages fuels suspicion. Commenting on a $9bn loan package, a Congolese opposition leader observed: '…It is incoherent, unbalanced . . . and forces us to sell off our national heritage to the detriment of several generations. It cannot therefore be accepted in its current state without being entirely reviewed and submitted to international competition...'

The opacity of Chinese deals raise concerns over bidding processes, environmental impacts, overall debt and fiscal policies effects on African countries. The playing field in regard to other FDIs is not even as Chinese companies' enjoy political and financial backing from Beijing (plus cheap labour and technology). There are possible risks for sustainable development (resources exploration and environmental impact) due to Chinese low standards and local poor regulation.

2.00: Background and methodology

In 2000, an initial and preliminary effort to determine the magnitude, source, direction and volatility of foreign private capital flows and investor perceptions was undertaken in Zambia. Subsequently, a more comprehensive effort to monitor foreign private capital flows and investor perceptions was jointly undertaken in 2002, by the Bank of Zambia (BoZ), the Central Statistical Office (CSO), and the Zambia Development Agency (ZDA), covering the calendar year 2001. This was followed by a subsequent survey undertaken in 2008.

2.10: Foreign Resource Inflows

Foreign direct investments

In terms of stocks, total foreign private capital stock stood at US $8,549.7 million in 2007 from US $6,344.5 million recorded in 2006, of which FDI accounted for 88.9 percent, followed by private borrowing from non-affiliates (9.9 percent) and portfolio investment (1.2 percent). Foreign Direct Investment inflows in 2007 were largely in the form of reinvested earnings which accounted for 58.6 percent of total FDI inflows.

The major sources of FDI inflows in 2007 were Australia, Canada, India, Switzerland, United Kingdom (UK), South Africa, and Bermuda. A sectoral analysis showed that FDI inflows in Zambia were largely concentrated in the mining sector, accounting for 59.0 percent, followed by the bank and non-bank financial institutions, manufacturing, wholesale and retail trade, and transport and communication sectors.

Foreign Direct Investment inflows in the mining sector largely emanated from Australia, Canada, Switzerland, India and Netherlands. On a sectoral basis, inflows into the bank and non-bank financial institutions were mainly from the United Kingdom, the manufacturing sector from the Republic of South Africa and France, wholesale and retail trade from Switzerland and Mauritius, and transport and communication from the Republic of South Africa, Saudi Arabia, and Isle of Man.

Portfolio Investment Inflows

A source country analysis of survey data showed that portfolio investment inflows in the form of debt securities were mainly from the United Kingdom, Kenya and Bahrain, while portfolio equity investments were driven largely by the Republic of South Africa and Australia with a higher concentration in the manufacturing sector.

Private Borrowing from Non-affiliates

Foreign borrowing from non-affiliates were mainly in the form of loans and advances from the United Kingdom which accounted for 34.5 percent, followed by the Republic of South Africa, Luxembourg, Germany, Canada and Ghana. Foreign borrowing from non-affiliates was dominated by the mining sector at 57.4 percent, followed by the banking and non-bank financial institutions, transport and communication, and the manufacturing sectors.

Private Sector External Debt

The stock of Private Sector External Debt (PSED) grew by 42.4 percent to US $3,042.0 million at end-2007, from the US $2,136.0 million at end-2006 and was three times higher than the pre-survey position of US $1,021.4 million. About 75.0 percent of the stock of PSED at end-2007 was long-term, and mainly in the form of loans and advances. A larger share of PSED was owed to affiliates compared with non-affiliates. A sectoral analysis of survey data showed that the mining sector dominated external borrowing, followed by transport and communication, and bank and non-bank financial institutions. The main creditor countries in 2007 were Switzerland, Canada, UK and China, which collectively accounted for 80.0 percent of total private sector external debt.

Foreign Assets

Foreign assets during the period under review were largely in form of private sector external lending (PSEL). The stock of PSEL more than doubled to US $329.5 million at end-2007 from US $138.9 million recorded at end-2006, of which loans and advances accounted for 89.0 percent. The bank and non-bank financial institutions dominated accounting for 85.0 percent of total private sector external lending at end-2007, while the United Kingdom was the major destination.

2.20: Investment Pull factors

With regard to investor perceptions of the major factors that determined their initial decision to invest in Zambia, the survey showed that the environment and natural resource endowment factor ranked highest followed by the domestic political scenario.

The domestic macroeconomic conditions ranked highest among the factors that affected their subsequent investment decisions. Most respondents indicated that the domestic macroeconomic conditions had a positive impact on their subsequent investment decisions. Similarly, the domestic market size was considered more important that the regional market. In addition, most respondents indicated that fiscal policy and financial system stability had a positive effect on their investment decisions. Interest rates, however, were considered to have negatively impacted on their investment decisions.

With regard to political and governance factors, the survey findings show that the domestic political scenario had a positive effect on their investment decisions, while corruption and bureaucracy impacted them negatively.

In terms of infrastructure and services, most enterprises indicated that the cost and supply of electricity had a negative effect on their investments. Similarly, the cost of banking services was considered to have had a negative effect on their investments. Among the environmental and health factors, only HIV/AIDS and malaria had significant negative effects on investment decisions.

Of the companies that responded, nearly 50 percent of respondents indicated that they would diversify by sector. In terms of enterprise performance prospects, the survey showed a favourable outlook, with most investors forecasting increased profitability and turnovers. However, it is important to note that this outlook was given prior to the onset of the recent global financial and economic crisis.

2.30: Rationale for the study

Mwanawina (2007) provides a description of Zambia's engagement with China prior to and after independence. Chinese assistance has in the main been loans and to a lesser extent, grants in the form of cash and materials. Prior to the liberalization and privatization drive of the early 1990s, several public projects were financed through Chinese loans. After privatization, Chinese economic activities increased and included the opening of a branch of the Bank of China and a Trade and Commercial Centre, besides the acquisition of mining enterprises.

The Chinese have provided Aid in the Agriculture; Mining; Manufacturing; Construction; Communication and Transport; and Health sectors. Where the Chinese provide Aid, this is done without conditionalities, dictated largely through the Zambian Government initiative and Chinese expression of solidarity and commercial interests.

Chinese firms have undertaken investments in varied sectors, such as Mining (both extractive and processing), Textiles, Infrastructure and Construction, Manufacturing, and Agriculture. Between 1993 and 2006, Chinese investment pledges in the mining sector amounted to US$378 million, which have resulted in the establishment of mining and other enterprises. As with Chinese engagement with other African countries, the Sino-Zambian relationships expose both Challenges and Opportunities. The expected benefits are generic: employment opportunities, cheap source of goods and positive impact on welfare, and increased revenues from taxations, among others.

There are, however, some challenges arising from arising from Chinese FDI.
While the increasing demand for base metals such as copper may be heralded as positive to the extent that they provide employment opportunities, and contribute to the treasury, there is a risk of this development perpetuating the raw-material enclave status of the country and limiting opportunities for economic diversification. Where there are limited linkages between the Chinese firms and local suppliers and

consumers, this may disadvantage such firms, resulting in their displacement and closure.

As was observed above, Chinese Investments tends to packaged together with Aid. However, there is limited transparency regarding Chinese Aid to the country. The tendency of China to deal with individual countries weakens such countries' bargaining power. The Sino-Zambia relationship is at a bilateral level. There is no evidence of coordination between China and other donor agencies.

It has been observed that some Chinese enterprises have flouted local import regulations by importing substandard products. Similarly, Chinese mining investors have been observed to offer poor conditions of service, lack of adherence to safety regulations at places of work and disregard of labour laws/regulations and environmental considerations.

There has further been an outcry about the loss of tax revenue on account of the tax incentives accorded to investors, and whose benefits to the country are doubtful. There is limited capacity building and technological transfer to the locals by the Chinese investors. There is a debate about where there have been more gains or losses from the tax concessions. This is especially critical for the copper mines, which until recently were experiencing the best commodity prices not seen in long period.

These and related issues are worth investigating in order to understand the evolution, practices and impacts of Chinese Investments in Zambia. What the structure of the Chinese investment is and the effects of these FDI on the country are issues to be investigated in this study.

2.40: Objectives of the study

As part of the broader cross-country project this study was guided by the standard Terms of Reference provided by AERC. The TOR were compressed into four substantive clusters, under which are a set of specific objectives, as outline below.

1: Determine the structure of Chinese investments in Zambia

- i) Are Chinese FDIs more resource than market seeking?
- ii)What is the ownership structure in Chinese enterprises (wholly owned, equity or partnerships)?
- iii)To what extent is Chinese FDI involved in extractive and processing businesses?

2: Assess the FDI and other pertinent regulatory frameworks

- i) How effective are FDI regulatory frameworks?
- ii) To what extent do Chinese investments conform to labour regulations?

iii) To what extent do Chinese investments observed environmental considerations?

3: Gauge the gains and losses related to Chinese investments

i) What are the levels and types of employment created by Chinese enterprises?
ii) Do Chinese firms invest in training and capacity building activities?
iii) To what extent are Chinese linked to local suppliers and markets

4: International financial crisis, Aid and Chinese FDI

i)To what extent is Chinese FDI tied to aid?
ii) How will the international financial crisis affect Chinese FDI?
iii) How are Chinese firms responding to the Global financial crises?
iv) What are the relationships among the Financial Crisis, Aid, and Chinese FDI?

2.50: Methods, data sources and analysis

Originally, the study was supposed to undertake a survey of the Chinese enterprises from various sectors. However, the survey approach was abandoned in preference for case studies, as the initial attempt at collecting data from Lusaka based Chinese enterprises proved too costly. At almost all the trading and manufacturing enterprises visited, we hardly met any Chinese managers, as the premised were managed by local people, who were not willing to divulge information about the business. In some cases, the indigenes would claim they were the owners of the businesses, but interviews with neighboring premises would review that the owners were Chinese, who in most cases had more than one business premise within the same area. We learnt that the Chinese owners only came briefly in the morning to open the shops and disappeared shortly afterwards. They would then come late in the afternoon to collect money and close the shops. In cases, where we were able to track some Chinese owners, they at best, gave very general and uninformative responses, or at worst simply refused to respond to our questions, even when they could speak English.

As a result of the high transaction costs of attempting to undertake a survey of Chinese enterprises, we dropped this approach and opted to rely on existing data, which were supplemented by case studies. These methods were used to show the type and evolution of Chinese investment in Zambia. Beyond describing the type and evolution of Chinese Investment , case studies were used to explore the approach, practices, and impact of Chinese enterprises in Zambia. The study made extensive use of the existing studies and data sets on FDIs in Zambia. The recently completed Bank of Zambia FDI was particularly useful in this regard.

The study used both quantitative methods to illustrate the levels and structure of FDI, and qualitative tools to explain the underlying attributes. Preliminary analysis of the qualitative data commenced during the process of data collection. This strategy led to the redesigning of research questions, where it was necessary. This process continued throughout the data collection process. Once this was completed, detailed analysis proceeded, which helped discover additional themes and concepts to provide better understanding. The findings where then grouped according to the major themes or concepts, and materials within categories compared to look for variations and nuances of the meanings.

Table 2.1
Study objectives, focus of the analysis and sources of data

Objective and focus of the study	Key questions for the investigation	Sources of data
Map the pertinent FDI Policy and Regulatory environment -*Content analysis of the Investment Regulations, Policy and Regulatory Framework*, -workplace regulations, -level of conformity to environmental regulations	-What are the policies and regulations relating to FDI and how do these impact Chinese FDI? -What incentives are provided to attract FDI? What are the gains and losses from this? -What are the environmental regulations pertaining to FDI, and what is practice regarding enforcing these? To what extent do Chinese and other FDI observed these environmental regulations? -How effective are the labour and workplace regulations, and how are these observed among the Chinese firms? What are the major sources of disputes in the selected firms?	-Secondary data: Pertinent literature, FDI Policy documents, -Primary data: In-depth interviews with (ZDA); the Ministry of Finance; Environmental Council; selected firm managers
Description of Chinese FDIs -Analysis of volumes, composition and trends of Chinese FDI, -Source of inputs and destination of outputs, -Ownership structure, workplace practices,	-What type of industries are Chinese FDI concentrated in? to what extent are they primarily in extractive industries? -What is the target market for goods produced by Chinese firms? Has there been a change in these markets over times, and why? -What is the ownership structure in the selected enterprises? To what extent are other nationalities involved in these enterprises? Are there cases of partnership with local firms?	-Secondary data: PACRO records, ZDA, Chinese Embassy, -Primary data: In-depth interviews with case study firms, key informants.

Objective	Focus of analysis	Sources of data and type of analysis
Impact of Chinese FDI -Employment creation -Fiscal contribution to the treasury -Capacity development and technology transfer -Forward and backward linkages in the economy	-What is the level and type of employment created by Chinese FDI? -What is the level of contribution of Chinese FDI to tax revenues -What are the sources of inputs for Chinese firms, and how has changed over time? -What are the markets for Chinese outputs and how have these changed overtime? -What is the level and type of employment offered to local staff in Chinese firms? What is the level of training and in-service upgrading offered to local staff? -What type of products are exported from Zambia by Chinese firms?	-Primary sources: Company returns from PACRO, Chinese embassy, In-depth interviews. -Secondary sources: review of newspaper reports, Case studies, unions leaders, environmental council of Zambia.
International financial crisis, aid and Chinese FDI -FDI related Aid -Pathways of Financial crisis effect on Chinese FDI -Chinese FDI responses to Financial crisis	-What are trends, volumes and types of aid prior to and after inflow of FDI -What are the conditions attached to Chinese Aids and how does differ from other type of Aid? -In what ways has the Financial Crisis affected the Chinese firms in Zambia? -How have local Chinese firms responded to the effects of the Financial crisis? -How has the Financial crisis affected the Chinese economy and how has impacted on Chinese FDI in Zambia?	-Secondary data: Record on FDI and aid from the Ministry of Finance, Chinese embassy, China-Zambia aid agreement documents. -Primary data: In-depth interviews with (ZDA); the Ministry of Finance; Chinese Embassy, Case studies.

3.00: Study findings

3.10: Macroeconomic, legislative and institutional framework

After many years of economic contraction, the Zambia economy has recorded consistent growth in recent times. However, the level of growth is still considered too low to significantly impact on poverty levels, which have remained high. In part the economic growth has been spurred by increased investments in the economy, in the wake of wide ranging economic policies which were aimed at wooing investors. Foreign direct investment increased from $238million in 1998 to $ 354 million in 2007. Although at a lower rate, portfolio investments have also take an upward trend from $1million in 1998 to $42million in 2007.

Table 3.1
Selected macroeconomic indicators

Year	Indicator

	Real growth	Poverty level	FDI (US $m)	Portfolio investment (US $m	Loans and credits	Exchange rate
1998	-2.0	73.0	238	1	247	1862
1999	2.4	72.0	86	1.0	95	2388
2000	3.6	71.4	121	5.6	247	3111
2001	4.9	70.6	71.7	7.5	287	3611
2002	3.3	69.8	298.4	0.3	187	4307
2003	5.1	69.0	347.0	2.3	127	4734
2004	5.4	68	364.0	0.1	134	4779
2005	5.3	66	356.0	122.4	85	4464
2006	6.2	64	615.8	50.4	95	3600
2007	6.3	62	835.9	41.8	267	4002

Sources: CSO, MOFNP and BOZ

Zambia's industrial policy emphasises an export-led development strategy which recognises the agricultural sector as an engine of growth of the domestic economy. In order to support a private sector driven economy and promote and facilitate investment and trade, the Government, in the early 1990s, established a number of institutions such as the Zambia Investment Centre, the Export Board of Zambia, the Zambia Privatization Agency (ZDA), the Lusaka Stock Exchange (LuSE), Zambia Export Processing Zones Authority (ZEPZA) and the Small and Medium Enterprises Board(SMEB). Other than LuSE, the other five institutions were merged in 2006 into one institution, the Zambia Development Agency, in order to rationalise investment and trade promotion and fulfill the desire to operationalise the One-Stop-Shop investment-facilitation principle.

Legislative reforms saw the enactment, revision and amendment of pieces of legislation, which included the ZDA Act, the Companies Act, the Employment Act, the Customs and Excise Act, Foreign investment treaties, the Immigrations and Deportation Act, and the Tourism Act. Sector-specific institutions established to regulate investment in respective areas included: the Communications Authority of Zambia, the Energy Regulation Board, the National Roads Board, the Drugs and Poisons Board and the Pensions and Insurance Authority.

Although macroeconomic and political stability are preconditions for economic growth and development, they are not sufficient for attracting desired levels of both local and foreign investment. To further improve the investment climate, Government has in recent years undertaken economic reform programmes, which include:
a) The Private Sector Development Programme (PSDP): a public-private sector collaborative effort meant to address six core areas, namely; the policy environment and

institutions, regulations and laws, infrastructure, business facilitation and economic diversification, trade expansion and local empowerment mainly through the newly created Citizens' Economic Empowerment Commission (CEEC);
b) The Triangle of Hope (TOH): a strategic initiative for economic development modeled on the Malaysian and Far East Asian development experience, whereby sector-specific taskforces were established to identify both constraints to and opportunities for development of the sectors or industries. The TOH is supported by the Japanese International Cooperation Agency (JICA); and
c) The Millennium Challenge Account (MCA): a USAID-supported initiative that addresses issues of transparency and prudent economic governance by reducing barriers to trade and investment.

3.20: Fiscal and non-fiscal incentives

The ZDA act provides for investment thresholds that investors have to meet to qualify for fiscal and non-fiscal incentives. There are five categories under which investors can be considered under the ZDA act. The first category is that of investors who invest not less than US$ 10 million in an identified sector or product. This category of investors is entitled to negotiation with the government for additional incentives besides the general incentives.

The second category is that of investors who invest not less than US$500,000 in multi facility economic zones (mfez) and /or in a sector or product provided for as a priority sector or product under the ZDA act. This category, in addition to being entitled to the general incentives, is entitled to the following:

i) Zero percent tax rate on dividends for 5 years from the year of first declaration of dividends;
ii) Zero percent tax on profits for 5 years from the first year profits are made. For year 6 to 8, only 50 percent of profits are taxable and years 9 and 10, only 75 percent of profits are taxable;
iii) Zero percent import duty rate on raw materials, capital goods, machinery including trucks and specialised motor vehicles for five years; and
iv) Deferment of VAT on machinery and equipment including trucks and specialised motor vehicles.

The third category of investors relates to investors who are designated as micro or small enterprises under the ZDA act. Like the second category, this category is also, in addition to the applicable general incentives, entitled to the following incentives:

i) for an enterprise in an urban area, the income shall be exempt from tax for the first three (3) years; and
ii) for an enterprise in a rural area the income shall be exempt from tax for the first five (5) years.

The fourth category is that of investors who invest less than us$500,000 in a sector or product provided for as a priority sector or product under the ZDA act. This category is only entitled to general incentives.

The fifth and last category is that of investors who invest any amount in a sector or product not provided for as a priority sector or product under the Act. This category of investors is only entitled to general incentives.

3.30: The level and types of Chinese FDI

3.31: The levels of Chinese FDI

According to statistics from the Bank of Zambia, Overseas Development Assistance (ODA) is the most important foreign resource inflow into the country. Overseas Development Assistance has increased over the years from a low of $349 million in 2001 to close to one and half billion dollars in 2006. The next major source of resource inflows are FDIs, whose growth over the years has been steady. Private portfolio inflows come in at third position and have proved to be more volatile than the other two sources of foreign resource inflows (Table 5.1).

Table 3.2:
Foreign Resource In-Flows, 2000-2007 (US$ million)

Year	FDI	PI	ODA
2000	121.7	5.6	-
2001	71.7	7.5	349
2002	298.4	0.3	639
2003	347.0	2.3	589
2004	364.0	0.1	1,125
2005	356.9	122.4	935
2006	615.8	50.4	1,425
2007	835.9	41.8	-

Source: Bank of Zambia Statistics

China has over the years increasingly become an important source of foreign resource inflows to Zambia, both in the form of Aid, but more importantly, especially in the recent past in the form of FDIs. The flow of Aid from China is in keeping with the long tradition held of South-South Cooperation. The surge in FDI has been buoyed by the remarkable economic performance of the Chinese economy. However, the Chinese have not participated much in the equity market.

The growth in Chinese FDI is marked by a tremendous increase in the number of Chinese enterprises operating in Zambia (Figure 5.1) over the 1990-2008 period. In the early 1990s, there were hardly any Chinese businesses operating in the country. However, the period after 2000 has seen a dramatic increase in the number of Chinese firms setting up in Zambia. The Chinese enterprises have firmly established their presence and by the year 2008, there were over 500 registered companies (PACRO records).

Recent information shows that Chinese FDI inflows for the year 2007 were 1.15% of the total. The FDI stock for 2006 was estimated at $213.5million, and doubled to $426.6million the next year, being the only country other than the UK to have achieved this feat. The absolute levels for both years twice as much as for the UK (Table 5.2).

Table 3.3
Value of Chinese investments and number of employees, 2000-2007

Year	Value of Chinese investment	Number of employees in Chinese firm
2000	13.7	1,308
2001	7.2	412
2002	20.7	400
2003	2.86	494
2004	14	1,400
2005	41.4	1,240
2006	209.5	1,227
2007	287	960
Total	596.36	7,444

Today, the Zambia-China relationship has come to focus more on business and trade than ideology. In 1997 Bank of China (BOC) opened a Zambian office Lusaka and became the first BOC office in Sub-Saharan Africa. It was started with the purpose of assisting the increasing amounts of Chinese investors in Zambia. As mentioned earlier, China has become Zambia"s third largest investor and is only growing in influence over the Zambian economy.

Table 3.4
Foreign Direct Investments inflows and stock, by source countries

Country	FDI inflows (2007)		FDI stock	
	Absolute value	Share %age	2006	2007
Australia	295.31	22.31	873.6	1,166.0
Canada	146.87	11.09	232.7	379.7
India	138.04	10.43	1,196.1	1,338.0
Switzerland	130.75	9.88	774.2	923.9
UK	106.25	8.03	94.3	246.5
RSA	105.91	8.00	243.9	357.8
Bermuda	78.06	5.90	746.0	820.4
Saudi Arabia	67.80	5.12		
Holland	53.40	4.03	339.7	407.9
France	21.48	1.62	94.3	126.8
Mauritius	16.17	1.22		
China	15.23	1.15	213.5	426.6
USA	14.18	1.07		
Japan	5.15	0.30		
Ireland			255.8	162.7
Others				
Total	1,323	100	6,024.8	7,603.9

Source: Bank of Zambia

3.32: Investments in the mining sector

Although the Chinese have invested in various sector of the economy, by far the largest investments have been in the mining sector. It is thus not surprising that China is today the world's largest copper consumer (Zhou, 2009). The bulk of Chinese investments in Zambia are thus related to the mining industry.

The two by far largest investments registered by ZDA are a US$199 million investment by China's Nonferrous Metal Mining and Yunnan Copper Industry in 2006 in the

Chambishi Copper Smelter, and a US$220 million investment in 2007 by the Jinchuan Group Mining Corporation in the Munali nickel project.
The largest Chinese-owned mine in Zambia is the Chambishi copper, which was acquired by SOE China Non-Ferrous Company Africa (NFC-A) in 1998, making it China's first overseas non-ferrous mine (Taylor, 2006). Investments at a total of US$150 million were made in the mine between 1998 and 2003 (Bastholm, 2007).
Following the investment in the Chambishi mine, Zambian exports to China rose seventeen-fold between 2002 and 2006 (Carmody, 2009).

Table 3.5
Major Chinese investments in the mining sector, by value

Mine and when acquired	Value of investment
Chambishi Copper Mine (1998)	$150 million between 1998-2003
Chambishi Copper Smelter (2006)	$199 million
Munali Nickel Mine (2007)	$220 million
Luanshya Copper Mine (2008) XX	$

Source: ZDA

Other smaller Chinese mining investments are Sunfeng minerals in Ndola, and Jiaxing mining in Kitwe. The Chinese have recently acquired Luanshya copper mine, which was bought in wake of the Global Financial Crisis. When the global economic upturn occurs Chinese companies will be positioned to supply the increased amounts of raw materials required. The Global crunch notwithstanding, copper prices increased within the course of 2009 on account of the Chinese stockpiling copper.

With the recently observed behavior of the Chinese acquiring new mines in the wake of the Global Financial Crisis, China is poised to become a major player in the mining sector. These developments are mirrored by Chinese investments in the construction industry, where they are taking a foothold, and actually displacing traditional English and South African companies (Lindberg, 2009).

For now the copper is exported to outside market in its raw form, and hardly any is processed internally. To that extent, there the country remains the raw material enclave that it has always been. However, the heavy investment in only copper, but recently nickel smelting will provided opportunities for the local economy. And importantly, the location of the Chambishi Smelter would enable it to process copper from the neighboring DRC, where the Chinese have investments in copper mining too.

Worker in Chinese owned mines has persistently bemoaned the low wages and poor working conditions. And theses have taken on political tones, with the leader of the major opposition party championing their cause. This politics surrounding the Chinese business are intense that the Chinese purchase of Luansha Copper Mine was initially greeted with demonstrations by Luanshya residents. The residents' fears were however allayed with assurance that all former employees would be promptly paid their benefits, and almost would be employed.

3.33: Investments in the textiles sector

Other than the TAZARA railway project, which the Chinese helped Zambia build, the other major infrastructure project was the Mulungushi textile factory built in the late 1970s. As with the TAZARA project, construction was facilitated by an interest free loan from the Chinese Government. For a while, the textile factory ran fairly well. However, years of limited investment in plant and machinery took their toll, leading to operational difficulties and constant breakdowns. In a bid to help the Zambian Government keep the Textile factory afloat, the Chinese offered to run it as a joint facility. In what would be termed as a dramatic event, the factory was closed during the visit of the Chinese President to the country. The President was greeted with anti Chinese protests, whereupon he suggested that the factory be run as a joint facility. The Qingdao Textile Corporation then acquired a 66 percent stake in the firm (People's Daily, 2003, quoted in Lindberg, 2009).

Following joint ownership of the factory, there was a temporary respite for the company. The company employed the local people and small scale farmers who provided inputs to the factory revived their farming activities. However, while efforts to save the factory bore some fruits, it soon ran into trouble as it could not compete with imported fabric, from low cost production countries, such as China. Unable to cover its operating costs, the factory was subsequently closed in 2007. With collapse of the factory, prospects of incorporating local production into the global value chain are lost.

The closing down of the factors had wide ranging impacts. Firstly the closure deprived small scale farmers of a source of income, as they had no market for their produce and were consequently forced to close shop. Other small scale suppliers of goods and services to the factory faced a similar fate. Without a factory to process cotton, the result was that most of it was exported in its raw form, further entrenching the raw material enclave status of the country. As was demonstrated above, the importation of Chinese textile products had a knock down effect on the local fabric industry, which could not stand the flood of cheaper and better quality fabric from China. The negative effects of the Chinese imports further enhanced resentment of Chinese firms by the locals.

Box 3.1
The Zambia China Mulungushi Textiles Limited

The case of the Zambia-China Mulungushi Textiles Limited is illustrative of how Chinese investment is incorporating local production activities into the global value chain. The Zambian textiles sector is of major economic importance. Its total (for the full cotton-textiles-apparel value chain) contribution to GDP is estimated at between 16 and 20 percent, and it is important for employment creation and poverty reduction as cotton is the main cash crop for some small-scale farmers. According to Gates (2003), cotton is grown by an estimated 140,000 contracted small-scale farmers every year for the local industry as well as for the export market.

In a bid to reduce the costs of using middle men to access cotton from farmers, the textiles company appointed extension staff to manage contracted farmers. Evidently, ZCMT is the only company in Zambia that, apart from growing seed cotton, ginning and spinning also weaves yarn into cloth and produces garments. ZCMT thus controls the whole chain from seed cotton, over cotton lint, cotton yarn, and woven fabric, to garments. Downstream, the ZCMT moreover controls the marketing network through a chain of retails outlets and subsidiary companies in Tanzania and Namibia.

With the ending of the Multi-Fibre Arrangement (MFA) in January 2005, and the coming of the African Growth and Opportunity Act (AGOA), which offers increased preferential access for African exports to the US market, both ZCMT and the Zambian State are eager to take advantage of the opportunities offered by AGOA. ZCMT has recently reached an agreement with Wyler Team International Corporation (a Wal-Mart agent) to finance the expansion of its capacity to take advantage of AGOA, and the Zambian State has encouraged farmers to plant more cotton to provide raw material for textiles producers to benefit from AGOA.

Source: Muneku and Koyi, 2008

3.34: Investments in trade and manufacturing sectors

Chinese investors have not shied away from participation in economic activities that are normally the preserve of indigenes. In one of their construction projects, the Chinese provided assistance to the Lusaka Council in upgrading Kamwala trading center. This resulted in the construction of new shops. The terms of the project were such that the Chinese would use some of the facilities for an agreed period of time, lieu of payment. After completion, Chinese traders started operating from the new premises, much to the displeasure of the local population, who protested that they had been displaced from their original shops.

The involvement of the Chinese in trade in the Capital city's major trading area has attracted widespread apprehension from the locals. As indicated by Muneku and Koyi

(2008), Kamwala has in essence been turned into a specialised market, retailing Chinese goods. Small-scale entrepreneurial activities have almost certainly become a significant feature of Chinese FDI in Zambia. These Chinese traders mostly import and re-sell basic consumer goods such as clothing, textiles, footwear and electronic consumer goods.

In terms of manufacturing investment, the largest project is the Chambishi Multi-Facility Economic Zone (MFEZ) on the Copperbelt. The targeted investment package to complete this industrial park is US$ 800 million. This zone is anchored by a US $200m copper smelter, but is also meant to manufacture "TV's, mobile phones and other electronic items" (Centre for Chinese Studies, 22, quoted in Carmody and Hampwaye, 2009).

While estimates vary, some suggest once the zone has been completed, it will house up to 60 Chinese companies, employing 60,000 people (Carmody and Hampwaye, 2009). The division between local and Chinese labor use are as yet un-investigated. Recent estimates of the number of jobs created thus far put it at 3,500.

The siting of the MFEZ in Northern Zambia is significant as the province contains most of the country's mineral reserves, and is in close proximity to the Democratic Republic of Congo, where Chinese companies have signed multi-billion dollar resource (copper and cobalt) deals. The copper smelter in the zone will provide a secure source of supply of this key strategic industrial mineral to China, in addition to reducing transportation costs for the commodity (Carmody and Hampwaye, 2009).

To the extent that the new MFZ would help revamp the country's manufacturing sector, the MFZ are valuable. This will also facilitate China's access to natural resources through consent. However, the construction of special economic zones also offers potential for job creation and technology and knowledge transfer from Chinese managers and workers to their Zambian counterparts and vice versa. However, appreciable level of technology transfer are yet to be witnessed and assessed.

3.35: Chinese FDI and the international Financial Crisis

While some investors, who are primarily driven by the profit motive have reacted to the Global Financial Crisis through disengaging from the mining companies (eg Munali Nickel and Luanshya Copper mines), the Chinese have not only retained their mines, but also increased their presence through uptake of Greenfield operations and take-over of other mines. This is proof of the observation made regarding Chinese businesses not being exclusively driven by the profit motive, but other considerations such as South-South cooperation.

As a major source of demand for primary commodities from the developing world, the financial crisis impacted on the Chinese economy and this translated into reduced demand for primary products such as copper, which in turn manifested in a steep decline of commodity prices. To the extent that Zambia is dependent on copper mining, low demand for copper meant reduced mining based revenues for the treasury, rise in unemployment levels, and potential for political instability on the Copperbelt.

Although the Government policy aims at diversifying the economy away from mining to non-traditional exports, mining for now still remains the dominant sector.
Yet the mining sector is beset with instability, manifested through incessant strikes. The withdrawal from mining operations by some investors worsened the situation. It is imperative that trust be restored in the sector. Other commentators (Ndulo et al) have argued that the Government needs to reform and define how this sector should operate. It is imperative that the Extractive Industries Transparency Initiative (EITI) be implemented. This would ensure that both government and society have information on what is happening in the sector.

The mining companies have been affected through the loss of employment opportunities. The actual loses transcends the direct employees, as it affects all those related to the mine workers, such as contractors and suppliers to the mines. There is also a large informal sector on the copper belt whose business activities depend on the mineworkers. Other sectors that have seen job losses are the floriculture and horticulture industries and tourism.

The impact on workers is adverse to their families more so that there is no social protection system other than the terminal benefits. The laid off workers are entitled to terminal benefits. This is however, being hampered by the fact that most workers borrowed from the banks and non-bank financial institutions. On retrenchment, banks are allowed to deduct outstanding balances from the terminal benefits. Most of the retrenches end up with no terminal benefits at all.

In terms of the direct impact of the Financial Crisis on Chinese FDI, there was literally no impact. As indicated above, the impact was actually positive in the sense that it resulted in Chinese FDI taking over the closed mines of Nickel and Copper mines. Investment pledges at the Zambia Development Agency (ZDA) do not seem to have been affected during 2008. The investment pledges picked up during the second half of 2008 (Ndulo et al, 2009).

4.00: Discussion

4.10: Characteristics of Chinese investments

Chinese investment are primarily resource seeking, and to a small extent market seeking. However, once the MFZ become fully operational, the firms may use their location to sell to the surrounding countries, especially given Zambia central location. The major danger of having resource seeking investment is that it will perpetuate the raw material enclave status of the country.

The Chinese firms do not seem to be strictly driven by the profit motive rather they have long objectives of running their businesses, here. The acquisition of mines closed by other investors in the wake of the Financial Crunch is indicative of the fact that the ***Chinese motives are driven by more than purely economic*** considerations.
Hence their willingness to high earnings in return for long terms. In achieving their long term objectives, they have adopted survival strategies such as working among themselves to fend off competition. Collusions among Chinese businesses have been reported.

Historically, western FDIs in Zambia have come from privately owned corporations which are focused on profit maximization, generally with relatively short-time horizons. By contrast, recent Chinese FDI come from firms, which are either wholly-or partially state owned, and are driven by broader objectives than merely profit maximization.

A worrying development is the ***low level of linkages between Chinese and local businesses***. In the worse scenario, the loss of business to the Chinese is not only disconcerting, but may exacerbate the mistrust between the two.

One exceptional characteristic of Chinese FDI is that they are closely linked to the Chinese state. This being contrasted with FDI from Western countries, which is almost entirely driven by private enterprises. As the level of investment risen, so too has the level of Aid. The tying of FDI with Aid is in keeping with the Chinese practice of incorporating Aid as a sign of South-to-South cooperation, a practice which predates current Sino-African engagement.

The Chinese have increased their participation in the construction sector. The range of infrastructure projects that the Chinese are involved in aptly illustrate the ***Chinese approach of combing business and political objectives***. While projects such as Construction of the National Malaria Centre, and Central Statistical Offices were Aid, these were constructed using Chinese companies, which are supported by the Chinese state institutions.

The increased involvement of the Chinese in the roads construction sector could be reflective of the competitiveness of Chinese firms, which are reported to provide good quality projects at a price discount of 25 to 50 percent compared to other foreign investors. ***The Chinese are able to competitive favorably on account of: lower profit margins; access to much cheaper capital; employment of low-paid staff; use of Chinese materials; limited attention to environmental impacts; access to hard currency premium paid by the Chinese government; and Chinese Government provided subsidies***.

4.20: Positive impacts of Chinese investments

To the extent that Chinese Investments have augmented collective resource inflows into the country, this has ***improved capacity utilization, increased outputs and generated employment opportunities***. The growth of copper production has been quite impressive, and has in turn led to corresponding improvements in exports and earnings. To the extent that such developments facilitate attainment of the broader development agenda, the investments are invaluable.

However, while the imperative to acquire capital and newer technologies is well established, the Zambian population is youthful and marked by high unemployment levels. A caveat to capital and technological acquisition and transfer is that there must be a balance between the quest to acquire new technology and the need to create new jobs.

A point can be made regarding the welfare effects of Chinese FDI, especially in relation to the trading sector. It had been observed that the ***Chinese trading investors has availed low priced and better quality products.*** Where a reasonable proportion of the population is able to access such products, it could be reasonably argued that their welfare would be enhanced. This is especially the case for goods sold from the Chinese retail outlets, which have been recommended to be better quality at low prices.

4.30: Adverse impacts of Chinese investments

Other researchers (Muneku and Koyi, ZDA) have observed a practice whereby ***Chinese mining companies are increasingly relying on hiring heavy equipment than procuring new ones***. The problem with this practice of hiring plant and equipment or leasing the same is that it will limit the extent of technology transfer in the sense that since the equipment and plant are not assets of the company, the incentive to develop capacity to harness the associated technology will be minimal

The increased demand for copper and consequent high prices on the international market poses the risk of reversing the advance towards economic diversification. The local currency (kwacha) recently experienced dramatic depreciation on account of the international financial crisis and subsequent falling copper prices. The huge investments in the copper industry while generating positive economic impacts, may undo the Government's efforts at diversifying the economy away from mining. Going by the performance of NTE, there is still a long way to go before this ideal is attained.

As was observed above, there has been a major surge in the number of Chinese companies registered in Zambia. While the early wave of Chinese firms establishing bases in Zambia were Investment entities, in the recent past there has been a new wave of service-related Chinese firms being established. ***These service-related firms come in to operate as sources of inputs to Chinese Investors. This has raised concern among stakeholders who fear that local supply companies will lose out to Chinese services firms.*** This development will further weaken the linkages between Chinese Investors and local companies.

The increased copper production and sales notwithstanding, there has been limited impact on the standards of living for the population. At least two reasons account for this: (i) the nature of the development agreements, and (ii) the low tax rate on mining investors[1]. As Fraser and Lungu (2007:54) noted: profits from the mines leave the country without any positive impact on the Zambian economy, rather than being re-invested in building up the national economy, the profits are placed in banks or re-invested in companies outside the country.

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1 In a bid to privatize mines that had been run down owing to a long period of limited investment, the Government offered super incentives, which are encapsulated in Development Agreements with new mine owners. Under the agreements, Investigators are given long periods of tax relief, hence the negligible contribution of mines taxes to the treasury. It has been documented elsewhere that there has been a relatively higher proportional increase in the contribution of income tax to the treasury than mine taxes.

In addition, the low tax take from mining investors due to huge tax incentives accorded to them is another factor undermining the positive impact that mining could have had on the national economy. As the World Bank argues, mining contributions to total tax revenues [after privatisation of the mines] are extremely low (World Bank, 2004:38 quoted in Fraser and Lungu, 2007:55).

The reported use of Chinese labor where locals could be employed, poor working conditions among some Chinese firms has led to political agitation. And to this end opposition politicians have made effectively made Chinese businesses and election issue in the recent past. While highlighting the urgency of monitoring working conditions in affected firms, this has resulted in an uneasy relationship between the locals and the Chinese, which is not desirable for long term engagements. Both parties ought to work at resolving the sources of the mistrust.

5.00: Conclusions and recommendations

5.10: Conclusions

Chinese investments in Zambia are primarily resource seeking and to this end, they have been concentrated in the mining sector. There are investments in construction, trading manufacturing sectors too. The growth of these investments has been steady over the year and indications are that they are likely to remain that way in the near future.

Most of the Chinese firms operating in Zambia are state owned and/or are strongly supported by the Chinese state, which advantages them over other competitors. In Zambia, this has been buttressed by the opening of a Chinese bank to serve their firms.

The Chinese businesses do not operate like convention profit maximizing firms, often willing to provide concessions in order to gain access to markets. Such of the practices engaged include bidding at very low prices, settling for low profit margins, sourcing cheap inputs from China, using access fairly skilled Chinese workers, and collusion. These practices have enabled them to remain in business where their western competitors have failed.

To the extent that the Chinese investigators are doing business in Zambia, they are contributing to the development of the country through the direct creation of employment opportunities for the whole population. However, others have contended that the type of jobs created are of low quality.

The Chinese FDI contributions to Zambia notwithstanding, there has also been marked with widespread criticism. Commentators have observed noted the lax workplace practices in Chinese firms. The reported accidents in Chinese owned mines and strikes render credence to this observation. That one Chinese owned mine was actually closed amid safety concerns bears testimony to gravity of the situation.

The discontent of workers employed in Chinese firms has had political ramifications, with the major opposition leader using this in his political campaigns during the 2001 general and 2008 presidential elections, which the incumbent political party almost lost. These ramifications have highlighted pitfalls of Chinese firm practices, and drawn attention to similar experiences in other African countries.

5.20: Recommendations

Recommendations are made in respect of: checking the risks to economic diversification; monitoring the working conditions in Chinese firma, managing the political ramification of investments, maximizing linkages with local suppliers, and protecting indigenous small scale businesses.

Chinese investments though spread across both extractive and manufacturing sector are predominantly in mining. The Government should not lose sight of the need to diversify the economy and protect it from economic vagaries. Strategies for directing more investment in non-traditional sectors, such as Agriculture and Tourism ought to be stepped up.

The political fall out from Chinese economic interests should be prudently managed, lest they generate generalized adverse impacts. Both the local and international media have carried stories in this regard. Addressing the fundamental issues giving rise to such media coverage would be helpful for the FDI source and recipient countries.

Given the limited employment opportunities obtaining in the country, it is imperative employment creation strategies are stepped up. While Chinese firms are contributing toward the creation of such jobs, the limited linkages with local business limits the positive effects. In extreme cases, indigenous small scale businesses unable to compete with Chinese firms have closed down. Deliberate measures ought to be undertaken to protect such businesses.

Related to the above point is the need to find ways of using Chinese international business links to incorporate local firms into the international value chain. This would enable them earn decent incomes from their economic activities.

That there is discontentment over the working condition in Chinese owned firms should be a source of worry to Government. Similar poor workplace practices have been reported in firms located in China. Monitoring of workplace practices is critical, and to this end the capacity of the relevant arms of Government ought raised for them to effectively carry out their mandate.

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7.00: Appendices

Appendix I: Review of *Post and Times Newspaper* titles on Chinese Businesses over a two year period

SN	Date and title of article
	30/12/08; China seeks measure to improve rural agriculture income. 10/12/08; PF MP protest land offer to Chinese. 10/12/08; Ford discusses Volvo sale to China. 03/12/08; Albidon Ltd dismisses report of strained relationship with Jinchuan. 02/12/08; Goodtime steel invests K13bn in new plant. 02/12/08; China losing competitive edge, says President Hu. 04/11/08; Global financial crisis spills over China's labour market. 21/11/08; Chinese Government to overhaul dairy industry. 28/10/08; Will America's pain be China's gain? 25/10/08; Chinese company to establish copper mine in Mwinilunga. 12/10/08; China suspends herbal injections after 3deaths. 08/10/08; China in the African media-scape (part2). 07/10/08; Ghana MP warns of dumped goods from China. 05/10/08; How china has created a new slave empire in Africa. 05/10/08; China wants to offload in africa. 01/10/08; China in the African media's-cape:part 1. 09/09/08; China economy to maintain strong growth. 14/09/08; Chinese workers clobber Ndola man. 16/09/08; Presidential hopefuls spell out China Policy. 19/09/08; China vows clean-up as baby milk scare spreads.

	21/09/08; Gabon bans sale, import of chinese milk powder. 21/09/08; China orders recall as milk scandal widens. 23/09/08; China has helped improve africa's resource value, observes Stanchart. 26/09/08; Chinese business delegation arrives. 29/09/08; Crisis management helps china's dairy sector recover. 01/07/08; Australian paper defends Chinese investment. 14/07/08; Made in China proves false economy for some. 19/08/08; Can China tackle the great grain challenge?

SN	Date and title of article
	01/05/08; NFRA Director denies getting money from China Henan. 01/05/08; Envoy urges Zambia, China to increase trade linkage. 04/01/09; Lukulu MP accuses Chinese contractor of flouting EU rules. 05/01/09; Manufacturing in china drops. 28/01/09; World Bank blacklists 4 Chinese contractors. 15/02/09; China to sell assets of scandal hit firms. 24/02/09; China coal mine blast kills 74. 01/03/09; China premier says financial crisis not bottomed out. 22/03/09; Mwiinde from cleaner to Chinese translator. 22/03/09; China Henan to repair Lusaka-chirundu road. 22/03/09; NFC favourite to take over LCM. 26/03/09; NFC miner killed by under ground rock fall. 29/03/09; Entertainment industry eyes Chinese mainland market. 31/03/09; Will china save us? 06/04/09; Big spender add sparkle to Chinese wedding market. 08/04/09; Chinese engineers arrive for construction of Ndola stadium. 09/04/09; Chinese company to work on independence stadium. 12/04/09; Working conditions in chinese run mines. 01/05/09: Chinese investors will by 2011 have unmatched window

	of opportunity ahead of competitors 13/05/09: Preist warns Government on Chinese taking over LCM 16/06/09: Chinese group to take over Munali Nichel Mine 19/07/2009: Scores of Zambian traders at Luburma market in Lusaka threatened to take the laws into their own hands if the Government does not intervene in what they termed unfair competition from Chinese traders 17/07/2009: Chinese influence in Africa unstoppable 11/07/2009: China boosts independence work 07/07/2009: TAZARA in talks with China for $39m loan

Review of Times Newspaper titles over a two year period

SN	Date and title of article
	26/06/09: China hands over anti-malaria centre 25/06/09: Chinese firm pledges to make Luanshya mines profitable 24/06/09: China firm eyes Kafue Gorge development 11/06/09: Chinese firm invests K100b in nichel mine 30/07/09: Chinese firm to take over Munali Mine 23/07/09: More Chinese experts jet in 17/07/09: Chinese firm Anhui Foreign Economic Construction Corporation (AFECC) was awarded the contract to renovate the dilapidated independence stadium in Lusaka 09/07/09: Chinese buses to flood Zambia 08/04/09; Chinese stadium engineers jet in. 09/04/09; Chinese company wins 3 stadia contracts. 10/04/09; Chinese investor moves on site Tuesday. 04/03/09; NFC miner dies underground. 10/03/09; Do not demonise Chinese investor. 14/03/09; State, Chinese company sign Ndola stadium MoU. 17/03/09; RB woos Chinese investors. 19/03/09; Chinese firm eyes Luanshya. 21/03/09; MP up to no good over LCM. 04/02/09; 4 Chinese firms want permanent ZITF spots. 19/02/09; Mwale dismisses added Chinese investment fears.

	24/02/09; Mananger sacked after China blast. 01/01/09; China milk scandal executives on trail. 03/01/09; China dairies offer text apology. 05/01/09; Chinese interested in investing in the north. 06/10/09; Chinese to start prospecting for minerals in Mwinilunga. 23/01/09; Chinese milk scam duo face death. 24/01/09; Chinese investment in Zambia intact. 11/04/08; Chinese firm moves on site.

Appendix II: facilitation services

besides providing the fiscal and non-fiscal incentives the zda provides facilitation services to its clients. in this regard, the zda facilitates registered investors to:
acquire land;
obtain water, electric power, transport, and communication services and facilities required for their investments;
regularize their immigration status;
acquire other licences required to operate a business in any particular sector; and
access any other after care assistance that may be required.
in addition to the tax incentives and services that the zda provides to investors, there are other benefits that investors enjoy when they invest in zambia. one such benefit is guarantee for investment. in this regard investors who invest in zambia enjoy the following guarantees:
guarantee of repatriation of profits & dividends
business cannot be compulsorily acquired by government, except by act of parliament in extreme circumstances
investors are protected against non-commercial risks, as zambia is a signatory of multilateral investment guarantee agency (miga) and africa trade insurance agency.
there is an impartial forum for resolving disputes
special bilateral investor protection agreements exist while new ones can be entered into.
in order to qualify for zda incentives the zda act pro.ides that investors need to invest in priority as provided for under the second schedule to the zda act. the priority sectors are outlined below in appendices:

Appendices III: zda priority sectors

(a) floriculture

fresh flowers and dried flowers
(b) horticulture
fresh and dried vegetables
(c) processed foods
wheat flour
other processed foods
(d) beverages and stimulants
tea and tea products
coffee and coffee products
(e) production and the processing of the following products in the textile sector
cotton
cotton yarn
fabric
garments
(f) manufacturing of the following engineering products
copper products
iron ore and steel
cobalt
other engineering products
(g) beneficiation of phosphates and any other related material into fertilizer

(h) beneficiation of rock materials into cement

(i) production and processing of raw timber into woodproducts
(j) production and processing of the following products in the leather sector:
cattle hides
crust leather
leather products
(k) building of mini-hydro power stations
(i) education and skills training

mfez priority sectors
information and communication technology (ict)
development of computer software
assembly/manufacture of ict equipment
health
manufacture of pharmaceutical products;
repair and maintenance of medical equipment;
provision of laundry services to medical institutions;
ambulance services;
medical laboratory services;
diagnostic services; and
other medical services.

education and skills training
manufacture of:

machinery and machinery components;
iron and steel products;
electrical and electronic products and components and parts thereof;
chemicals and petrochemicals;
pharmaceutical and related products;
wood and wood products;
palm oil products and their derivatives;
pulp, paper and paper board;
textile and textile products;
transport equipment, components and accessories;
clay-based, sand-based and other non-metallic mineral products;
plastic products;
professional medical, scientific and measuring devices/parts;
rubber products;
leather and leather products;
packaging and printing materials;
fertilizer; and
cement.
tourism.
processing of:
agricultural products;
forest products;
non-ferrous metals and their products; and
gemstones

General fiscal incentives

i) Income earned by companies in the first year of listing on the Lusaka stock exchange qualifies for a 2% discount on the applicable company tax rate in the particular sector. However, companies with more than 1/3 of their shareholding in the hands of Zambians qualify for a 7% discount;

ii) Implements, machinery and plant used for farming, manufacturing or tourism qualify for wear and tear allowance of 50% of the cost per year in the first two years;

iii) Buildings used for manufacturing, mining or hotel qualify for wear and tear allowance of 10% of cost in the first year and 5% of cost per year in subsequent years;

iv) Duty free importation of most capital equipment for the mining and agriculture sectors;

v) Corporation tax at 15% on income from: farming; fertilizer production; and non-traditional exports;

vi) Farm works allowance of 100% of expenditure on stumping, clearing, prevention of soil erosion, bore holes, aerial and geophysical surveys and water conservation; and

vii) Development allowance of 10% of the cost of capital expenditure on growing of coffee, banana plants, citrus fruits or similar plants.

Non –fiscal incentives

Other than the generous tax incentives already mentioned, the ZDA act also provide for non –fiscal incentives. Investors, who invest at least us$250,000 and employ not less than 200 local persons, are entitled to a self employment permit and employment permits for up to five (5) expatriates.