

**CHALLENGES FACING CHINA'S ECONOMIC ENGAGEMENT  
WITH AFRICA: A CASE STUDY OF ZAMBIA**

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**DECLARATION**

**Date: 21/07/09**

I declare that the dissertation entitled “Challenges Facing China’s Economic Engagement with Africa: A case study of Zambia” submitted by me for the award of the degree of **Master of Philosophy** of Jawaharlal Nehru University is my own work. The thesis has not been submitted for any other degree of this University or any other university.

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**CERTIFICATE**

We recommend that this dissertation be placed before the examiners for evaluation.

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## INTRODUCTION

The Chinese presence in Africa has been greeted with extremes of approval and dismay from around the world. For example one hundred years ago, the import of Chinese labour in the continent was applauded who were believed to open up the continent by shouldering work on the roads and railways throughout Africa and in the goldfields of South Africa. While there were others who saw the Chinese as a lethal threat. Chinese, they feared would slip out of their compounds, subvert the morality of the unspoilt natives, steal European jobs and Johannesburg would become 'practically a Chinese town' (Gardner 1970: 235). Two generations later, in the 60s and 70s when the representatives from modern China started pouring in, the same pattern of reactions repeated.

Now the Chinese are once again making their mark on Africa and on a much larger scale than before. Except in the 80s when China's strategic interests in Africa faded and they switched their focus on domestic modernisation, they have moved back into Africa due to their appetite for export markets, for the foreign exchange to be earned from contract engineering, and above all for African oil and other mineral resources. Earlier also the Chinese presence in Africa was largely speculated by a number of specialists but now it has become a major world issue, a burning question about which over thirty international conferences were held in 2006 alone, on which every self-respecting columnist finds it necessary to express an opinion. And once again there have been responses of extreme delight and hostility. While President Mugabe of Zimbabwe has unveiled his 'Look East' policy, and urged his countrymen to acquire Chinese language and cookery skills and former President Obasanjo of Nigeria has informed Chinese guests, 'when you are leading the world, we want to be very close behind you'<sup>1</sup>, the fear of demonstrations by local employees has forced Hu Jintao to cancel one of his visits to the Chinese owned Chambishi mine in Zambia. Chinese workers have also faced kidnapping and murders amidst the unrest and Western activists holding China responsible for the Sudanese

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<sup>1</sup> Declaration made to President Hu Jintao during his visit to Nigeria on 28 April, 2006.



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government's genocidal repression in Darfur caused protests at the Beijing Olympics in 2008.

The actions of the Chinese also vary from place to place. We find Chinese oil firms displacing local communities in the Southern Sudan and drilling without a permit in Gabonese nature reserve, while Chinese construction firms rebuild large parts of the infrastructure of postwar Angola and other states where the West has hung back; Chinese interests investing in an industrial take-off in Mauritius but not in Nigeria; China's thirst for resources is improving commodity prices and terms of trade for most countries, while competition from Chinese exports cripples the nascent textile industries of South Africa and Lesotho. The Chinese shopkeepers are found to be appreciated in Cape Verde and Senegal but not in Namibia. We also find Chinese ambassador to Zambia crudely threatening that diplomatic ties would be broken off if a hostile candidate wins the presidential elections, while Beijing's top leaders tour Africa with an assiduity never shown by the West and the media talk up Africa's promise in positive tones far from the Western talk of African gloom and doom.

Chinese 'no strings attached' aid has become an attractive alternative to the conditional Western aid in Africa. However, a somewhat asymmetrical relationship exists between the two where the Chinese are starting to face serious allegations of human rights abuse, being less transparent and a non promoter of good governance. Controversies are on the rise regarding its investment in a number of places in Africa like Nigeria, Angola, Sudan, Gabon and most interestingly in Zambia. This anti-Chinese sentiment is definitely troubling Beijing. Thus, this research is trying to look at the Chinese investment in Africa in general and in Zambia in particular.

Opposition is still growing among a segment of the Zambian population which suggests that Chinese activities in the country will continue to fuel political debate in the years to come. What remains to be seen now is how China will deal with this growing opposition and criticism, and the coming up of labor unions and non-governmental activist groups which can make life uncomfortable for those in powerful positions, both domestic and

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foreign. China can expect growing criticism from these groups if Chinese companies, such as the operators of the Chambishi mine, fail to address the legitimate grievances of their workers. Likewise, if small Chinese traders and unskilled workers continue to multiply and ply their wares and services in African markets, local resentment can be expected to grow. This is the statement of the problem in my research.

The sources that are used for this research are both primary and secondary. There are reviews of the reports to IMF and World Bank to check the data on the presence of the Chinese in Africa and the growing engagement between China and Zambia. Analysis is made with the help of this research how the Chinese engagement is viable in Zambia. While looking at the primary data it is also seen as to how the government is utilising the revenue made by the Chinese investment for the locals and are they getting enough employment. Various online reports and articles in newspapers and magazines have been reviewed to find out how the media and the West has been reacting on the Chinese investment and what are their criticisms against the Chinese. Also in terms of the FOCAC, how symmetrical is the relationship between the China and Africa, in particular Zambia.

The two hypotheses that I am trying to test with this research are, firstly that at a time when the West is mobilising up against China it would be very difficult for China to sustain its economic engagement with Zambia and secondly, though at the core of China's policy with Africa is its policy of 'non-interference' and 'no-strings attached' but its decisive influence in Zambia shows the opposite.

The literature that is available on the topic has been reviewed thoroughly. On the role of China in Africa the emerging relationship between China and Africa is investigated in various literatures to determine whether this engagement will be that of a development partner, economic competitor or a new hegemon (Chris Alden, 2007). In order to understand Chinese involvement in the continent we need to recognize the range of economic, diplomatic and security rationales behind Beijing's Africa policy as well as the response of African elites to China. Chris Alden gives extensive knowledge about the

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relations between Zambia and China. Most of his literature also talks about the various incidents that strained the relations between the two countries and how the Chinese as well the Zambian governments reacted to it. The writings on China in Africa certainly raise the question of challenges being faced by China but among them there is no mention of how the Zambian government can utilize the Chinese investment in its favour.

The relationship of China with Africa has also been analysed as that of a colonizer in the continent and also reflects how this relationship is different from the relationship of Africa with the West. The given literature also claims that the colonizer relationship is spurious and overblown (Deborah Brautigam, 2007). Scholars have also argued that the hallmarks of colonialism- the ideology of a civilizing mission- is distinctly lacking in China's Africa policy. The Chinese interests certainly lie in political stability and peaceful and prosperous Africa. On the other hand, some articles also reflect fear that the Chinese would make the maximum use of this relationship and leave Africa dry as they did in the 70s which is least likely to happen.

China's economic engagement with Africa and challenges faced by China in Africa have been researched extensively. By looking at the latest figures of the trade, aid and investment in all the sectors, one gets a complete picture of the economic engagement of China with Zambia which is very useful for the research. All the sectors are taken into account like the mining, agriculture, construction, textile, telecommunications and medicine (Inyambo Mawanawina, 2008). Along with the rapidly increasing engagement some scholars also talk about the increasing challenges that the Chinese are facing in the country and what are the reasons for facing those challenges, which is very helpful in understanding the policies of both the governments (Wang Jiang Ye & Bio-Tchane Abdoulaye, 2008).

Besides looking at the economic engagements some writings also analyse the effects of Chinese-Zambian investment relationship, Zambian foreign direct investment and Zambian development levels over the past four decades. There has been a complete statistical analysis to determine the developmental implications of Chinese investment.

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Some of the writings are helpful in understanding the Chinese engagement in Zambia as it concludes with a series of policy recommendations that, if implemented, will enable the Zambian government to realize greater developmental gains from Chinese investment (Denise M Ziobro, 2008). Some scholars also emphasize the Zambian government's responsibility to implement a series of policy strategies to ensure that Chinese investments are utilized in a way that delivers the highest possible gains in terms of Zambian development (Meiden Michael, 2006).

A substantial amount of literature highlights the fact that construction industry has played a key role in China's engagement with Africa. By making a very interesting comparison between the construction industries of Zambia and other countries in Africa scholars have given a complete picture of the construction industry in Zambia where the standards of work completed by the Chinese companies are considerably higher and regulations and building codes are strictly followed (Christopher Burke, 2007). It is also reflected though some writings that once established the only serious competition the Chinese companies face is from one another. Literature also brings into light various factors of the construction industries in Zambia where the Chinese are dominating and also the reasons why they prefer only Chinese labour (Laurenzo Mauro De, 2007).

Over 30% of the construction market in Zambia has been claimed by the Chinese already and the only serious competition they face is from one another. Some of the literature gives useful insight into the Chinese involvement in construction sector in various countries in Africa, one of them is Zambia. Various reasons have also been mentioned that why the Chinese construction firms are successful in Africa (Stellenbosch University, 2008).

Though, most of the literature talks about the various challenges that China is facing now from the West as well as from the locals but there is very limited research done on the reasons why an anti-China sentiment is fuelling up in Zambia which is of utmost importance to this research. Thus after going through the relevant literature I have come

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to the conclusion of doing research on the challenges faced by China in Africa, specifically in Zambia.

The first chapter discusses the Chinese economic engagement in Africa, starting from the start of the relations between China and Africa to China's return to Africa. It talks about the engagement of China with Africa in terms of trade which has risen tremendously, the Chinese aid has also been discussed elaborately coming with 'tied aid' and 'non interference in the domestic affairs' slogans. This chapter also brings about the possible differences between the new and the old actors which would be helpful in understanding of the welcoming of the Chinese in Zambia. Along with this the reactions of the West on the increased Chinese investment have also been discussed. This leads us to the main point, the challenges facing China in countries like Angola, Nigeria, Sudan and Zimbabwe which have been talked about.

Since, in this research I am taking up the case of Chinese investment in Zambia so the next chapter is on Chinese engagement in Zambia which discusses the Chinese investment in Zambia particularly. It discusses at length the China-Zambia relations. Then the policy making actors in Zambia and China's engagement in Zambia is discussed sectorwise. And lastly the reactions of Zambians, reactions of traditional lenders and the reactions of Chinese about Chinese presence are taken into account.

The last chapter deals solely with the challenges facing China in Zambia. It talks about the problems and protests that the Chinese are facing in Zambia. The mining sector and the textile sector are the main areas where there has been opposition and the 2006 Presidential election is also where much of the anti-China sentiment is seen. These have been taken into account to find out what kind of problems the Chinese are facing and why. Lastly, a complete analysis has been given so that asymmetrical relationship between China and Zambia could be made somewhat equal.

## CHAPTER I

### CHINA'S ECONOMIC ENGAGEMENT WITH AFRICA

In 1968, George Yu, a leading contributor to China- Africa research wrote that “studying China in Africa is much like pursuing a dragon in the bush. The dragon is imposing but the bush is dense” (Yu 1968:1026). The notion of the Chinese ‘dragon’ operating in the African ‘bush’ persists in much of the language and assumptions used to describe the relations between China and Africa. Mostly the language and assumptions used by the scholars give a certain perception of the Chinese ‘dragon’ stripping off the African ‘bush’ of all historical, political and cultural heritage it had.<sup>1</sup> However, the Chinese African relationship has gone much above this level. Here it can be called asymmetrical but not that of a dragon and a bush. We should stop perceiving the relationship in this way and start thinking much beyond it.

China’s increasing involvement on the African continent is a manifestation of a remarkable transformation of the country’s foreign policy over the past 10-15 years. There is still a disagreement between scholars on the issue of the nature and scope of that change but most of them agree that China was seeking a more active role in the international system. China’s foreign policy as whole is considered to be more flexible, dynamic, constructive and self confident than it was during the last few decades (Medeiros & Taylor 2003; Sutter 2004). As veteran diplomat Zbigniew Brzezinski asserts: ‘China is clearly assimilating into the international system’ (Brzezinski & Mearsheimer 2005: 46).

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<sup>1</sup> Emma Mawdsley, ‘Fu Manchu versus Dr Livingstone in the Dark Continent: popular geopolitical images of Sino-African relations’, paper presented at the Royal Geographical Society Annual Conference, London, 29 August 2007.

## 1.1 China and Africa: Early Years

### 1.1.a Bandung Conference

More importantly the aura of the “spirit of Bandung”, allowed China to gain their first foothold in Africa through diplomatic recognition.<sup>2</sup> In 1956 Egypt became the first African country to establish diplomatic relations with China and, for a number of years, Cairo served as the main base for Chinese operations on the continent (Yu 1965:324). The establishment of diplomatic relations with Egypt, was underpinned by historical recollection emphasizing the commonalities between China and Africa: cradles of civilisation, victims of colonialism, a developing country and a developing continent (Alden and others 2008:4).<sup>3</sup> During the Suez invasion by Israel and the British and French intervention that followed in October 1956, China was second only to Soviet Union in pledging its support to Egypt, promising volunteers and magnanimously granting \$4-700,000 the beginning of a pattern of direct aid that is small in amount but designed for maximum propaganda advantage. By 1959, however, relations had cooled as Nasser criticized China for its actions in Tibet and China in turn allowed the Syrian communist leader Khaled Baghdash to attack Nasser and his UAE at the tenth anniversary of the People's Republic held in Beijing. Nasser regarded this as an act of ‘aggression’ and threatened to call on all Asian and African countries having diplomatic relations with China to lower their representation. This eventually led the Chinese to issue an apology. Bandung Conference was one opportunity where the Chinese could meet countries of Asia and Africa, to lure them of its anti-colonial policies and present itself as a model of self-reliance. The Chinese foreign policy towards Africa was, since its inception, marked by three main constants: the export of the ‘Chinese model’, the struggle against the superpowers and China's third world policy (Yu 1977:98). China's aim in Bandung was clearly to create a sense of union based on common past experiences under western colonialism from which a new international force had to be built (Yu 1965:324). This new force was to resist the continuous external interference threats by

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<sup>2</sup> The conference reflected what they regarded as a reluctance by the Western powers to consult with them on decisions affecting Asia in a setting of Cold War tensions; their concern over tension between China and the US; their desire to lay firmer foundations for China's peace relations with the West and their opposition to colonialism especially French influence in North Africa and French colonial rule in Algeria.

<sup>3</sup> Colonialism in all of its manifestations was condemned in the conference, implicitly censuring the Soviet Union as well the West.

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neo-colonialist powers. In the 1960s China came up with its 'Third World Policy' aggressively: the first world was composed of the United States and Soviet Union, the second world by other developed western countries (Europe) and the third one by the developing countries of three A's (Asia, Africa and Latin-America).<sup>4</sup> During this decade Africa's importance to China increased significantly not only in getting wider international recognition but also to lead the world socialist revolution. Therefore, the Soviet Union was designated as the principal Chinese enemy on the continent in the 1960s, with China using Africa to 'discredit the Soviet Union as a revolutionary force by identifying her with "United States Imperialism" (Yu, 1966:464).

### **1.1.b Continued relations**

The relations between the two countries continued to flourish throughout the decade. The trade increased heavily and the Chinese aid also started flowing in the African countries. Beijing championed the Third World causes during the different phases of its involvement with Africa, including the revolutionary 'national liberation' struggles of the 1960s and 'self-reliant development' of the 1970s. At the height of the Cold War, Africa was seen primarily by the Chinese leaders as a terrain for ideological competition not only with the United States, but also with the Soviet Union, as well as remaining European influences. This took the form of Chinese diplomatic and military support in Southern Africa, for instance, liberation movements which were ideologically committed to Maoist China as opposed to the Soviet Union. China's Africa policy now had to develop on two fronts: against US imperialism and Soviet revisionism, which was later ideologically theorized by Lin Biao as the revolution of the 'rural areas of the world' against the 'cities'.

### **1.1.c Aggressive foreign policy of China**

Following the continued relations between the two countries the Chinese developed a more aggressive policy for Africa. In the first half of the 1960s Beijing's activities in Africa were particularly intensive. In 1960 China established a China-African People's

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<sup>4</sup> This third world was the one that refused to align with other blocs, and which China believed to share its peaceful coexistence principles, anti-hegemonic stance and its pledge for a new economic world order.



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Friendship Association and took part in the second AAPSO conference in Conakry (Boorman 1961: 234).<sup>5</sup> The following years saw an intensification of cultural and diplomatic mission exchanges in both directions, culminating in Zhou Enlai's famous Africa tour, which lasted for seven weeks, from December 1963 to February 1964. In this tour,<sup>6</sup> the Chinese Foreign Minister visited 10 countries<sup>7</sup> accompanied by an impressive entourage of more than 50 official dignitaries (Adie 1964: 174-194). Loans were given on an interest-free basis in the form of complete equipment and technical assistance provided by Beijing and to be repaid over an extended period of time with African exports to China, having no conditions attached- a pattern which can be seen clearly in present China-Africa loans.

The most controversial part was China's involvement with the African liberation movements. China's links to Frelimo in Mozambique, the MPLA and FNLA in Angola, the FLN in Algeria and rebels in Congo-Kinshasa in the 1960s were also least effective instrument in its pursuit for a long term influence over Africa, mostly because they turned out to be counter productive. China's support to these organisations was also based on the need to have a good prestige in the Organisation of African Union (OAU) and AAPSO but also its attempt to compete with the superpowers for long term influence, particularly with the Soviet bloc. China failed to understand the regional logic in giving prevalence to its worldwide socialist struggle.

After the Sino-Soviet split, China's rhetoric became increasingly radical in the search for anti-Soviet groups to promote itself. In the early 1960s, China was deeply involved in African rebellions and independence struggle, in DRC, Angola, Mozambique, Ghana, Niger and Burundi. In 1964, China helped Nkrumah establish secret training camps in Ghana in preparation for guerillas to fight the pro-French government in the Niger Republic (Hull 1972: 49) and was also providing arms and training to Congolese rebels.

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<sup>5</sup> AAPSO was increasingly subject to the Sino-Soviet rivalries and consequently never fulfilled Chinese expectations. China's inability to realize its aims for a second 'Bandung' conference in Algeria in 1965 were emblematic of this period.

<sup>6</sup> Between 1963 and 1965 Zhou Enlai made three tours to Africa.

<sup>7</sup> Zhou Enlai had planned to visit all the African states that recognized the PRC at that time but disturbances in East Africa forced him to make the list shorter. In December 1963, he visited Egypt, Algeria, Morocco, in January 1964, Tunisia, Ghana, Mali, Guinea, Sudan and in February, Ethiopia and Somalia.

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China's involvement in Angola shows clearly the ebbs and flows of its foreign policy throughout the cold war. At first China tried to keep its influence over the MPLA (Movimento para a Libertacao de Angola), however, they turned out to be too urban and pro-Soviet in orientation. In 1963, following closely the OAU policy China supported FNLA (Frente Nacional para a Libertacao de Angola), though relations were strained by the fact that the Chinese delegates were not allowed in the DRC where the movement was based. Beijing then supported UNITA (Uniao Nacional para a Independencia Total de Angola) - a movement that had split from FNLA. By 1967, UNITA became the only Angolan liberation movement mentioned in the Chinese press. After the granting of formal independence in 1975, which coincided with the onset of a civil war in Angola, Beijing covertly supported FNLA and UNITA, not because of their Maoist credentials, but to gain victory from Soviet backed MPLA (Jackson 1995: 389-422).

As the Cultural Revolution<sup>8</sup> wound down in the 1970s China's foreign policy began to lose its strong ideological inflection (Harding 1995). Between 1976 and 1982 total Chinese aid pledges to Africa fell from US \$100.9 million to just US\$ 13.8 million (Snow 1995: 306). Within years of the completion of TAZARA<sup>9</sup> project major shifts were underway within China's domestic and foreign policy, which saw a gradual dilution of the ideological focus in policy-making in favour of a greater emphasis on economic co-operation.

### 1.2 Africa returns as a priority

#### 1.2.a Sudden change in the policy

However, after the slowdown in the attitude towards Africa the Chinese efforts to create a more active foreign policy for Africa and beyond its Asian counterparts started only after

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<sup>8</sup> Cultural Revolution was a period of widespread social and political upheaval; nationwide chaos and economic disarray that engulfed much of the Chinese society from 1966 to 1976. It was launched by Mao Zedong in 1966 who alleged that liberal bourgeoisie elements were dominating the party and insisted that they needed to be removed through post-revolutionary class struggle by mobilizing the thoughts and actions of China's youth.

<sup>9</sup> TAZARA railway was built between 1970 and 1975 by the Tanzania Zambia Railway Authority to serve landlocked Zambia as an alternative to rail lines via Zimbabwe, South Africa and Mozambique.

1989. A series of economic and political factors were responsible for this remarkable change of policy.

### 1.2.a.i *Tiananmen Square crackdown*

The key factor for change in the foreign policy was China's diplomatic isolation following the Tiananmen Square massacre in 1989<sup>10</sup>, bringing to an end China's 'honeymoon' with the West. Isolation was further bolstered by the collapse of the Soviet Union which positioned China as the remaining communist power. Developing countries were effectively elevated to a 'cornerstone' of Chinese foreign policy in an effort to build coalitions to shield Beijing from Western criticism. At that time many African leaders were themselves under growing domestic and external pressure to liberalize their political system, so they were willing to go along with Chinese 'no strings attached' conditions. China sought to construct a common identity with African states *vis-à-vis* the paternalistic West. With these considerations in mind, China moved swiftly to increase its assistance to developing countries substantially, most of which were African nations (Taylor 1998:450). In three years following the Tiananmen massacre in 1989, Chinese foreign minister Qian Qichan visited no less than 14 African countries and thus laid a foundation for an intense diplomacy that continues unabated today (Taylor 2004:87). The demonstrations and subsequent shootings around Tiananmen Square resulted in a serious crisis in China's relations with the West, and the depth of Western condemnation surprised the Chinese leadership. Although an emerging economic superpower, China continues to portray itself as developing nation, at least to African audiences, to underline the convergence of interests between China, the world's largest developing nation and Africa, the continent with the largest number of developing countries (People's Daily 11.10.2000). On the other hand, Beijing also acknowledges its superior international position and uses its permanent seat in the UN Security Council to position itself as a mentor of African countries. China's support for fairer global trade and an enlarged UN Security Council and also for New Partnership for Africa's Development (NEPAD) and

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<sup>10</sup> Tiananmen Square protests were a series of demonstrations near Tiananmen led mainly by students and intellectuals, sparked by the death of pro-market and pro-democracy official, Hu Yaobang. The participants generally were against the authoritarianism of the government and voiced for economic change. The movement lasted seven weeks until the tanks cleared Tiananmen resulting in the death of at least 2000-3000 civilians. This led to wide criticism of the Chinese government by the West.

### China's Economic Engagement with Africa

African Union (AU), explains it more clearly. Beijing's active promotion of economic interaction with Africa has significantly contributed to the impressive growth rates of bilateral trade. In institutional terms this has been flanked by the creation of the Forum of China-Africa Cooperation in 2000 (IRIN News 17.12.2003). Furthermore, a Chinese African Chamber of Commerce was opened in Beijing in March 2003, which aims to promote trade and economic relations with initially five African countries.<sup>11</sup>

The reasons of such a response from the Third World, and particularly African nations to the events of June 1989 may be summarized in three essential points: self interest of African elites under threat from democratisation projects; Third World solidarity and resentment at Western 'neo-imperialist' interference in the affairs of a fellow developing country; and pragmatic understanding that overt criticism of Beijing could mean an end to Chinese developmental aid. Tiananmen gave a large number of African leaders a pause for a thought. This fear of the 'domino effect' probably spurred leaders such as Blaise Compaore of Burkina Faso, the first foreign leader to visit Beijing post- Tiananmen, who has seized power *via* a coup, executed his predecessor and was himself widely criticized for human rights abuses (Taylor 1998:448). These were the people China started engaging with when the 1990s began. A victim of past and present intrigues by the capitalist West, much of Africa was highly suspicious of the discovery that China's record on human rights in Western eyes was suspect. Both China and Africa believed themselves to have experienced and to continue to face common enemies, namely imperialism and neo-imperialism from the developed world (Snow 1995: 285). Thus, a Chinese diplomat in Africa asserted in a claim shared by many African leaders, human rights such as 'economic rights' and 'rights of subsistence' are the main priority of developing nations and take precedence over personal individual rights as conceptualized in the West (Xian 1998).

The other factor that led the Chinese leadership to steer a more active foreign policy course in the post-1989 period was the expected emergence of the uncontested international hegemony of the US which, it was feared would hold back China's

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<sup>11</sup> The creation of the institution was supported by UNDP see UNDP Press Release, 18.3.2005.

## China's Economic Engagement with Africa

ascendancy as a global political power (Muekalia 2004: 10). Beijing started advancing with the concept of *multipolarity*, defined as the construction of more or less flexible alliances to contain every form of hegemony and to build a new and just international order. The Chinese government reached out to non-Western states to bolster its international position, particularly its place within the UN Security Council and other international order. While President Clinton had referred to China as a 'strategic partner', with the coming of George W Bush, China was conceptualized as a 'strategic competitor' which reinforced Beijing's need for new allies (Economy 2003).

### 1.2.a.ii *Need for Resources*

If we look at the factors behind the Chinese –African trade boom the first thing is China's drive for resource security. As the world's second largest consumer of oil and only with limited national resources, China was attracted to relatively underexploited petroleum.<sup>12</sup> First, Africa is rich in terms of the natural resources required to feed Chinese industry. Second, Africa's population of over 700 million was singled out as an enormous potential market for China's relatively inexpensive low and medium grade consumer products. Third, economic reform in many African countries has opened the door to economic cooperation. And fourth, several African countries were identified as key-targets for profitable long term investments where the emphasis was clearly on oil producing nations and those with growing economies. China's turning point for energy came in 1993 when it changed from a net exporter to a net importer of petroleum. The following year it was the number three importer of oil behind the United Nations and Japan. Between 2000 and 2005, China was responsible for about one-quarter of the growth in world oil demand.<sup>13</sup> And Chinese demand is forecast to more than double by 2025, to 14.2 million barrels a day from the current 7 million a day, according to the US Government's Energy Information Administration. This has left China grappling with its new role as a major oil importer.

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<sup>12</sup> China has 2.3% of the world's known oil reserves and 1% of the known natural gas reserves.

<sup>13</sup> Though it still accounted for less than 8 percent of global consumption.

## China's Economic Engagement with Africa

The resource needs of the Chinese economy, which had experienced near double digit growth for over two decades, were expanding by the 1990s. From this point on trade and economic affairs gradually started to dominate China-Africa relations. China's economic dealings with most African states are based on their perceived economic potential in the face of China's economic needs or benefits (Taylor 1998: 454). Politics has been put aside in the implementation of China's Africa policy, even when it involves the risk of being criticized by the international community for dealing with the rogue states such as Zimbabwe or Sudan.<sup>14</sup> However, Chinese diplomacy has recently proved more sensitive to international pressure regarding these issues which may be explained by the Olympic Games which took place in 2008 and the Shanghai Cultural Capital of the World in 2010.

The pace of Chinese engagement in Africa quickened after 2003, for two basic reasons: First, as Hu was taking over as President, energy crisis in Beijing focused minds on the urgent need for energy diversification. Second, an attempt in 2005 by CNOOC to gain control of the American firm Unocal with \$18.5 billion bid collapsed under pressure from the US congress. That and other such failures have pushed Beijing to take risks in unstable countries it might not otherwise deal with, in part to avoid direct competition with the major multinationals (Vines 2007: 214).

While China's principal interest in Africa is access to natural resources, the continent also provides new markets and investment opportunities for China's growing economy. The ever-growing range of imports from China, varying from shoes and textiles to high-tech goods, is flooding African markets.

### 1.2.a.iii *Financial crisis in Asia in 1997*

Another factor that corroborated Beijing's view that a global foreign policy had become a sheer necessity was the financial crisis in Asia in 1997 which alerted the Chinese

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<sup>14</sup> China had reportedly supported Mugabe in the elections, delivering agricultural equipment, electricity transformers and t-shirts bearing the insignia of Mugabe's party. Chinese businesses also offered the government jamming devices to be used against Zimbabwean opposition radio stations and Beijing is said to have sent Harare riot control gear, in case of demonstrations. In Sudan also China didn't take a major stand against the ongoing crisis in Darfur along with the international community which led to strong criticism of its African policy.

leadership to the risks of economic interdependence as it exposed the vulnerability of the country's outward-oriented economy to external shocks. By implication, regional and international stability, mainly but not exclusively in economic terms, turned into strategic objectives (Weinstein 2005). Therefore Beijing moved to modify and broaden its international interests because China did not want the outside conditions to affect its continued economic growth, as it would pose a threat to the Chinese Communist Party.

1.2.a.iv *One China policy*

Another important factor in the revitalisation of the China-Africa policy was the Taiwan issue. The early readings on the China in Africa have focused on 'Two Chinas in Africa'. One being the Communist China and the other was Nationalist China. The main objective of the Communist Chinese has been anti-Americanism, securing big power status, to gain support in UN and to obtain some of the strategic goods lacking in China. While the objectives of the Nationalist Chinese was to counter the Communist Chinese on the African continent, to retain and enlarge African support in the UN, to maintain old and create new markets for Taiwanese agricultural and industrial products and to develop a useful outlet for those students and technicians frustrated by the limited scope of opportunities in Taiwan (Slawewski 1963:400). Thus, the prime focus that came into China's Africa's policy was to have a One China principle throughout the continent.

The One China principle, the fundamental exception to China's 'no-strings attached' policy, has seen the Chinese government use African support in its cross- Straits campaign.<sup>15</sup> With the official abandonment of its claim to represent the whole of China in 1991, Taiwanese authorities began a new initiative to carve out a special status within the international community that seemed for many observers, to be a prelude to a declaration of independence. Accounting for almost one-third of votes in the UN, Africa retained its importance as a battleground for the struggle with Taiwan (Payne & Veney 1998: 871-876). Benefiting from its image of an emerging global power, China has been continuously winning this battle with Taiwan to establish diplomatic relations with the

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<sup>15</sup> This was seen, for example, when China's African allies rallied behind its Anti- Secession Law in March 2005. Formal support for the One China policy is routinely expressed in official exchanges.

## China's Economic Engagement with Africa

African countries, particularly after South Africa had recognized Beijing in 1998, although not without periodic setbacks. Only five out of a total of 24 states that recognize Taiwan are in Africa: Burkina Faso, The Gambia, Malawi, Sao Tome and Principe and Swaziland.

In 1996, Beijing's fears of further damage to its relations with the West reappeared with the Taiwan missile crisis. In this setting Africa emerged once again as an important supporting platform for China. President Jiang Zemin and Premier Li Peng's Africa- Asia tours in 1996 and 1997<sup>16</sup> can be viewed as a preparation for revival of Africa in China's foreign policy. It was during that visit that Jiang launched the idea of creating a Forum on China-Africa Cooperation (FOCAC), which was held four years later in Beijing.<sup>17</sup>

### 1.3 China's Engagement in Africa

#### 1.3.a Key trends in Chinese Cooperation

The Chinese aid is mainly invested in infrastructure such as roads, railways, buildings, monuments etc. This has been very well welcomed by the African countries where there is serious lack of developed infrastructure.<sup>18</sup> Many of the infrastructure projects are implemented to facilitate trade also. Frequently financed by soft loans, state-linked Chinese companies run successful infrastructure construction projects across Africa. China's roads and bridges Corporation is active in various contexts. They are also involved in dam projects.<sup>19</sup> Although all of the countries that are in cooperation with China are receiving aid, the size and form of the aid inflows vary accordingly. China is not at all transparent in its aid and investment in various African countries but the increased media attention to China gives an impression that there are clear patterns to where the aid and investment is greatest. Countries that supply China with fundamental

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<sup>16</sup> When these tours took place not only was Taiwan issue under discussion as also a resolution on China's human rights situation was being voted in the Human Rights Commission.

<sup>17</sup> The second summit took place in Addis Ababa in December 2003 and the third summit in Beijing in November 2006.

<sup>18</sup> There is often thickening of ties on the back of investments or new projects. For example, the China Southern Airlines Air link between Nigeria and Beijing through Dubai will facilitate traveling by some 100,000 Chinese workers and engineers who are in Nigeria for railway construction.

<sup>19</sup> Such as Ethiopia's hydroelectric dam and power plant on the Tekeze River, Sudan's controversial Meroe dam, Mphanda Nkuwa Dam in Mozambique, Gangelas Dam in Angola, Adjarala Dam between Togo and Benin and Imboulou Dam in Congo Brazzaville.



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resources such as oil, metal and woods are strategically important and thus receive more of aid and investment as compared to countries that are less resource rich.<sup>20</sup> The demand for commodities from China has raised the price levels of many commodities. Apart from Nigeria, Angola, Congo, Gabon, Sudan, Cameroon, DRC, Cote d'Ivoire and Chad who are net exporters of fuel and lubricants, the remaining countries are net importers (Goldstein and others 2006: 32).

However, high price level for other commodities than oil, such as timber, metals, minerals, coffee and tea etc. has benefited many African countries as commodities make up a large part of their exports. Some people have been concerned that this rise in commodity price levels might slow down efforts to develop further products with added value and reinforce African countries' status as commodity exporters.

China does not have a development cooperation agency; the responsibility of development policies and projects is spread out over several political institutions (Davies 2007:24). This would give an impression of a fragmented and unregulated way of providing aid, but the Chinese state is behind most of the assistance provided. The China Exim Bank which handles concessional lending plays a central role, and is reported to be one of the largest financing bodies in the world. The FOCAC process is perhaps an exception. Created in Beijing in 2000, the FOCAC has become an institutionalized coordination process that covers cooperation between China and African countries. The second ministerial meeting was held in Addis Ababa in 2003, and in 2006 there was a high level ministerial meeting in Beijing where 48 African countries were represented and an Action Plan was adopted for the years 2007-2009. The plan outlines pledges made by China for this period that were announced by Chinese President Hu Jintao during the meeting. 2006 was also the 50-year anniversary of diplomatic relations between China and Africa, celebrating what started off when China and Egypt established diplomatic relations in 1956.

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<sup>20</sup> These are found in most of the news announcements collected in the China Monitor of the Centre for Chinese Studies, Stellenbosch University, South Africa [www.ccs.org.za/publications.html](http://www.ccs.org.za/publications.html)

## China's Economic Engagement with Africa

### 1.3.a.i *Trade*

#### 1.3.a.i.1 **Began to accelerate in about 2000**

Between 2001 and 2006, Africa's exports to and imports from China rose on average by more than 40% and 35% respectively, significantly higher than the growth rate of world trade (14%) or commodity prices (18%). African exports to China in 2006 consisted of 62% fuel, 13% crude material, 8% manufactured goods and 17% other materials. China is now Africa's third largest trading partner after the US and France. Its share in Africa's annual export growth has almost doubled since 2000. The terms of trade also have moved in Africa's favor.

The two way trade which stood at less than US\$ 1 billion in 2000, had surged to over US\$ 50 billion by the end of 2006, making China Africa's third largest trading partner after the US and France. In the same period, China's share of African exports jumped from 2.6% to over 9.3% and it has become the leading trading partner for several of the continent's commodity based economies. African imports from China in 2006 consisted of 31% machinery and transport equipment, 24% manufactured goods and 45% other materials. Angola became China's largest foreign supplier of oil, passing Saudi Arabia in 2006. The Chinese diplomatic circuit made five major tours from 2005-2007 as well as heads of state summit in Beijing in November 2006. The closing statements hailed the 'new strategic partnership' between China and the African continent and included a Chinese call for reform of the UN to give Africa a permanent seat on the Security Council. China also pledged to increase its two-way trade with Africa from the current \$40 billion to \$100 billion by 2009, set up three to five special economic zones and institute a \$5 billion development fund to encourage Chinese investments in Africa. In addition to this, 100 new schools will be built, 16,000 professionals will be trained and Chinese language and culture will be introduced (Eisenman & Kurlantzick 2006: 221).

#### 1.3.a.i.2 **Projected to reach \$ 100 billion by 2010**

The fast growing trade relations are expected to reach \$ 100 billion by 2010. Reflecting its domestic emphasis on free enterprise, China concentrated less on government to government relation, and more on joint ventures between private, Chinese and African

## China's Economic Engagement with Africa

companies. China's new approach to providing economic assistance to African countries was consistent with the new wave of privatisation in Africa and elsewhere that emerged with the end of the cold war. Chinese companies were encouraged to work with African enterprises to process raw materials, set up assembly factories with Chinese parts, and participate in various engineering projects. China's leaders had pledged to expand their imports from and exports to Africa to promote balanced and rapid growth in trade.

In January 2006, Beijing released an official China Africa policy white paper, a document remarkable for the broad range of issues it covers. The white paper offers some clues into Beijing's strategy in Africa. Firstly, China is increasingly providing aids and economic supports to African countries with 'no strings attached' policy at a time when the International Monetary Fund and World Bank are linking aid disbursements to good governance and anti-corruption activities. While China once focused on building of stadiums in Gambia and Sierra Leone, buildings, dams, railway lines like TanZam railway etc., it has increasingly used aids to support infrastructure creation that then also helps Chinese companies, and to directly woo African elites. In 2000, China gave \$1.8 billion in development aid to its African elites. Secondly, China has also used debt relief as a tool to assist African nations, effectively turning loans into grants. Since, 2000 Beijing has taken considerable steps to cancel the debt of 31 African countries. In 2000, China wrote off \$1.2 billion in African debt; in 2003 it forgave another \$750 million. Debt relief has been the most effective tool for China because it not only gains popular support but it also allows first to provide the loan, and second to relieve the debt. In the third place to boost its power in Africa, China is increasing focus on promoting Chinese cultural and language studies on the continent. In 2003, 1793 African students studied in China, representing one-third of total foreign students that year. China even plans to train some 10,000 Africans per year, including many future African opinion leaders who once might have trained in the West. China develops trust by investing in long-term relationships with African elites that formerly might have been educated in London or Washington. Beijing is also working to encourage tourism in Africa.<sup>21</sup> Chinese

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<sup>21</sup> According to World Tourism Organisation, China is projected to supply 100 million travelers by 2020, making it the number supplier of outbound tourists. In terms of total travel spending, China is currently

## China's Economic Engagement with Africa

government has approved 16 African countries as outbound destinations for Chinese tourists. This pushed the number of Africa's Chinese tourists to 110,000 in 2005, a 100% increase over 2004.

### 1.3.a.i.3 China a major market for key African raw and soft commodity producers

China also became a major market for countries like Angola, Nigeria, Sudan, Zambia, DRC and Congo. Overall five oil and mineral exporting countries account for 85% of Africa's exports to China. Oil is the most important export making up almost 100% of Angolan exports to China, with timber also important. Growing exports to China correlate narrowly with the growth of its major commodity exports (oil, metals/minerals, agricultural products, woods, cotton) to China.

The composition of goods traded is similar to that between Africa and its other major trading partner. In 2006, oil and gas accounted for over 62% of Africa's exports to China, followed by non-petroleum minerals and metals at 13%. Africa's imports from China were mainly manufactured products and machinery and transport equipment, which together accounted for about three-fourth of total imports. Merchandise trade is only one aspect of the booming economic relations between China and Africa. China has played a variety of roles in Africa- trading partner, donor, financier and investor, contractor and builder. The data also show that trade, investment and other commercial activities combined have outpaced Official Development Assistance (ODA) and become dominant in financial terms.

### 1.3.a.i.4 African Textile Industry

A leading illustration of the impact of Chinese competition is the case of African textile industry. The so-called 'textiles tsunami' clearly illustrates the adverse impact of the massive Chinese export machine on local African industries (Alden 2005: 154). The Multifibre Agreement (MFA) quota systems and investments from Asia contributed to the development of the clothing industry in Southern Africa, including Lesotho and

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ranked seventh and is expected to be the second fastest growing in the world, from 2006 to 2015, jumping into the second slot for total travel spending by 2015.

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Swaziland, in the 1990s. When quota limits on Chinese exporters under the MFA were lifted in January 2005, the impact of this was considerable for African clothing and textile exporters benefiting from the US African Growth and Opportunity Act (AGOA). Overall African clothing exports under AGOA declined by 17% in 2005. Lesotho's and Madagascar's exports fell by 14%. The main casualty was South Africa, with a 45% decrease in exports. The impact on employment in 2004-05 was tangible: employment in the clothing sector in Lesotho declined by 28.9%, 6000 textile workers lost jobs in Lesotho in January 2005 alone; in Swaziland employment in this industry fell by 56.2% and in South Africa by 12.2%.

However, a major barrier to increased Sino-African trade is the fact that African countries do not have much to sell to China apart from the raw materials whereas China exports its manufactured goods and is rapidly overtaking Africa's traditional European suppliers. As a result, it remains doubtful, whether a more accommodating Chinese trade policy, as promised in the Chinese government's Africa Policy paper, would help Africa:

"The Chinese government will adopt more effective measures to facilitate African commodities access to the Chinese market and fulfill its promise to grant duty free treatment to some goods from the least developed African countries, with a view of expanding and balancing bilateral trade and optimizing trade structure...When conditions are ripe China is willing to negotiate a Free Trade Agreement (FTA) with African countries and African regional organisations" (Government of China 2006).

### 1.3.a.ii *Chinese Aid*

#### 1.3.a.ii.1 **No longer traditional altruistic aid**

Traditional altruistic aid is no longer at the forefront of China's African engagement, though the effect of Chinese aid to Africa may be visible in terms of high profile infrastructure. Mainly the Chinese government has focused on agricultural development, infrastructure, human resource training and medical and health cooperation. Such forms of aid also appear to be bound up with infrastructure projects.

China started providing aid to Africa in 1956. In May 2006, it had contributed a total of 44.4 billion Yuan, for more than 800 aid projects, according to a researcher at the Chinese Academy of Social Science. China has been providing debt relief on its own

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terms. In the first FOCAC summit in October 2000 in Beijing, China pledged to write off in two years overdue obligation on 156 loans owed by African countries, these totaled 10.5 billion Yuan. The pledge was fulfilled ahead of schedule. The terms of China's ODA follow the principles established during the late premier Zhou Enlai's visit to Africa in early 1960s. China provided ODA in the form of grants, interest free or low interest loans and repayment was to be scheduled if necessary. China's aid programs also include technical assistance, with an emphasis on agricultural technology and training in Chinese institutions. China has also promised to double its 2006 assistance to Africa by 2009, for example, was hard to gauge in the absence of adequate baseline data about current levels of assistance.

In terms of development aid, the Beijing summit provided an excellent opportunity for China to sustain its image as the leader of the Third World. In light of the growing criticism by the international community, China sought to seize the moral high ground by calling for, greater investment and aid from rich nations to help poor African nations, regardless of who governs them. Chinese government decided to assist African countries in building 30 hospitals and provide 300 million Yuan of grants for providing anti-malaria drugs to African countries and building 30 demonstration centers for prevention and treatment of malaria. China will also help African countries to set up 100 rural schools in the coming three years and increase the number of scholarships for African students in China to 4000 a year by 2009 from 2000.

Aid has always been of major importance to China's economic engagement with Africa. Aid flows relative to trade were about 20% in the early 1990s. The ratio declined to 3-4% in 2004-05, even though China has stepped up its Official Development Assistance (ODA) to Africa since first China- Africa Cooperation Forum in 2000. China has also promised to improve economic and trade ties and help Africa by offering zero-tariff treatment for some exports, while at the same time helping to build infrastructure.

1.3.a.ii.2 'Tied-aid' as a source of controversy

For a growing number of African trade unions and civil society activists, tied aid has become a source of controversy. Some is rapidly disbursed according to political opportunity; in other cases it is bound to China's larger investments in resources. Aid is used in symbolic gestures assisting economic involvement. In certain places like Sudan, Angola, Nigeria it is well known why Chinese are giving aid. While in other places also they are giving huge amounts of aid which is controversial, especially to unstable regimes and states who do not follow human rights and good governance.

'Prestige' projects are often linked improving relations with states like the construction of stadiums in Mali and Djibouti, houses of parliament in Mozambique and Gabon or market complex in Zambia. The first of the 10 anti-malaria centres due to be built in 2007 and a total of 30 pledged by 2009 opened in Liberia in February as part of a broader health sector training and cooperation programme. The FOCAC has also pledged to expand Chinese support for scholarships to African students studying in China, education and agricultural aid, including Chinese technical assistance.<sup>22</sup> Aid is one area in which China looks set to expand not merely to enhance its interests but also to further claim to leadership and demonstrate constructive contribution to human development beyond narrowly extractive or profit-oriented activities. In recent years China has supported humanitarian aid, conflict resolution and peacekeeping in Africa as part of an apparent emerging and increasingly prominent role as humanitarian donor and development force.<sup>23</sup>

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<sup>22</sup> The recent FOCAC pledges that China would: 'Over the next three years, train 15,000 African professionals; send 100 senior agricultural experts to Africa; set up 10 special agricultural technology demonstration centres in Africa; build 100 rural schools in Africa; and increase the number of Chinese government scholarship to the African students from the current 2000 per year to 4000 per year by 2009'. Around 1,100 students from 46 African countries were studying in China in 2006. An Egyptian-Chinese University was planned for Egypt.

<sup>23</sup> The total number of Chinese military personnel and civilian police sent on a peacekeeping mission to Africa stood at over 1800 in early 2007, with assurance that it will provide assistance to African regional organisations. Some three quarters were supporting UN operations in Africa, mainly Liberia, DRC and Sudan. In November 2006, World Food Programme welcomed China's first donation of US \$1.75 million since it graduated from being a recipient of food aid at the end of 2005.

1.3.a.ii.3 **Strings are indeed attached**

The Chinese slogan of 'no strings attached' comes with its developmental aid to the African countries. China had established diplomatic relations with only those countries that did not recognize Taiwan. African states were instrumental to Beijing's strategy of voting the Republic of China (as Taiwan was referred to) out of the permanent seat in the UN Security Council in 1971. Despite this major setback Taipei's diplomacy has proved reasonably successful in retaining official support in many parts of Africa until 1997, when post-apartheid South Africa jettisoned its diplomatic links with the island. Thus, China was seen punishing those states which recognized Taiwan by breaking diplomatic relations with it, withdrawing foreign assistance and other projects.

In October 2005 the loss of Senegal, a key state in the francophone constellation of leading African countries, to Beijing put the rebel island province in the unenviable position of holding diplomatic relations with some of Africa's most impoverished countries, unstable kingdoms and corrupt states.<sup>24</sup> This was followed in August 2006 by Chadian government's decision to cut off diplomatic ties with Taipei in favour of Beijing, bringing down the total number of states recognizing Taiwan to five. This showed how the Chinese aid and relations came with strings attached and not with 'no strings attached' policy.

The best example was seen in Angola. In 2004, China's Exim-bank approved a \$2 billion line of credit to Angola. The loan was being used to rebuild infrastructure ruined by the 27 year long civil war that ended in 2002. Angola's 25 billion barrels of proven crude reserves make it an attractive target for Chinese aid and investment. About 1.6 million barrels are being pumped per day and the infrastructure investments should help to increase this to 2 million barrels per day by 2010. The terms for this loan are far more concessional than for previous arrangements with other countries. Angola will have to use a smaller amount of oil as collateral with which to repay the loan. And its repayment period over 12 years, following a five year grace period starting in 2004, is far longer than with previous oil-backed arrangements. The Chinese knew where to fund and what

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<sup>24</sup> These are as of March 2007, Swaziland, Sao Tome and Principe, Gabon, Malawi and Burkina Faso.



they will get in return. Thus, it is hard to say that they are providing funding on a selfless basis or without any conditions on the receiving country.

1.3.a.ii.4 **'Non-interference in the domestic affairs'**

The interference of China in the internal affairs of the African countries certainly dismisses their policy of non interference in the internal affairs of any country. The Chinese have time and again interfered in the internal affairs of the African countries and made them do what they (Chinese) wanted. During the Zambian elections, the opposition candidate, Michael Sata, built much of his campaign for presidency around the anti-Chinese sentiment. He declared 'Zambia is becoming a province-no a district-of China'. He made contact with Taiwanese Representatives during a visit to neighbouring Malawi (which still has diplomatic relations with Taipei), where he reportedly committed himself allegedly- after receiving funding support- to switching recognition back to Taipei should he win the elections. This sparked a furious response from Beijing's ambassador, Li Baodong, who threatened to withdraw Chinese investment should Sata be elected. Clearly, the Chinese commitment to non-interference in the domestic affairs had been violated and 'strings were indeed attached' to its policy. Alarm was sounded in other African capitals as the conduct of Chinese business and diplomacy came under the spotlight. In the end, though Sata's Patriotic Front won only 28% of the votes and lost the elections and the Chinese had their way.

1.3.a.ii.5 **'Debt relief' a prominent area of Chinese aid and political reactions**

Debt relief has been a prominent area of Chinese aid and political relations. China has committed itself to cancelling some US \$1.27 billion worth of debt from 31 African countries. Promises of further debt relief were made at the third FOCAC, followed by a number of other gestures early in 2007.<sup>25</sup> Media and culture are also sectors of expanding cooperation. There are currently Confucius Institutes in Rwanda, Zimbabwe, Madagascar and Egypt, two in Kenya and South Africa and three in Nigeria. China' new small

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<sup>25</sup> Chad receiving US \$32 million in debt relief, Equatorial Guinea US \$75 million and Sudan some \$80 million.

volunteer programme started with a government pledge to send 300 'youth volunteers' to Africa.

1.3.a.iii *Foreign Direct Investment*

A great influx of FDI was an important factor that contributed to the growth that China has experienced since the reform and opening up policy was adopted in 1978.<sup>26</sup> Africa is considerably underinvested. The reason lies mainly in the high risks involved and unfavorable investment climates in these countries. The Chinese, however, do not seem to share the concerns of other investors, and are willing to invest in African countries. This is due to the fact that Chinese state provides guarantees that cover risks which Chinese companies may encounter. The Chinese state supported investments are allowing their investments to be covered to be realized over a longer time frame.

1.3.a.iii.1 **Small in proportion to China's overall FDI**

Talking about Chinese Foreign Direct Investment (FDI), it has increased sharply in 2007 but it is still small in comparison to China's overall FDI. In October 2007, the Industrial & Commercial Bank of China agreed to purchase 20% of Standard Bank Group of South Africa, spending \$5.6 billion on that one investment. Chinese FDI as reported by National Bureau of Statistics of China amounting to US \$392 million in 2005 up from US \$317 million in 2004. Data from other sources show significantly higher figures; in 2004 Chinese FDI was estimated at US \$900 million and total FDI in Africa was US \$15 billion. Among the 800 Chinese enterprises investing in Africa, only about 100 are state owned. The rest are private businesses with interests ranging from trade, manufacturing and processing, services and communications to agriculture and natural resource development.

Direct Chinese Investment has risen especially since the formation of China-Africa Cooperation Forum in 2000. State owned enterprises account for a considerable share of Chinese overseas investment, and the Chinese government is encouraging businesses to

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<sup>26</sup> Foreign investors have financed the construction of new plants and industries that are capable of competing in the global economy. They have introduced new technology, generated millions of jobs, spread new managerial skills and helped finance both imports and exports.

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engage in joint ventures with African counterparts. In its 2006 Africa policy paper, the Chinese government pledged to support and facilitate corporate investments in Africa with preferential loans and buyer's credit. The paper also mentioned that some 750 Chinese enterprises were active in Africa at that time, with a total investment of \$1 billion.

However, there has been a steady deterioration in FDI in Africa since the end of the Cold War, especially when compared to Asia. Moreover, with the imposition of conditionalities by Western donors that would punish any regime that violates the standards and practices of good governance, African regimes need to find an alternative source of foreign support. USAID has not invested in heavy infrastructure projects since the late 1970s and both USAID and World Bank reduced assistance to agriculture by as much as 90% in the 1990s. Thus, the Chinese are investing heavily in physical infrastructure, industry and agriculture (Committee on International Relations 2005; Council on Foreign Relations 2006).

While the focus of Chinese investment has been large enterprises, it would be wrong to see Chinese investment purely in terms of facilitating the growth of government driven elite networks (Alden 2005: 154). African entrepreneurs in small and medium-sized enterprises have, in the past, benefited from the growth of informal and formal linkages with Chinese and Taiwanese business networks outside government sponsorship. African businessmen in Mauritius and Nigeria used their contacts in Taiwan, Hong Kong and China to access information and new technologies and to spur the development of the manufacturing sector in these two countries (Brautigam 2003).

### 1.3.a.iii.2 Competition to western MNCs and local firms

Not only African firms but also western multinationals are finding it increasingly hard to compete with Chinese enterprises as a large number of Chinese are aiming to acquire a dominant position in key sectors of the economy: construction, petrochemicals, transportation, communications, electricity, water conservancy, industrial technology and so on. They have already been able to acquire this position in the construction sector

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since a number of large contracts for infrastructure, including those financed by the international donor community, have been won by Chinese construction firms. China's bid for Ethiopia's Takazee Dam, one of Africa's largest hydro-electric power stations, to be located at the head of Blue Nile, beat the bids from several western companies. The Chinese volunteered to construct a proposed stadium in Dar-es-Salaam when European donors balked at the idea of Tanzania using donor budget support for the project. For example, in Botswana Chinese firms now win approximately 80% of all construction contracts from the government, which in turn commissions 80% of the country's construction projects. This has caused anger among some local firms who argue that they are not being able to compete with the prices and different labour cultures of their Chinese competitors, including the importation of Chinese labourers and a generally tolerated reliance on illegal Zimbabwean immigrants (Committee on International Relations 2005). A frequently heard complaint in Africa nowadays is that the reliance of Chinese firms upon imported Chinese labour for infrastructure projects, and even some manufacturing ventures, is problematic for the countries where unemployment is on the rise. In 2005, Chinese labour in Africa was estimated at around 74,000.

The Chinese are such competition because of various reasons. Firstly, Chinese companies are particularly competitive in countries where an unstable political situation, sanctions and corporate-image liabilities keep large multinationals from committing themselves. Secondly, most of the Chinese investments are through state-owned companies whose individual investments do not have to be profitable if they serve national Chinese goals like establishing positions of influence and staking out future opportunities. Thus, Chinese companies can make a lower bid for major contracts. And thirdly, Chinese companies receive direct and indirect benefits from the state subsidized loans, tax rebates, etc. which allows them to make decisions that private companies could not.

### 1.3.a.iii.3 Strategies of the Chinese MNCs

The role of Chinese MNCs has become extremely important in terms of African investment and development landscape. He Jun, a Beijing based consultant has said that "China does not have a competitive edge over its Western counterparts in an open

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market. But in a closed market like Africa, Chinese companies are able to gain from government influence” (British Petroleum 2006). Western MNCs have an experience of generations to secure their investments in the continent. Thus, the Chinese strategy is built around the following features:

*Competitive Political Advantage-* An open willingness on the part of China is to work with any state, regardless of its international standing. This is based upon the Chinese foreign policy percepts of non-interference in the internal affairs of any country and the considerations that there are no ‘rogue states’ and no ‘axes of evil’. Thus, this has made easy for China to work with pariah regimes that western companies have barred from doing business with.

*Comparative Economic Advantage-* There is employment of a low-cost bidding strategy, centred on skilled and semi-skilled Chinese labour as well as lower managerial costs than the western firms. This is the most important distinction from the traditional Western and South African MNCs in Africa.

*Diplomacy and Development Assistance-* There is always lavish diplomatic attention from the Chinese, along with which support for prestige projects and development assistance for the recipient countries is also an important feature of the Chinese MNCs (Alden 2007: 42).

Currently, more than 800 Chinese state-owned firms are now active in the African economy. For example, in December 2005 CNOOC bought a 45% stake in an offshore Nigerian oilfield for US \$2.27 billion, China's largest foreign acquisition to date. The oil companies are not alone in being targeted by Beijing for expansion into African markets. The Chinese government's push to create a mining conglomerate out of the 21,000 small-scale SOEs involved in coal mining resulted in the consolidation of the China Shenhua Energy Company a decade ago. As is the case with the Chinese oil conglomerates, the parent company remains directly responsible to the Chinese government while its subsidiary is listed on the Hong Kong stock exchange as a bid to raise capital. In the process China Shenhua Energy Company has had to adapt to the framework of Western-

style corporations, preparing itself for the competitive environment that comes with the Chinese government's 'going out' policy. Similar processes have occurred in the field of telecommunications also with Huawei and ZTE. As China projects its commercial power abroad, strategic competition with US and European interests is on the rise.

1.3.b **Differences between new and old actors**

1.3.b.i *Historical relationship with Africa*

The historical relationship with African countries is fundamentally different for traditional and new donors, or Western donors and China. In contrast to Western donors, China never had a presence as a colonizer in Africa. In contrary, China played the role of a supporter in the struggle for independence of the African countries. This is highlighted by a lot of Africans, particularly in response to Western criticism of China. Some Africans feel that the reactions from the West arise because Westerners fear competition from China. Therefore, Western objections to China's way of dealing with Africa, is not perceived as a result of concern for African countries, but a protection of Western political and economic interests on the African continent. China always emphasizes its relationship with Africa is South-South cooperation and should be beneficial to both China and Africa. China considers its engagement to be mutually beneficial to both the countries and doesn't emphasize its role as donor to African countries.

1.3.b.ii *From developing to developed*

China has been Asia's fastest growing economy over the last 20 years and at least 400 million people have been lifted out of poverty. This has been a great achievement. However, estimates show that about 18% of poor people in the world live in China. In actual figures this amounts to 100 million people living on less than \$1 a day. Inequality among the Chinese is still great, and wealth distribution has to some extent failed parts of rural China. The record level growth of 9.6%, annually during the last decade has not benefited the poorer Chinese regions proportionately. Most of the growth and development has occurred in the coastal regions that have benefited from a great influx of FDI. By contrast, in the Western parts of China many people still live off subsistence incomes. Today, China is in a position where it is both receiving and giving development

aid. In fact, China's World Bank portfolio, including \$30 million in loans and credit, is the largest in the Bank. China graduated from the IDA in 1999, but is still a member of the World Bank which supports a great number of projects in China. It was recently announced that China is to work together with the World Bank in Africa.

### 1.3.b.iii *Inside versus outside of the development paradigm*

The development paradigm makes the lenders as well as donors to follow a certain set of conventional practices. The International Finance Institutions (IFIs) and bilateral donors in the Paris Club are at the centre of this. Members of the OECD follow the Development Assistance Committee's guidance. China is not a member of the Paris Club, or the OECD, and does not follow OECD standards. Although a member of both the IMF and World Bank, China has been at the receiving end of the spectrum and has so far not been defining the rules for how 'international donors' should relate to poor countries in the South. This has led the Africans to consider China as a better alternative outside the hegemonic development regime. When it comes to the effect of the development assistance provided, the donors have a mixed record. Thus, it is very understandable that Africa looks for other alternatives.

However, the new lenders do not have a bad record to look at. Many of the old projects that China funded during the Cold War are still up and running today. For example, the only pipeline that supplies Zambia with crude oil today was commissioned in 1968<sup>27</sup> and built by the Chinese. So was Indeni Oil refinery (1973), the only refinery in Zambia to date, in Ndola.<sup>28</sup>

You are an example of transformation. We in Africa must learn from your success.

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<sup>27</sup> The Tanzania Zambia Mafuta Pipeline (Tazania Pipeline) is a 1,710 km crude oil pipeline from TIPER in Dar-es-Salaam, Tanzania to Indeni refinery in Ndola in Zambia. It was commissioned in 1968. The pipeline was designed for a throughput of 1.1 million tonnes per year. Currently it is handling approximately 600,000 tonnes annually. The diameter of pipeline varies between 8 and 12 inches. The pipeline is owned by Tazama Pipeline Limited, a joint company of the Governments of Zambia (66.7%) and Tanzania (33.3%). The pipeline is currently under privatisation.

<sup>28</sup> The Indeni refinery is situated at Ndola and came onstream in 1973. In early 1999 the refinery was gutted by fire which brought operations to a standstill. Rehabilitation of the refinery was completed by the last quarter of 2000.

President Marc Ravalomanana of Madagascar to the Chinese<sup>29</sup>

China and Asian tigers have been mentioned as examples of countries that have chosen paths of development that should be suitable to African countries as well. The remarkable results that China has shown since 1978 have impressed the Africans to a great extent while the track records of the West have shown mixed results.

1.3.b.iv *Time-taking process versus instant results*

The traditional donors have always followed a certain set of rules for the implementation of a project. The time it takes for a project to advance from an idea to actually being implemented, takes a lot of time and also demands a lot of the developing countries' capacity. Despite measures to cut down on bureaucratic procedures through commitments to the Paris Declaration on Aid Effectiveness<sup>30</sup> (to which China is a signatory), standard procedures can be very time consuming for developing countries. The traditional donors pay attention to factors like environmental impact analysis, gender analysis etc. mostly as precautions and lessons from previous failed projects. Thus, some Africans feel that these procedures are slowing down the whole process of development and therefore now prefer China as a development partner.

As compared to the traditional donors, the Chinese do not come with the same set of standards, rules and institutionalized procedures as the traditional donors. This has positive as well as negative effects as the quality of the assistance delivered is being questioned. The reasons being cited for such a fast approach of the Chinese is that they often assume total control of every single aspect of a project. It appears that they at times will come with an idea, fund it and take care of every aspect of its implementation even

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<sup>29</sup> Ravalomanana, while addressing the Chinese at the ADB annual meeting held at Beijing in 2007 praised China's reform and opening up economic process. Noting the two countries have much common interests, Ravalomanana said stronger China-Africa relations would provide an impetus to African economic development. Thus, Madagascar would like to expand collaboration with China, he said and also reiterated that Madagascar would adhere to One-China policy (Madagascar presidency 2007).

<sup>30</sup> The Paris Declaration endorsed on 2<sup>nd</sup> March, 2005 is an international agreement to which over one hundred Ministers, Heads of Agencies and other Senior Officials adhered and committed their countries and organisations, to continue to increase efforts in harmonisation, alignment and managing aid for results with a set of monitorable actions and indicators (Paris Declaration website).



including manual work carried out by the Chinese workers. But the Chinese insist that their policy is not to employ Chinese labour if skilled labour is available for employment.

In November, 2006 the President of the European Investment Bank (EIB), Philippe Maystadt, was quoted to have said that

“human rights, labour standards and social and environmental conditions have made the EIB loose out in Africa and Asia because of competition from Chinese unconditional lending”(Bank Information Centre 07.12.2006).<sup>31</sup>

He concluded by suggesting that the traditional donors needed to review their practices and standards which had become too strict. Maystadt's comments were heavily criticized at that time. In February 2007, Maystadt repeated his concerns about Chinese ethical and environmental standards. He was no longer suggesting the EIB to lower their standards but instead enter into a dialogue with China on the issue of loan conditions (CEE Bankwatch 07.12.2007).<sup>32</sup>

#### 1.3.b.v *Interference versus non-interference*

The principle of non-interference has been very central to the Chinese policy in Africa. Contrary to its traditional lenders China does not attach any conditionalities to funding while the traditional donors have been always criticized for imposing too strict regulations on the recipient countries. But these conditions have been credited by civil society for responding to pressure from human rights organisations, and putting in place safeguards in countries with weak governance.

Although China does not attach any conditionalities to their loans, this does not mean that the receiver country can spend the loan freely according to its national priorities. The

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<sup>31</sup> Maystadt was speaking at a EU Finance Ministers meeting in Brussels, where the EIB was given a lending mandate of up to \$36.6 billion over the next seven years to fund projects outside the 25 member club. The bank which has an annual turnover of euro 45 billion, mainly operates inside the union and funds projects around the world that meet EU objectives and have significant European involvement.

<sup>32</sup> The EIB President's comments are of particular concern now as the EIB prepares to approve a series of new loans under the Africa-EU Partnership on Infrastructure and many of these large scale projects aimed at “regional integration” are likely to pose significant risks to the environment and local communities (Financial Times, 28.11.2006).

Chinese provide only project based funding as a tied aid or in kind. For instance, China does not provide budget support targeting health and education sectors.

### **1.4 Reactions of the West on China emerging as a major player in Africa**

#### **1.4.a New partnership of the West with Africa**

The West's long-standing relationship with Africa, stemming from the colonial era and enduring into the contemporary period, has been predicated upon a conflation of economic interests, Great Power rivalries and a desire to reshape African societies (Alden 2007: 93). At the same time, a new generation of African leaders has come together to restructure the African economies and political systems to incorporate among other values, the values of democracy.

As a result there was development of a shared agenda for change among the West, the G8 and Africa's top political and economic states, led by South Africa. G8 represented the interests of the world's leading industrialized economies since the advent of the first oil shock in 1973. The serious situations in Africa, which had only attracted limited attention from the West since the end of the cold war, underscored the failings of the African leadership and donor-led development assistance. Africa was often portrayed as 'hopeless continent' and its diminishing share of world trade pointed to its economic failings of the post-independence governments. The remedy that the Western countries bought in to the continent for the better part of the two decades was the International Monetary Fund and the World Bank. The introduction of the so-called 'political conditionalities', namely transparency and good governance, in the early 1990s reflected disquiet within the international financial institutions, as these Structural Adjustment Programmes didn't bring about the expected amount of change.

In the 1999 G8 summit held in Cologne, for the first time debt burden held by African states was addressed. Britain and Germany announced the cancellation of millions of dollars of debt for a number of the poorest African countries. At the United Nations, the promulgation of the Millennium Development Goals- a set of eight development targets for the continent to be met within the next fifteen years, laid out the parameters for

measuring the global commitment to improving the livelihood of ordinary Africans. The idea of reconstituting the relationship with the donor countries had remained alive and was to take on new form in the hands of African leaders with the help of their European counterparts (Alden 2007). After the election of Thabo Mbeki in 1999 to the presidency in South Africa, his office produced a plan called New Initiative for Africa in 2000, which when combined together with Senegalese president Abdoulaye Wade's Omega Plan, formed the core of what came to be known as the New Partnership for African Development (NEPAD).

### 1.4.b The Chinese challenge to the West in Africa

The most troubling thing for the West has been the role that China is playing as an alternative source of foreign investment and diplomatic support for the African governments. The directness of the Chinese challenge to the G8 vision for partnership and transformation had started taking roots.

In the economic sphere, the presence and conduct of China's businesses in Africa are fast becoming permanent features of the African economic landscape. Thus, the Western actors are finding their once undisputed influence and dominance in Africa being challenged by aggressive Chinese multinational corporations backed by the Chinese state. Western firms have also lost out on infrastructure contracts to Chinese bids and more generally, the low-cost Chinese products have crowded out Western producers in all but the small upper-end or luxury market in Africa. The 'good governance' agenda embedded in African initiatives such as NEPAD and AU, that the Western governments have sought to promote, is a part of the problem. As noted economist Jeffrey Sachs says, 'China has a very pragmatic approach to Africa. It gives fewer lectures and more practical help'.

The dilemma with the Western governments is how to successfully preserve their countries' economic interests without undermining the structures and emerging institutions that, at least in their view are crucial to building successful market economies. The Chinese involvement in the Africa has sparked talk in the West of an

emerging 'Beijing consensus'<sup>33</sup> on the continent which could counter the precepts of the unchallenged 'Washington consensus'<sup>34</sup>, which involves the imposition of the conditionalities by the World Bank, IMF and donors which include restrictions on macro-economic policy, reductions in public spending and commitments to transparency as well as holding of democratic elections. On the other hand, the Beijing consensus implied non-interference in the domestic affairs of states and the promotion of sovereign integrity, which appealed the African leaders who resisted western actions aimed at economic or political reform of their regimes (Alden 2007: 105).

#### 1.4.c Toning down of the policies of West

Finally, there is certain toning down of the policies of the west in Africa as a response to the increasing Chinese involvement in the continent. Robert Mugabe called China its 'number one' friend and has said that Zimbabwe has turned East where the sun rises and showed its back to the West where the sun sets. This was the first set-back for the west. Ethiopia also followed and called China its 'most reliable trading partner' right after it received criticism from the Western states for election irregularities and border dispute with Eritrea.

In Nigeria, the supporters of the President Olusegun Obasanjo argued that their country needed to follow the 'Chinese model' by letting him run for a third term. Their claim was that the principal cause of Africa's underdevelopment was the absence of stability and visionary leadership and it was these qualities alone that had made Singapore and China to become contemporary economic miracles. When a parliamentary delegation from United Kingdom visited Nigeria in November 2006, several Nigerian officials argued that Britain should increase its aid and investment to counter China's growing influence.

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<sup>33</sup> While there is no precise definition of the term "Beijing consensus", it has evolved into one describing alternative plans for economic development in the underdeveloped world, so named as China is seen as a potential model for such actions.

<sup>34</sup> The term "Washington Consensus" was initially coined in 1989 by John Williamson to describe a set of ten specific economic policy prescriptions that he considered to constitute a "standard" reform package promoted for crisis-wracked developing countries by Washington D. C. based institutions such as the International Monetary Fund (IMF) and World Bank and US Treasury Department.

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Exports from Equatorial Guinea to China rose from \$374 million in 2003 to \$2.5 billion in 2006. US companies still have the most visible and largest presence in that country, with investments at \$11 billion. But in October 2005, President Teodoro Obiang visited China and on his return announced that “from now on China is the main partner with whom we are going to develop Equatorial Guinea”. Some months later, CNOOC announced it had been awarded a production sharing contract. This shows how much President Obiang valued the relationship with United States, so he had played the Chinese card. Thus, we can see some toning down of the policy engagement on human rights and good governance by the West (Vines 2007:215).

### 1.5 Challenges facing China

#### 1.5.a *Nigeria*

Nigeria is an important country for China on three counts: first, owing to its oilfields; second, as Africa's most populous state because of its potential market size and third, because of its prominent political role in the African Union and NEPAD (Alden 2007:68). The entry of Chinese oil companies in the context of a 'new' scramble for Africa's resources, and as a response to strategic moves by the Nigerian state and ruling elite to increase oil revenues, and diversify its near total dependence on Western actors, oil technology, markets and conditionalities, has drawn a quick response from the local community in the Niger Delta which would be very important to look at along with the changing patterns of the Chinese investment in Africa.

##### 1.5.a.i **Movement for Emancipation of Niger Delta**

On 29 April 2006, Movement for Emancipation of the Niger Delta (MEND) detonated a car bomb close to the Warri oil refinery in the Western part of the volatile oil-rich Niger Delta. The explosion coincided with the visit of the Chinese President Hu Jintao to Nigeria, and the granting of four oil drilling licenses valued at \$4 billion to Chinese oil companies and appeared to send a clear message to the latest entrant into the globalised plunder of the Niger Delta's oil (Obi 2008: 418). MEND had sent a statement to media organisations around the world saying:

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“We wish to warn the Chinese government and its oil companies to steer well clear of the Niger Delta” (and added for chilling effect that), “The Chinese government by investing in stolen crude places its citizens in our line of fire” (BBC News 18.12.2006).

This event and the abduction of nine Chinese National Petroleum Company workers (on contract, conducting seismic work for Nigerian Agip Oil Corporation- a subsidiary of Italian ENI), at Sagbama, Bayelsa state by an unidentified group (Olaniyi 2007; China View 04.02.2007) raised concerns about the implications of these attacks for the politics of local resistance in the Niger Delta. That resistance, since the 1990s, involved growing opposition to the predatory activities of the Western Oil multinationals: Shell, Chevron Texaco, Exxon Mobil, Total and Agip-ENI, working in partnership with the Nigerian state to exploit and pollute the oil-rich, but impoverished region.

It is thus important to raise certain issues about why the entry of the Chinese into the ‘oil-scramble’ has drawn a quick response from certain forces in the Niger Delta. Firstly, how should the MEND explosions of April 2006 and the abduction of Chinese oil workers in 2007 be interpreted? Is it a sign of things to come for Chinese oil capital or a continuation of resistance against all foreign oil companies- regardless of their nationality?

The MEND phenomenon is the culmination of decades of neglect, militarism and injustice in the Niger Delta, and the subversion of democracy in the region by local elites linked to the hegemonic federal ruling bloc, since Nigeria’s return to elected civilian rule in May 1999. One of the earliest authoritative studies of MEND notes that ‘there is no such thing as MEND’. It clarifies by this by pointing out that it is ‘not an organisation in the formal sense of the word’ (Okonta 2006:9).

### 1.5.a.ii MEND as a threat to the Chinese

Evidence suggests that the Chinese oil companies have just entered the region and have not commenced full oil production in the Niger Delta, there is no direct hostility towards them. This view is conformed by the responses to the questions posed to scholars and activists dealing with the Niger Delta issues and fieldwork based with interviews where

the Chinese oil workers were kidnapped in 2007.<sup>35</sup> Okonta (2006) takes his position on the attacks by saying that:

“There is no coherent and systematic hostility to China in the Delta, at least for the time being. I would read this incident as a one-off, and not to be seen as consistent with the decades-old struggle against the Nigerian state and the western oil companies in the region”

Felix Tuodolo, the founding President of the IYC and Chair of the Ijaw National Congress (INC), Europe repeated a similar view:

“the focus is not on any particular foreign national or business interest, but on all foreign oil interests. The incident at Sagbama and the earlier statement by MEND was a mere coincidence”

For the oil multinationals, it is impossible to continue with ‘business as usual’ in their relations with the oil producing communities in the Niger Delta. Thus, the prospects for the future remain on how the Chinese would confront the issues arising from transnational oil production and local resistance. A lot will depend on their ability to engage with the local people, demonstrate respect and concrete sensitivity to their demands, by building trust between and with the communities. China is still grappling ‘with how best to manage strategic assets located in areas of conflict, but rights to which depend on a good relationship with government’ (Africa-Asia Confidential 14.12.2007) as in Sudan. The prospects for the future of local resistance in the Niger Delta depend on the balance of forces within the groups themselves, and the response or non-response of the Nigerian state and the transnational oil alliance to local demands. In the short run, the coming in of the Chinese oil ‘dragons’ will not alter the nature of transnational oil politics or the forms of resistance (Obi 2008:430). The challenge is how China’s oil companies will define their role in the slippery and volatile politics of oil in the Niger

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<sup>35</sup> Akpoebi Adesi, assisted by Albert German, conducted fieldwork and interviews in Sagbama between 9-16, September 2007. A total of eight people were interviewed including opinion leaders, the traditional ruler and members of the Sagbama Community Development Committee.

Delta as the stakes for the control of access to the region's finite hydrocarbon resources is climbing higher.

#### 1.5.b *Angola*

The elites in Luanda are deeply appreciative of China's "non-interference" stance. Over the last few years the Angolan government, in need of reconstruction funds after the civil war, had been in the midst of negotiating a new loan with the IMF. Because of Angola's malgovernance, the IMF was determined to include transparency measures to curb corruption. But then, Luanda received a counter-offer of a \$5 billion loan from China's export-credit agency, Exim Bank. The deal came with an interest rate repayment of 1.7 % over 17 years and was tied to an agreement to at first supply 10,000 barrels per day of crude oil, to increase later to 40,000 barrels per day, as well as the award of construction contracts.<sup>36</sup> This deal received a lot of international criticism for the Chinese who didn't push for any reforms in Angola. Total trade between Angola and China was US \$1.876 billion in 2000 and grew to \$4.9 billion in 2004 and accelerated to US \$11 billion by the end of 2006, making it China's largest trading partner on the continent. Another loan of US \$3 billion was negotiated over a two-year period, which included provisions for building the oil refinery at Lobito.<sup>37</sup> Another project is underway to build a second city south of the capital called 'Nova Luanda' with almost 120,000 new residences along with parks, leisure centres and schools, while a similar project involving the construction of forty-four buildings is being developed in Cabinda.

#### 2.5.b.i *Sonangol cancelled plans by Sinopec*

The turning point came in March 2007, when the state oil company Sonangol cancelled plans by Sinopec to invest \$3.5 billion in an oil refinery in Lobito. Sonangol's vice-president said that the company decided to carry out the project on its own. Another senior Sonangol official criticized the Chinese in the Angolan media, claiming that "we can't construct a refinery just to make products for China". This suggests some resistance of locking in supplies through long-term contracts, which China has applied elsewhere,

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<sup>36</sup> The loan has been sanctioned for construction of an oil refinery, a new international airport, diamond mining and the fisheries industry.

<sup>37</sup> Something the international community has been unwilling to support.



for example with iron ore in Gabon (Vines 2007:217). This was underscored, when after breaking off negotiations with the IMF in 2007, Angolan officials said that they had 'other partners' whom they could turn to for loans. Interestingly, it was reportedly accusations by the Chinese government of Angolan corruption in handling its development assistance which caused Luanda to demote a senior party official.

### 1.5.c *Sudan*

#### 1.5.c.i **The contradictions of non-interference in Sudan**

China and Sudan's 'all weather friendship' has been a constant refrain in the public discourse of official interaction since diplomatic relations were established in 1959. But the Chinese government's enduring principle of non-interference has come under increasing and more visible strain in recent years in Sudan. Today the Chinese government faces the challenge of reconciling its formal, established policy of non-interference with the more substantive Chinese involvement in Sudan that has grown over the past decade. The nature and evolution of China's involvement in Sudan has given rise to a number of challenges for Beijing to the point where Sudan has become a notable issue affecting China's role in Africa and international politics more generally. The Chinese Premier Zhou Enlai asserted at the Bandung Conference in 1955:

"We are against outside interference; how could we want to interfere in the internal affairs of others? He also affirmed that 'Peace can only be safeguarded by mutual respect for each other's territorial integrity and sovereignty' (Large 2008).

Non-interference was a tool in the hands of China to maintain good relations with successive periods of short parliamentary and longer military government in Sudan. Despite the public prominence of historical relations, in certain ways it is the absence of a thick history of Chinese involvement in Sudan that has also contributed to good ties (Large 2008:95). China had threatened to use its veto on the UN Security Council to protect Khartoum from the proposed oil sanctions. On the other hand, China has also been able to dilute every resolution on the killings in Darfur in order to maintain its friendly relations with Sudan. The Assistant Foreign Minister Zhai Jun was clear when he said that: "Using pressure and imposing sanctions is not practical and will not help settle

the issue". Sudan exported 14 million barrels of crude to China in 2006 and is currently the only country in Africa where oil is produced by Chinese companies. China has responded to Darfur in a different manner than others. President Hu did not visit Sudan till 2007, during his third African trip, was a strong signal and offers a glimpse into China's diplomacy and its efforts to influence Sudan. In November 2006, FOCAC summit in Beijing, Hu had urged Sudan's president, Omar Hassan al-Bashir to compromise. And in the UN Security Council, China has supported increased UN peacekeepers for Darfur. As a foreign relations issue in Africa, Sudan was a high profile case that brought into question both China's efforts to respond to the American challenge of being a 'responsible' rising power internationally.

#### 1.5.c.ii **Fight in Sudan**

To a great extent, the Sudanese government actions in Darfur have benefited from the protection provided by the threat of the Chinese veto in the UN Security Council but at the same time authorities in Khartoum have felt that Beijing has not always sufficiently supported their position as expected.<sup>38</sup> Despite various signs that the Chinese government is beginning to shift its thinking on Sudan<sup>39</sup>, a US \$3 million preferential loan organized in July 2006 aimed at rehabilitating infrastructure, signals Beijing's continuing economic commitment to the regime. The Chinese also hope to convince the newly autonomous Southern Sudanese government, which had vehemently opposed Chinese support for Khartoum during the civil war, so that they can get rights to explore oilfields in the Southern Sudan. This may raise concern in Northern Sudan should the South opt for independence at a later stage (Human Rights Watch).<sup>40</sup>

The role of the Chinese in support of Khartoum has been under the international spotlight since the advent of forcible removals in 1998. The development of Chinese oil concessions in Blocks 1, 2 and 4, which were located in part of the contested central provinces, brought Chinese construction workers in direct contact with the Sudan

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<sup>38</sup> As the periodic organized street protests at the Chinese embassy indicate.

<sup>39</sup> Indicated by its decision to remove Sudan from the list of countries in which it provides financial incentives to Chinese companies to invest.

<sup>40</sup> A delegation of the Government of Southern Sudan, led by President Salwa Kiir, visited Beijing in March 2005.

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People's Liberation Army (SPLA) and reportedly required them to be armed. Increasing oil revenues from the sale of oil to China have allowed Khartoum to purchase sophisticated weaponry as well as develop its own arms manufacturing capacity, based at Military Manufacturing Complex and two other places which are producing light arms, rocket launchers and anti-tank weapons.<sup>41</sup>

Beijing came to the defence of Sudan when the US declared Khartoum to be engaged in acts of genocide and asked the UN Security Council to pass sanctions against the regime. But the Chinese threat of a veto of economic sanctions, which would have hurt its own economy<sup>42</sup>, forced the Security Council to water down its measures against the government. Abda El-Mahdi, a former Sudanese deputy finance minister who withdrew from the government in 2003, said, the country's prolonged political volatility may eventually cause 'even the investors such as Chinese, who did not think it was relevant for them...to stop investing'.<sup>43</sup>

### 1.5.d *Zimbabwe*

#### 1.5.d.i 'Number One' friend

The Zanu-PF government, having been subject to a structural adjustment programme since the early 1990s, and in the wake of protest from urban dwellers and ex-soldiers, embarked on a controversial 'fast track' land reform of the white-dominated commercial sector. The government's defiance of the property law norms and the Zimbabwean constitution drew criticism from the Western donors. The Western donors and institutions turned on to target sanctions against the Zimbabwean government when the Zanu-PF rigged a series of elections against the opposition Movement for Democratic Change. But China was one to openly support the controversial Zimbabwe government despite the

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<sup>41</sup> China's arms supply is not new to Sudan. By the time it invested in GNPOC in December 1996, it was already a familiar arms dealer to many Sudanese governments. The Nimeiri government (1969-85) bought weapons from China. But these purchases rose in the 1990s due to Sudan's internal war and the promise of improved finances and enhanced international credit derived from its oil potential.

<sup>42</sup> As nearly 10% of its oil imports are derived from Sudan.

<sup>43</sup> As told to Public Broadcast Service, *News Hour*, 15.05.2006.

international sanctions imposed from 2002 and it led Mugabe to launch its 'Look East' policy in 2005 (Miller 2008).<sup>44</sup>

China's involvement with Zimbabwe is not a new development. During its war with the Ian Smith's Rhodesian government, the Chinese provided material support for Zanu rebels and allowed them to train for guerilla warfare. Thus, when Zanu-PF and Mugabe came to power in 1980, one of the first places they looked for support was China, since trade relations have been steadily reliable (Jeremy 2007). Today, China is one of Zimbabwe's few trading partners and major arms supplier.<sup>45</sup>

#### 1.5.d.ii Implications of 'Look East' policy

China had offered moral and material support to Zimbabwe in its quest to overthrow apartheid, it was accused by the West as exporting communism in the name of 'national liberation'. In this context, as Mugabe regime ignores warnings from the West and fellow African countries, China is accused of being a financier and protector of a brutal regime. China has been facing this kind of criticism due to two main factors: Chinese policy towards foreign nations' internal affairs and the isolation of Zimbabwe by the West.

In 2004 due to alleged human rights abuses and democratic deficiencies, the US and the EU put trade and arms embargoes on Mugabe's government. Mugabe then instituted his 'Look East' policy designed to replace the West with China as Zimbabwe's supplier of arms and business partner (Miller 2008). The Chinese responded with huge arms supplies to Zimbabwe and by investing heavily in the region. However, it is important to note that China is not breaking any arms embargoes or international treaties in dealing with Zimbabwe. Arms shipments from China are minuscule when compared to the arms shipped by the US, France and Russia to buyer countries. China's involvement in

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<sup>44</sup> As its Look East policy Zimbabwe sought to strengthen its ties with China and draw on its image as a freedom fighter and a liberator to shore up its domestic legitimacy.

<sup>45</sup> The Chinese have leased some expropriated farms and are said to be a major buyer of tobacco, once Zimbabwe's leading agricultural export.

## China's Economic Engagement with Africa

Zimbabwe is mostly in energy industry and the development of natural resources.<sup>46</sup> Now that China has become so prominent in the Zimbabwean economy, there have been hopes among international rights groups that China will force Zimbabwe for new elections or coalition government with the opposition. But this never happened as the Chinese leaders are weary of any outside attempts to impose 'democratisation' in other countries.

In short, the Chinese government is unlikely to make an exception over their policy of neutrality, even when South Africa and other African nations are also not choosing to punish Mugabe. China's ambassador to Zimbabwe, Mr Yuan Nansheng, stated that "the government of Zimbabwe has the ability to solve the problems on their own".

Thus, it may be disappointing for international human rights campaigners and supporters of democracy that China is not applying stronger sanctions against countries like Sudan and Zimbabwe. But it seems rational for the Chinese government not to break its faithful commitment to political non-intervention. However, just like Western colonial control of African nations could be abandoned, China's single-minded pursuit of long-term economic returns and peculiar national interests will also have to change as more and more governments in the world are embracing universal values such as freedom and democratisation.

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<sup>46</sup> The building of new reactors and employing thousands of Zimbabweans in mining copper and other products is hardly deleterious for the common citizens. China provides trade opportunities, is improving infrastructure, and offers real investment to Zimbabwe. These endeavors far exceed the value of arms sales.

## **CHAPTER II**

### **CHINA IN ZAMBIA**

China, a country with a population of 1.3 billion and covering 9.6 million square kilometres is one of the fastest growing giants in the world. Its annual real growth of GDP was recorded at 9% in 2008 and GDP (PPP) at \$ 7.8 trillion in 2008. From the year 1999-2004, the GDP grew at a rate of 10% and in 2006, China became world's third largest economy by GDP after the US and Japan. It recorded its highest GDP in 2007 with a 13.1% rate. It is the second largest economy after the United States now (CIA The World Factbook).

On the other hand, Zambia is one of the least developed countries in the world, despite its rich mineral wealth. It has a land area of 753,000 square kilometers. The country's total population was recorded at 9.9 million in 2000 which is projected at 11.1 for 2005. Over the period 1994-2004 the real GDP growth rate averaged 3.0%. In 2005, the GDP growth stood at 5.2% while annual inflation was recorded at 15.9% and per capita real GDP of US \$82. Formal sector employment averaged 0.5 million over the period 1993-2004. Zambia's economy has been traditionally dominated by the copper mining industry. The average per capita income is US \$800 and 51% of the population is reportedly living on less than one dollar per day (Britannica Online Encyclopedia 2009). Whereas Zambia recorded significant recovery in the performance of key macroeconomic indicators apart from formal sector employment, China's performance is more favorable in comparison to Zambia.

#### **2.1 Chinese Engagement with Zambia**

##### **2.1.a Zambia- Introduction**

Zambia gained independence from the Britishers in October, 1964. Despite a relatively high degree of political stability Zambia remains one of the poorest countries in the world, ranking 165 out of 177 countries on the UNDP Human Development Index. The return of the multi-party democratic elections in 1991, after a lengthy period as a one-

## China in Zambia

party state, saw the defeat of Dr. Kenneth Kaunda, who was the president of the country since independence. The Movement for Multiparty Democracy (MMD), led by Fredrick Chiluba, won the election and embarked on extensive economic reforms which geared towards revitalizing the economy.<sup>1</sup> Subsequent attempts to amend the constitution to enable Chiluba to seek a third term of office failed due to intense pressure from within his own party, opposition parties and civil society. This kind of public pressure has played an increasingly prominent role in Zambian politics since the shift from a one-party state to multi party politics.

In the 2002 elections, the MMD candidate Levy Mwanawasa was declared the victor by a narrow margin.<sup>2</sup> He further implemented economic reforms including a campaign aimed at eliminating corruption. This resulted in the prosecution of his predecessor. His campaign against corruption has been interpreted by some as an attempt to consolidate power by marginalizing potential threats within the ruling party. The MMD continued to liberalize currency controls while a dramatic reduction in government spending resulted in a budget surplus in 2006. This had a significant impact on inflation, which was brought down to single figures for the first time since the mid 1990s. Thus, Levy Mwanawasa was re-elected in the September 2006 elections.

Though Zambia is considered to be the more democratic state in the continent and is regularly cited as an example of a well functioning government, the Presidency has always been very powerful. The legislature is fairly weak and heavily influenced by the President, as compared to the judiciary which is relatively independent. The 150 member parliament is elected in single-member constituencies while another eight MPs are appointed by the President. A constitutional review is also underway to address these imbalances. However, attempts to reign in the powers of the President are met with strong opposition. Since the introduction of multi party democracy, civil society has

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<sup>1</sup> MMD is a political party in Zambia, which was formed to oust the previous government of Kenneth Kaunda, controlled an absolute majority in the parliament between 1991 and 2001 (Movement for Multi party democracy).

<sup>2</sup> However, the results of the elections remained disputed. Both domestic and international monitors cited serious irregularities with the elections. Three opposition candidates also filed a petition in the Supreme Court in 2002 to overturn Mwanawasa's victory, which the court declined in 2005.

made its presence felt in the country but Trade Unions are still relatively weak, mainly due to corruption and poor organisation.

The economic liberalisation programme included the lifting of exchange controls and privatisation policies. This has resulted in significant investment growth, although there is no national framework in place for economic development. The Zambia Development Agency (ZDA) was established by the Ministry of Commerce, Trade and Industry in an attempt to create a better environment for Zambian business and to promote investment. It began operating in July 2006, replacing five statutory bodies.<sup>3</sup> Though, as yet, barely operational with minimal administrative structures in place, the ZDA is intended to be the focal point of the government's development strategies for trade and investment (Zambia Development Agency).

In terms of trade, Zambia needs to diversify its limited number of exports while adding value to its exports of copper, cobalt, electricity, tobacco, cut flowers and cotton. Its principle imports are machinery, transportation equipment, petroleum products, electricity, fertilizer, foodstuffs and clothing. The country's most trading partners are South Africa, Switzerland, China, Tanzania, Zimbabwe, Democratic Republic of Congo, Thailand and the UK. Zambia has also played a significant role in the liberation struggles across Southern Africa and has enjoyed close relations with China. Zambia also does not have a coordinated foreign policy, external relations are managed more or less on an *ad hoc* basis that are predominantly reactive (Centre for Chinese Studies 2007:155).

### 2.1.b China-Zambia relations

The historical relationship between China and Zambia dates back to the pre-independence period when the present day Zambia was then a protectorate of Great Britain<sup>4</sup>. At the time the relationship was in the form of Chinese assistance to one of the opposition parties which comprised of financial and material assistance. It may be noted that the historical engagement between China and Africa is rooted in a shared similar

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<sup>3</sup> The former five institutions were the Export Board of Zambia, Export Processing Zones Authority, Small Enterprises Development Board, Zambia Investment Centre and Zambia Privatisation Agency.

<sup>4</sup> China and Zambia established diplomatic relations on October 29, 1964.



## China in Zambia

historical experience and struggle for national liberation and independence. Prof. Zeng Qiang of the Institute of Asian and African Studies divides this relationship into three distinctive periods:

The first period dates from 1949 to 1979 which focused on support to liberation or independence struggle and establishment of diplomatic missions, economic reconstruction and consolidation of national independence. During the period of President Kaunda (1964-1991), China provided active support to the Zambian government in its efforts to consolidate political independence and struggle against Western colonialist control. With the well known Tanzania-Zambia railway built with Chinese assistance, which becomes a monument of friendship between China and Zambia and even China and Africa, Sino-Zambian relations have been enhanced ever since. President Kaunda visited China four times before 1990. China provided assistance to the liberation or independence struggle and aid towards economic re-construction and consolidation of national independence while African countries provided support to China in the international arena, allowed China to establish diplomatic missions. Therefore, the political factor and ideology were dominant factor explaining China-Africa relationship in this period.<sup>5</sup>

The second period is from 1979 to 1999 which marks the period of profound changes in both China and Africa. In Africa this was the period of International Monetary Fund and World Bank sponsored Structural Adjustment and liberalisation programmes as well as adoption of multi-party democracy system while China was emerging from social chaos and economic crisis emerging from the Great Cultural Revolution. China adopted an 'Open Door' policy economic reforms which put economic development at the centre of national development strategy and ideology on the sidelines. In 1991, a 'Going Out' policy was initiated which put Africa as a major policy target area. The Africa-China relationship continued on a traditional basis of friendship with a particular focus on economic and political cooperation.

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<sup>5</sup> The Soviet factor, the Great Cultural Revolution in China and emergence of communist beliefs in some African leaders could be cited with respect to ideology.

The economic cooperation became more diversified from the provision of traditional aid to preferential loans, contract bidding for construction and direct investment in Africa. Africa also became more supportive of the 'One China' policy and openly supported China at multilateral levels.

The third episode ranges from 1999 to date. The main preoccupation of the African countries at the turn of the new millennium became wealth creation or poverty reduction, peace and stability, promotion of economic development and achievement of the Millennium Development Goals. African countries worked together for a common purpose which saw the creation of a New Partnership for African Development (NEPAD) and African Union (AU) that replaced OAU in 2002 as a way of solidifying its strategy for common economic development effort (Huse 2008: 36).

2.1.c **Policy-making Actors**

2.1.c.i *The Executive*

The primary Zambian Government institutions engaged with the Chinese government and private Chinese investors are the Ministries of Foreign Affairs, Minerals and Mines, Commerce, Trade and Industry, Finance, and Works and Supply. The ZDA is also involved.<sup>6</sup> The sequence to negotiations varies largely depending on the issue and very often depends on chance meetings individuals. These meetings occur under different circumstances ranging from the fringes of official exchanges to unscheduled meetings of business people through formal networks. Once initiated, the issue will be referred to the appropriate government body.

A number of scholars agree that presidency plays a pivotal role in formulating policy toward China. Majority of them believe that it leads the country's engagement although evidence to support such assertions is difficult to produce. It has also been suggested by some scholars that a small number of particular influential advisors within the inner

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<sup>6</sup> The passing of ZDA Act amalgamated five separate acts including: the privatisation act, the investment act, the export act and the small scale development act.

## China in Zambia

circles of Government have a significant role in shaping the country's dealings with China (Alden and others 2008).

### 2.1.c.ii *The Legislature*

Majority of scholars perceive Zambia's parliament to be heavily dominated by the presidency and simply a 'rubber stamp' to its wishes. The Chinese Government's January 2006 Africa Policy White Paper called for China to adopt broader engagement with public and private sector institutions (Government of People's Republic of China 2006). President Hu Jintao said during a meeting in February 2007 with the Speaker of the National Assembly of Zambia (NAZ), Amusaa Mwanamwambwa, that China's National People's Congress (NPC) and the NAZ have always maintained sound cooperative ties. He also stated that "China is willing to enhance exchanges and cooperation between the two legislatures for all-round and in-depth development of bilateral ties" (Government of People's Republic of China 2007). Various ministries have also been known to have made very little input into policy formulation and design, simply implementing policies devised by the presidency. Many government institutions lack the capacity to deal properly with the range of issues involved with China's engagement, particularly given also the rate at which relations between the two are growing. The Ministry of Commerce is working on a programme to enforce laws on standards but faces significant challenges largely due to a lack of capacity. The Zambia Bureau of Standards (ZABS) and the Bureau of Weights and Measures also suffer serious capacity shortages. Standards legislation is outdated and not enforced due to problems with capacity and corruption.<sup>7</sup>

The ZDA is the leading government institution that deals with economic relations with China. It receives investment delegations from a range of countries, including China and issues investment licenses. It also provides information on relevant rules, regulations and secondary permits such as immigration permits, manufacturing licenses, environmental impact assessments and aftercare, including advice on taxation and land issues.

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<sup>7</sup> Zambia Consumers Association says that Zambia Bureau of Standards (ZABS) lacks certain internal mechanisms which could improve transparency, accountability and public access to information (Consumers International 2005).

## China in Zambia

The Private Sector Development Fund was established with strong financial support from Western donors to coordinate and promote Zambia's business sector. The fund consists of six working groups and deals with policy formulation and private sector-government relationships. It is attempting to reduce various administrative barriers to business. The fund could also be a good institution to focus on with regards to engagement with China in order to diversify mechanisms for local commercial engagement with Chinese companies in Zambia.

### 2.1.c.iii *Civil Society*

The African civil society is said to be under-resourced, usually poorly-organised and invariably prone to corruption (Centre for Chinese Studies 2007), none the less it plays a part in fostering debate within Africa on key political, economic and social issues. In keeping with its self assigned role a state 'watchdog', African civil society has been critical of aspects of Chinese aid policy and the conduct of some its businesses in Zambia. Civil society groups have focused on local labour, trade, governance and the environment (Alden 2007: 82).

Stephen Muyakwa, an agricultural economist in Zambia and Chairperson of the Zambian Civil Society Trade Network, is worried about Chinese working conditions. He said "operations at a Chinese owned coal mine in Zambia were suspended due to unsafe working conditions. Most labourers were half naked and didn't have protective clothing, dust masks, hard hats or shoes". Apart from this when talking about the killing of 50 workers in an explosion in one of the mines, he said "no Chinese employee got hurt or killed, this makes you wonder about how committed the Chinese are to make a difference in Africa" (Mannak 2007).

Another matter of concern for the civil society in Africa including Zambia has the sudden influx of the Chinese labourers into Africa. According to the official Chinese statistics, there were 82,000 Chinese labourers working for Chinese firms based in all of Africa till 2005, up from 42,000 in 2004. However, these figures do not tally with the experience emerging from specific African countries where the number of Chinese labourers is still

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growing. In Zambia, figures vary from an official tally of 2,300 registered Chinese citizens to a reported 30,000. Zambian leaders have often complained of this influx of Chinese labourers but, along with it they have urged Zambians to show appreciation for China's help on the other. The question is which way are the Zambians going to show appreciation? Is it by ignoring the influx of Chinese labourers in the country? (Marawi 2007).

The coming in of so many Chinese employees to work on Chinese funded and managed projects has been explained from the Chinese perspective. It is the need to complete the work as quickly as possible and with minimum complications. Problems like language, cultural barriers, low wages and long hours, can all be bypassed in this way. As the GM of the state-owned China National Overseas Engineering Cooperation based in Lusaka says: "Chinese people can stand very hard work. This is a cultural difference Chinese people work until they finish and then rest" (McGreal 2007). African businessmen also acknowledge this as the key to success of the Chinese. But the Trade Unionists and ordinary labourers in Africa are against this situation, pointing out that the potential development gains of Chinese investment for African economies are undermined by this approach. One study on the Chinese construction industry in Africa suggests that the blame for employment practices may not fully rest with Chinese business but to some extent with the African governments that host them. In Zambia, the leading Chinese construction firm claims to employ fifteen Zambians for every Chinese hired, though the general manager admits preferring Chinese labourers over indigenous ones (Alden 2007:84).

Moreover, the proliferation of Chinese retail shops has brought much more discontent among the Africans. A street vendor in Lusaka captured the concern of many when he declared: "these Chinese investors just come here to make money and take away from us even the simple businesses like selling groceries in markets" (IRIN News 2007). Thus, we can see a number of NGOs, Trade Unions all as members of the civil society community in Zambia to come up against the issues that are extremely important for the local Zambians.

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### 2.1.c.iv *Foreign Actors*

Zambia has been heavily influenced by outside actors. Zambia is strategically located on what was regarded as the 'Anglophone frontier' during the colonial times. In 1924 Zambia became a British protectorate and was one of the first Southern African countries to gain independence. Though non-aligned during the Cold War, the country was sympathetic to socialist interests and enjoyed considerable support from China during this period. However, China's involvement with Zambia receded during the 1980s, while the influence of the IMF, World Bank and Western donors increased substantially. These donors have increasingly focused on issues of governance and economic liberalisation throughout Africa which had created huge problems for the donor countries.

Zambia's cordial relations with the West have had a significant impact on the country. Many Zambians were educated in Europe and North America and were mostly 'western-centric'. Civil society organisations in Zambia are heavily focused on North American and European donors which, apart from international institutions such as the UN and the World Bank, are their primary source of financial support.

President Levy Mwanawasa played the 'China card' in the African Business Forum organised by the Business Action for Africa. In June 2007, when he challenged the West to match Chinese investment in his country, he announced that Zambia welcomed Chinese investment, credit and loans, despite domestic political opposition and unease in the West regarding China's rapid entry into Africa. He said that:

"Those who oppose Chinese investment...all they need to do, is to equal the help we are getting from China. We only turned to the East when you people in the West let us down...Give us the same or more cooperation we are getting from China and you will see that we are friends....The good thing is that I know of no strings that are attached to Chinese investment" (Baldwin 2007).

The Chinese also value their relations with Zambia, more importantly in comparison to many of its neighbours in Southern Africa. Zambia is one country that is more stable politically, economically and socially than many of its neighbours and Chinese businessmen understand this and make use of Zambia as base from which to base their operations into the DRC and eastern Angola (Times of Zambia 18.05.2006).

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### 2.1.d China's Economic Engagement with Zambia

#### 2.1.d.i Trade

Trade between China and Zambia has been substantial in the past. In 2006, exports to China amounted 10% of Zambia's total exports and amounted US\$ 381 million (see table) compared to US\$ 0.94 in 1998, representing a phenomenal average growth rate of over 5000 over the eight year period. Total exports for the year 2006 for Zambia was US\$ 4billion. The largest contributors to export growth are raw materials in the form of base metals comprising of unprocessed mineral products (ores) at 19% of total ore exports and metal products, representing 11% of total metal products consisting of refined copper and cobalt. Despite the growth in exports to China, South Africa still emerges as the country's major export destination.

Zambia's export trade with South Africa accounted for 22% of total exports in 2006 in the total amount of US\$ 796 million from US\$ 94 million in 1998, representing an average growth rate of 94% over the same period. Like Zambia's trade with China, the major components of exports to South Africa are raw materials comprising of base metal ores with an average growth of 324% which stood at US\$ 58 million in 2006, stone, cement and glass with a growth of 269% and accounted for US\$ 121 million of total exports and metal products (copper and cobalt) accounting for US\$ 638 million of total exports with an average growth of 335%. Out of 22 major export categories, 8 show decline while 14 show positive growth.

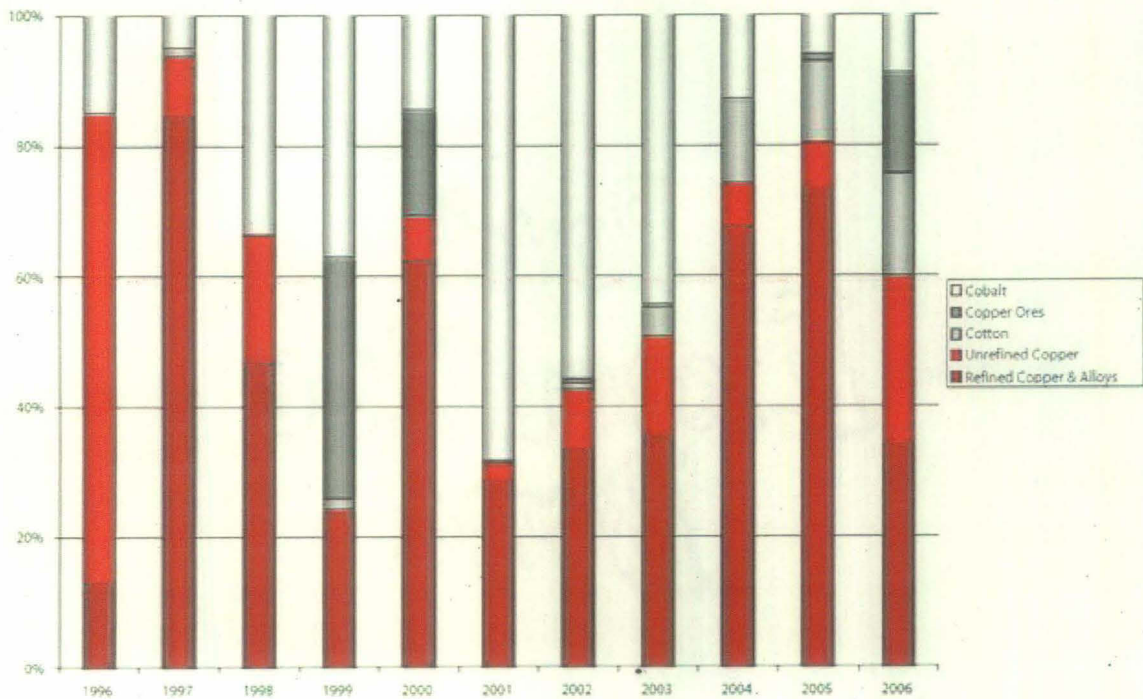
Exports to the United States were adversely affected over the same period, declining by an average of -2%, from US\$ 23 in 1998 to US\$ 19 million in 2006 (see Figure 1). There decline in export growth of 13 export categories compared to growth in nine categories. However, Zambia's trade with the USA is relatively low and stood at 2% in 1998 and declined to half a percentage point in 2006. The top export commodities to China in order of importance have been:

- I Mineral products
- II Metal products

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- III Textiles
- IV Leather products
- V Wood products
- VI Vehicles
- VII Pearls and precious stones
- VIII Prepared foods, beverages and tobacco
- XII Animals and animal products
- X Photographic instruments, clocks and musical instruments

**Figure 1 : Zambia's Top 5 Exports to China (1996-2006)**



Source: World Trade Atlas Data

Zambia is one of the only 15 African countries to enjoy a trade surplus with China. Chinese exports to Zambia, consisting mostly of machinery, electrical equipment, chemicals, textiles and footwear, increased from US\$ 50 million in 2005 before jumping



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to US\$ 102.5 million in 2006, due in part to the transfer of US\$ 22 million worth of aircraft to Zambia.

Zambia's exports to China, consisting of cotton, copper, iron ore and other minerals, were always marginally higher than imports until, in 2004, a three fold increase in exports occurred.<sup>8</sup> On the other hand, Zambia's imports from China are much smaller compared to exports at only 3% of the country's total imports as of 2006 (see Figure 2). The average growth in imports is also relatively smaller at 159% from US\$ 6 million in 1998 to US\$ 92 million in 2006. The ten most important commodities in order of importance are:

- I Leather products
- II Footwear, headgear and umbrellas
- III Textiles
- IV Vehicles, aircrafts and vessels
- V Furniture, toys and other products
- VI Machinery
- VII Stone, cement and glass products
- VIII Plastics and rubber
- IX Metal products
- X Animals and animal products

The highest growth in imports was recorded in leather products at 32% and footwear, headgear and umbrellas at 29%. South Africa is again the largest source of imports for the country whose contribution to total imports stood at 49% with an average growth of 29%, increasing from US\$ 429 million in 1998 to US\$ 1422 million in 2006. South Africa is poised to remain the country's major trading partner for some time to come with positive growth in all major import categories. The US also reveals positive growth in imports to Zambia at 5% in 2006 and an average growth of 13% over the same period.

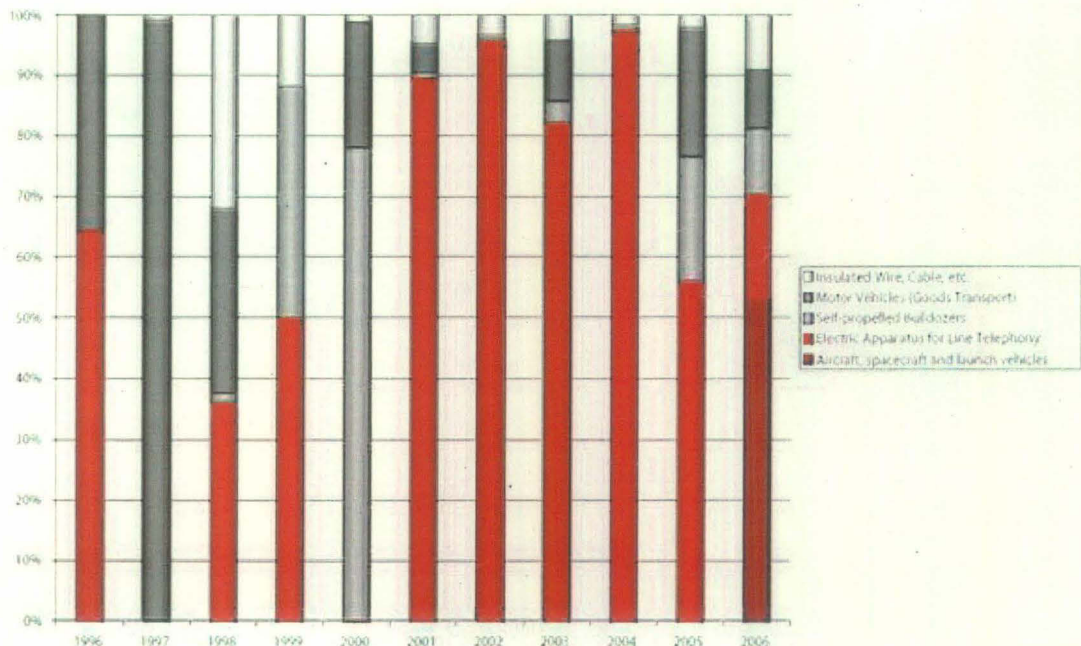
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<sup>8</sup> In 2001, the first full year of privatised industry, Zambia recorded its first year of increased productivity since 1973. The future of the copper industry became uncertain when in January, 2002 the largest investors (Chinese) in Zambia's copper mines announced their intentions to withdraw. However, surging copper prices from 2004, till date rapidly rekindled international interests in Zambia's copper sector.

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Imports from the USA increased from US\$ 28 million in 1998 to US\$ 57 million in 2006. Despite the smaller magnitude for the USA, the imports there are growing at a faster rate compared to China. Out of the total of 22 products, eight categories showed negative and 14 positive growth. Consequently, imports from China seem to pose little threat to the country's traditional import partners.

Figure 2: Zambia's Top 5 Imports from China (1996 - 2006)



Source: World Trade Atlas Data

Classifying key stakeholders into beneficiaries and loser groups from Chinese imports to Zambia, there seems to be no big threat for the time being, particularly if the authorities can ensure that the commodities meet the required standards. Local producers stand to gain from cheap inputs from China but at the same time unable to compete with China's cheaper products from the local market. The net effect is expected to be a loss for the local producers, particularly when one takes a longer term view. This effect can be cushioned if the government can encourage joint ventures between Chinese and Zambians producers, particularly in the upcoming Special Economic Zones. Also, increased trade with China creates employment opportunities in China at the cost of the



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same in Zambia, provided the commodities in question are competitive. However, that will not be the case if the commodities are complimentary. Traders and consumers would both benefit from cheaper Chinese products. Chinese exporters will benefit from increased African market in Zambia. The Zambian government is expected to lose and benefit from imports from China. The loss is on account of foregone income tax revenue due to the loss of employment opportunities at both the firm and household levels while the gain will be on account of increased revenues from trade taxes. The net effect is expected to be a gain in revenues by the authorities (Centre for Chinese Studies 2007).

One of the most important roles in the accelerating of trade between the two countries has been played by the Forum of China Africa Cooperation (FOCAC). FOCAC was established in 2000 when the first ministerial conference was held in Beijing in October 2000, the conference passed the *Beijing Declaration of the Forum on China-Africa Cooperation* (Xinhua 26.10.2006).<sup>9</sup> The second ministerial conference was held in Addis Ababa, capital of Ethiopia, in December 2003 where the *Addis Ababa Action Plan* (2004-2006) was passed. The third ministerial conference was held in Beijing in November 2006 which was declared by China as the 'Year of Africa'. Following the establishment of FOCAC in 2000 by China and the African leaders, the trade has been boosted at least eight-fold till 2006, thereby making China Africa's third largest trading partner after the European Union and the United States.

According to a 2006 Deutsche Bank Report, 'China will remain hungry for commodities over the coming 15 years', while it forecasts that 'China's import demand until 2020 is that the growth of demand will remain in lower double digits for most commodities over the decade' (Trinh and Voss 2006:1). Evidence to this is already being seen in the various investment projects that are being negotiated with African countries. There are more than 800 Chinese companies, ranging from big corporates to small enterprises, that have invested on the continent and whose operations cover an array of industries (see Figure 3). These include copper, iron ore, platinum, wood, manganese, cobalt and other base

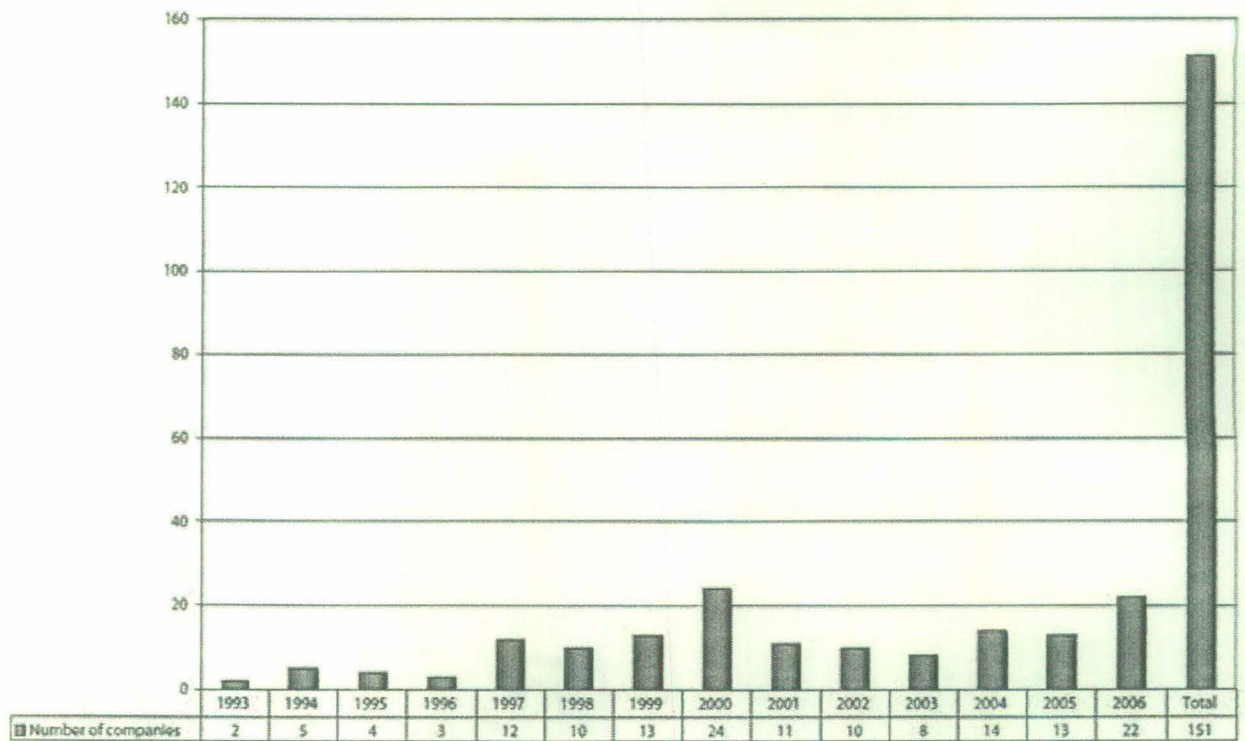
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<sup>9</sup> African attendees included the Presidents of Togo, Algeria, Zambia, Tanzania and the Secretary General of Organisation of African Unity.

## China in Zambia

metals, which are shaping China's investment in countries like the Democratic Republic of Congo, Ethiopia, Niger, South Africa, Sudan, Tanzania, Zambia and Zimbabwe. It has also been estimated that by 2010 China's trade with Zambia will reach US\$ 100 billion.

**Figure 3 : Number of Chinese Companies in Zambia (1993-2006)**



Source: Government of Zambia, June 2007

President Hu Jintao's visit to Zambia in February 2007 during his eight nation African tour<sup>10</sup> was considerably longer than any of the other seven African states. This was interpreted by many observers as a clear indication of the importance China attributed to its relations with Zambia. During his visit President Jintao announced a package of measures designed to further boost bilateral relations, including debt relief, an expansion of Zambian tariff-free exports to China and the establishment of 3-5 special economic and trade zone in the Chambishi mining area announced at the FOCAC held in 2006 (Xinhua 05.05.2007).

<sup>10</sup> The other nations visited were Cameroon, Liberia, Sudan, South Africa, Namibia, Mozambique and Seychelles most of which are Least Developed Nations.

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The Zambia China Economic and Trade Cooperation Zone enables China further access to the continent's abundant resources and strengthens its trading relationship with the continent. It is also providing the Chinese companies greater opportunities, facilitates light industry development and creates job opportunities as well as raises the living standards of the Zambian people (Edinger 2007).

### 2.1.d.ii *Investment and FDI*

China is the third largest investor for Zambia after South Africa and Britain (People's Daily Online 18.05.2007). Precise figures for Chinese investment in Zambia are however difficult to ascertain. The Chinese Embassy regularly quotes Zambian Government statistics suggesting that more than 151 different Chinese companies have invested over US \$3.8 million (IPS 18.10.2006) in a range of areas and employ over 10,000 Zambians. However, the real figures are believed to be substantially less. The ZDA assumes as a rough 'rule of thumb' that only 60 percent of listed investment commitments are actually realised at any one time.

At this time at least 78 Chinese companies are listed in the manufacturing sector, representing 81% of Chinese investment in Zambia. The companies are engaged in different activities ranging from production of textiles, clothing, wood, leather, food and beverages and agro processing. The main focus of the companies is on the production of products related to the mining sector as we know the primary interest of China in Zambia is copper and copper itself. The Chinese invested in the Chambishi copper mines in the late 1990s when the price of copper was extremely low; however, the price has since come up to at least four-times and the government has been looking for ways to introduce a 'windfall tax'. Chinese involvement in the mining sector has also led to a large number of associated investments across a broad range of sectors, bringing about a marked increase in the number of Chinese construction companies, traders, restaurants and medical clinics to establish themselves in Zambia. Chinese corporations are attracted to Zambia's manufacturing sector as a way to access regional markets such as DRC,

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Angola, Zimbabwe and South Africa and trade organisations such as COMESA and SADC.

The Zambian Government had for some time indicated an intention to establish a Special Economic Zone (SEZ), thus it welcomed the Chinese wish to establish Africa's first free trade zone in Chambishi over the next few years. Between 50 and 60 Chinese firms are expected to be there in Chambishi and a number of incentives are to be provided under the ZDA Act. On the question of how local and international companies will be invited to participate in the SEZ, there is some confusion. There are big problems related with the management and handling of information within and between the governments. This presents a serious challenge to the organisation and the development and implementation of coherent policies. Even senior officials will always rely on the media which cannot always be relied upon for accuracy and leaves considerable room for speculation.

Against the context of economic liberalisation policies, it is significant that private sector involvement in relations between China and Zambia has increased significantly over the past five years. As one government official explained "the government is trying to withdraw and not inhibit private sector development, leaving it to the consumer to decide" (Centre for Chinese Studies 2007). The Chairperson of the Zambia-China Business Association (ZCBA), Sebastian Kopulande, led a delegation of 55 Zambian business people to the 101<sup>st</sup> China Import and Export Fair in Guangzhou. He was also one of the two foreigners invited to speak at the fair. It clearly demonstrated the importance that China attaches to its relations with Zambia. Kopulande explained that the delegation looked for opportunities and business collaboration with Chinese companies which reflected common interests. He argued that economic development could be achieved through special lines of credit, joint venture investments, technology transfer and joint research and development programs (allAfrica.com 27.02.2008).

The growth of FDI is not distributed equally among investors. While most FDI stock in Africa comes from Europe, United States and South Africa, Asian countries have also emerged as powerful investors on the continent. However, the current boom in Chinese

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economic interest in Africa did not take off until 2001, when China joined the WTO and simultaneously passed a law to encourage Chinese companies to invest abroad. Like any other African country the availability of FDI data in Zambia are poor and data on Chinese FDI are even poorer. Neither Chinese nor Zambian sources provide us with anything but aggregate figures which moreover, are found to be contradictory. By 2006, China was the third largest FDI investor in Zambia, after Great Britain and South Africa. However, looking at the most recent FDI flows, China will become even more important in the future years.

Based on the media reports in Zambia and elsewhere one would assume that China only invested in resource-extraction activities, but this is not the case. All the major mines except one or two are owned by companies from countries other than China. In fact, only around eight Chinese companies are directly involved in mining activities in Zambia, the other Chinese companies are investing in other sectors of the economy. However, because of the politicised nature of the Chinese investments, poor data quality, and overlapping institutional responsibilities, it is difficult to obtain the scope and magnitude of Chinese investments in Zambia.

In Zambia, both mine ministries and local governments are also allowed to license investments. However, only the Ministry of Mines and Minerals has availed itself of this right. Nonetheless, this right radically changes the distribution of investment in dollar terms, as the Ministry of Mines and Minerals licensed the \$150 million of investments in Chambishi mine. In total, therefore mining related activities make up roughly three-fourths of the value of all registered Chinese investments in Zambia. Not all Chinese companies are registered by the ZDA or the line ministries. Numerous Zambian-run shops, especially in and around the large markets, are in fact owned by Chinese businessmen.<sup>11</sup> Although the owners are only to be seen in and around the shops in the early morning and late afternoon, their activities are coordinated in a small office located

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<sup>11</sup> It is rumoured that the Chinese owners also ran the shops until the 2006 Presidential Campaign, when the opposition leader, Michael Sata, played the China card. This created a hostile atmosphere vis-à-vis the Chinese population in the urban areas of Zambia, which caused the Chinese owned retail store to close down.



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on the outskirts of the Kamwala market. Furthermore, some companies especially in the construction sector are in which more than 51% of shares are owned by Zambians, but in fact Zambians are only used as a front in order to win tenders specifically targeted at Zambian small and medium sized enterprises. Hence, these companies are *de facto* Chinese (Kragelund 2008: 3-7).

### 2.1.d.iii *Aid/ Development Assistance*

Again the official statistics to China's development assistance to Zambia are difficult to ascertain. It has been estimated that Chinese aid to Zambia between 1967, when the first aid agreement was established, until 1996 was \$372 million. This figure covers traditional grants and zero-interest loans, medical teams and scholarships and excludes concessional loans. China has been involved in over 35 aid projects in Zambia, including agricultural initiatives, infrastructure development projects such as roads, the flagship Tanzania-Zambia railway, public buildings including the Government Complex, a maize flour factory, a textile mill, several water supply developments and the Mulungushi Textiles plant which was recently closed. However, there are plans to reopen the mill now.<sup>12</sup>

The details of many financial arrangements, such as loans associated with the Tazara railway, are several decades old and the precise debt payments outstanding are yet to be worked out. This is despite the announcement made by President Mwanawasa that the Tazara railway line debt has been written off. Nevertheless, the Tazara Railway remains China's prized political projects in Africa simply because it symbolizes Beijing's ideology of solidarity and friendship in Africa, as well as the economic independence and freedom for the two newly independent African states.

In Zambia, China is a relatively small donor when compared to traditional donors. Its development assistance is structured around helping Zambia become self-reliant. This thinking is aligned to the view around South-South co-operation. China is also seen as a

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<sup>12</sup> Both the Zambia and China Governments have resolved to revive the mill, which has been closed for quite a time now. This will provide jobs to at least 2000 people in Zambia as well as cotton farmers who were dependent on the mill for their livelihood (Fibre2fashion News 31.03.2009).



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more amicable development partner because as much as traditional donors provide assistance, it is not provided constantly, hence African Governments turn to the East to find the assistance it needs. This is something which is always noted in an interview with a government department (Reuters 05.06.2007). It seems to follow closely to the thinking within the Presidency. As noted in the trade and investment previously, the FOCAC has become an important vehicle in China institutionalizing its development assistance to Zambia. The policy measures committed to at FOCAC 2006 were implemented a few months later during President Jintao's visit to Zambia.<sup>13</sup> The following was agreed upon:

- A \$3 million debt write-off
- A Special Economic Zone in the Copperbelt
- The enlargement of the number of zero-tariff exports from 190 to over 440
- The construction of a Sports Stadium in Ndola
- An agricultural demonstration centre
- Two rural schools
- One hospital
- An anti-malaria centre
- 117 Chinese government scholarships between 2007 and 2008
- An increase in the number of Zambian professionals receiving training in China and
- An increase in the number of experts in agriculture and youth volunteers to the country (Davies and others 2008).

### 2.1.e Engagement in Different sectors

#### 2.1.e.i Mining Sector

Zambia is endowed with various mineral resources such as copper, cobalt, zinc, lead, uranium and coal. It holds six percent of the world's known copper reserves (Zambia

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<sup>13</sup> But the real issue now is, how prepared are the African countries in dealing with FOCAC? For larger economic power houses like South Africa influencing the agenda with China is less difficult because South Africa has more developed infrastructure modern economy as well as a functioning regulatory framework to monitor the behaviour of foreign investors. Besides, it has a strong civil society movement (Naidu 2007:290).

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Investment Centre 2006). The mining industry has been the economic and social backbone of Zambia since the first major phase of exploitation of the copperbelt's CU-CO deposits commenced in the early 1930s. Since then a wide spectrum of other metalliferous and non-metalliferous resources have been discovered in Zambia and although exploitation of these has been limited, they clearly demonstrate the considerable opportunities for further exploration and mining.

Copper mineralisation was first discovered at the turn of the century but large scale production only commenced in the 1930s and drew a large number of immigrants to the small mining towns in the Copperbelt region in the north. Zambia was at that time the largest producer of premium quality copper in the world. However, prices fell drastically to below US\$ 2000 per ton during the mid to late 1990s.<sup>14</sup> Thus, the Zambian Government embarked on a strategy to privatize the copper mines in the hope of resuscitating the failing mines and the state controlled Zambia Consolidated Copper Mines (ZCCM) was divided up into seven separate units and sold off under 'development agreements' with 'stability clauses' providing a range of attractive incentives to potential investors for 15-20 years with generous income tax allowances, income tax relief, customs, excise and VAT and mineral royalties of three percent but often negotiated to as low as 0.6 percent (Centre for Chinese Studies 2007).

A large number of international mining enterprises such as the British/Indian Company Vedanta, South African company Anglo-Vaal, Indian company Binani and the Canadian companies Glenmore and First Quantum were those companies who came to invest in Zambia after privatisation was introduced. Among these was the Chinese State Owned Enterprise (SOE) China Non-Ferrous Company (CNF) which bought the Chambishi Mine in 1998 for US\$ 20 million. The mine closed some years earlier had only a staff of around 100 people. This area has been established in 2005 as Chambishi Special Economic Zone (SEZ) which is expected to provide Chinese enterprises with favourable investments incentives in line with China Africa Policy Paper.

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<sup>14</sup> The copper production reached a peak of 700,000 t p.a. in 1969-1976 before beginning a progressive decline and sinking to a low of 307,000 t p.a. in 1995.

## China in Zambia

There has been significant investment in the sector by Chinese interests on commercial lines. The Chinese engagement in this area is in line with Davies (2007) observation on China's long term strategy of securing commodity assets at source or even moving further to establish its own commodity exchange as way of bypassing international market pricing. All significant areas of operations have been granted special tax concessions. The concessions which were previously granted to the China Non-Ferrous Metal Mining Group Corporation Limited (NFCA) in Chambishi were extended to an entire area covering 41 km square in Chambishi in December 2005 during the Chinese President's visit (Edinger 2007). This SEZ apart from copper mining is also expected to attract investments in electronics, toys, clothes and food.

About 50 Chinese enterprises pledged to invest upto US\$ 900 million in the zone in 2007. The investment is expected to contribute to the development of the country by the way of creating employment opportunities for many unemployed youth in Zambia. However, the special incentives accorded to the Chambishi mine and the establishment of the area as a special economic zone deprive the country of the much needed tax revenue required for the country's development effort. The long term prospects for Zambia are gloomy if China is to succeed in its long term strategy in the absence of a counter strategy from Zambia. Like, if the price of copper has to be negotiated between the two countries, the negotiation will be in favour of China as Zambia lacks the capacity, ability and will to negotiate.

The working conditions in some of the Chinese operated mines have raised serious concerns and alarm. The Minister of Southern Province literally wept when she witnessed the deplorable working conditions which a Chinese firm subjected Zambian workers at a coal mine in Kafue. The Chinese company has a reputation for paying low salaries. While the salaries are substantially lower than other foreign-owned mines and relatively low in comparison to the cost of living in the region, the company has increased wages in an attempt to address its flagging reputation. Skilled workers such as mechanics received a basic gross wage of US\$ 100 per month (BBC News 04.07.2007). This is markedly

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higher than the US\$ 30 per month reported by some researchers who have reported on China's impact on the region.

In April 2005 an explosion at the Beijing General Research Institute of Mining and Metallurgy (BGRIMM) explosives factory resulted in the deaths of approximately 50 workers. BGRIMM is a subsidiary of China Non-Ferrous Company. In May 2007 it held a consulate meeting with the community with a view to re-establishing operations which were closed in April 2005. The report on the cause of the explosion was not presented to the public although the majority believed that the explosion was due to negligence on the part of the company. In 2006, during a strike over delays in payments at CNF, a large number of employees protested in the vicinity of the living quarters of the Chinese managers. Two protesters were shot and wounded by a Zambian national working as the head of the company's mine police- a private security company operated by CNF. No prosecutions were initiated. The security manager was subsequently transferred to the nearby town of Chingola (Asia News 03.05.2008).

NFC's presence has attracted a large number of other Chinese companies to Zambia and especially the Copperbelt over the past few years. Sino Metals Leaching is a joint venture between NFC and the provincial Government of Yunan province in China.<sup>15</sup> It was established in late 2006 and currently has around 60 employees most of whom are full-time employees. Very few casual labourers are employed. Sino-Metals pays considerably higher than average wages with attendants receiving US\$ 200-300 per month and mechanics receiving about US\$ 500.

Chambishi Copper Smelter is one the largest ventures to establish itself in the region which is owned by Zambian central government and Yunan provincial government. The worth of the project is US\$ 200 million. The company had taken up an aggressive program to identify and train locals to be integrated in all facets of operation including the management. It also hopes to eventually appoint a Zambian national as the CEO,

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<sup>15</sup> The Sino project came under comes amid growing concerns over Chinese investments in Zambia, prompted by media reports that about opposition candidate Michael Sata who was against the Chinese investments (Reuters 2007).

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which is a favourable move for the Chinese in Zambia at this time (People's Daily Online 16.01.2006).<sup>16</sup>

Along with the development of more efficient processing techniques, the slag heaps of former mines are now being reprocessed. This practice is widespread amongst local business people despite being illegal, who collect these deposits from around the region and across the border smuggling it into Zambia to sell to leaching plants. A growing number of small scale Chinese mining companies are entering Zambia, acting as middlemen and selling deposits to Chinese buyers. While the Zambian Government is eager to foster relations with China, they are also aware of the need to encourage Chinese investors to act responsibly. In May, 2007 the Zambian Government had to shut a manganese mine operated by the Chinese company Chiman Manufacturing Ltd at Kabwe, approximately 150 kms north of Lusaka, due to pollution being caused by it which was leading to poor environmental management (ABC News 14.05.2007). And in June, 2007 Zambian authorities closed the Chinese-owned Collum Coal Mining Industries in southern Zambia as a result of air pollution.<sup>17</sup>

Despite Chinese being criticised for not taking enough safety measures, the Chinese have never accepted their faults and above all have never talked out in public about any of the mishap that took place in their mines. At the same time there are foreign mines that have better safety standards than the Chinese mines. Thus, this gives everyone a better chance to pinpoint the Chinese. However, the more recent Chinese arrivals seem to be more conscious of their image and appear to be paying adequate attention to working conditions and pay. But this is not enough, there has to be a much more organised way of making the Chinese follow safety norms.

### 2.1.e.ii *Manufacturing Sector*

The Mulungushi textile was started as a partnership with the Zambian government with 98% shares and the rest privately owned. The textile was constructed by a Chinese firm.

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<sup>16</sup> Chinese in Zambia are facing serious protests from the locals for engaging only Chinese labourers and not taking the locals at the management levels.

<sup>17</sup> There were also reports that workers were being sent underground without protective clothing or boots.

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Zambia was represented by Zambia National Service (ZNS) and together with the Chinese team commenced the construction of the textiles complex in 1977 and was completed by 1981 but production only started in 1983. Like most parastatals, the textile in Kabwe was not doing well, largely due to the debt owned by the Zambian government, which was not being serviced. After the introduction of privatisation ownership of the complex changed to a joint venture with a Chinese company called Qingdao General Textiles Corporation and the name changed to Zambia-China Mulungushi Textiles Joint Ventures Limited. A Mulungushi Industrial Park is also being established in the area.

However, the company is still besieged with several problems and is currently not operational. The majority of the workforce has been laid off, leaving only a skeleton staff of 10 workers. But the negotiations for the re-opening of the Mulungushi Textiles have reached an advanced stage as it is set to reopen very soon (Lusaka Times 10.12.2008). In 2006, Chinese explosive manufacturing company Luanshya had an explosion killing all 45 workers on site. The problem was again attributed to lack of enforcement of relevant law safety measures by the Chinese authorities which again raised concerns about the role of the Chinese in Zambia.

### 2.1.e.iii *Construction sector*

The one thing that the Chinese are really known for throughout Africa is their efficiency in construction. They have built magnificent buildings, complexes, stadiums, hospitals etc across Africa to woo the Africans. Zambia is not an exception to this, the main highlight under general construction is the government complex which started in 1985 as a party headquarters building for the then ruling party the United National Independence Party (UNIP). The complex comprises of six buildings and the construction was funded by the Zambia Government coffers which has taken over the complex and presently houses several government ministries.

Before 1979, State Owned Enterprises were among the few Chinese institutions permitted to operate outside China. But with decades of experience in the construction of large scale infrastructural projects, often in extremely isolated areas, it is no surprise that these

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companies are at the forefront of China's efforts to engage Africa. Over the past ten years the number of Chinese construction companies in Zambia has grown from only two to three to almost twenty, although only eleven are registered with the National Construction Council. Several of the private companies were initially established in Zambia, making it technically difficult to classify them as Chinese companies apart from the ethnicity of the owner. These companies however, continue to follow modes of operations similar to other Chinese companies and appear to have ready access to Chinese government capital through the Bank of China. Chinese construction companies have a range of advantages over their local and foreign competitors such as; good quality low-cost skilled labour, hands-on management style, high degree of organisation, general aptitude for hard work and access to relatively cheap capital (Burke 2007: 329).

While local and foreign construction companies operate on profit margins of 15-25 percent, Chinese companies usually operate on margins of under 10 percent, thereby making them extremely competitive. It is also felt that the Chinese are undertaking work according to the set quality of works. The reason behind this is the available project consultants. However, the main problem is that the Zambians cannot supervise the work as they lack expertise, thus it can lead to cheating. The Chinese construction companies are believed to have carved out a 30 percent share of the market. The markets have now started to adjust to the initial impact of China's engagement and have now begun to stabilize as competitors are either pushed out of the market or learn to compete while Chinese construction companies continue to steadily expand their market share (Burke 2007: 331).

Since there have been problems with enforcements, there are areas where enforcement is being tried. A case in point is the design of the fly over bridge on the Great East Road at the University of Zambia main campus. The initial design was done in Kenya but it required the approval of the Zambian Engineering Association which was granted. Another is the construction of Environment Block at Ridgeway campus of the University of Zambia by a Chinese company. The tender was done and a consultant assessed prices. The quality of work was further strengthened by attaching a local engineer on the site. It

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may be important to note that these examples are commercial projects not financed by Chinese grant or loan. The contribution to the transport sector is also worth noticing.

### 2.1.e.iv *Transport sector*

The biggest Chinese investment project in Zambia is TAZARA which was funded by a Chinese loan in 1965 with the objective to reduce dependence of Zambia on its southern route for its imports and exports. TAZARA which was completed in 1976 facilitated the country to bring its import and exports through the port of Dar-es-Salaam in Tanzania and not through Zimbabwe and South Africa as earlier. However, the rail line remained inefficient and unprofitable and has still not been able to make easy the imports and exports of the country. Infact, the project still stands out as the country's single source of major indebtedness of Zambia to China.

China has since provided loan finance towards this project. Loans were provided for the amount of US\$ 10.8 million in 1992 for procurement of passenger coaches and spare parts, for US\$ 26.7 million in 1995 for engineers and technicians, for US\$ 6 million in 2004 for purchase of spare parts and fuel, another US\$ 11 million in December 2004 and on top of that China provided soft loans worth US\$ 157.7 million to the TAZARA project over the period 1965-2006 to be shared equally between Tanzania and Zambia.

The Lusaka-Kaoma road was funded by a Chinese loan of US\$ 12 million in 1967. The construction of the road commenced from 1969 and was completed by 1975. The Serenje-Samfya-Mansa was financed by a loan from China of the amount of US\$ 14 million under the Economic and Technical Cooperation Agreement. In June 2006, China expressed interest to assist Zambia in constructing Chembe Bridge across the Luapula River in Luapula Province. An agreement was made with China for the construction of a radio station in 1972. The Zambia Tele Communications Company Limited (ZAMTEL) entered into a soft loan agreement financed by the Export and Import Bank of China in the amount of US\$ 13,200,128. In the area of telecommunications, Koza Telecoms has pledged investments of US\$ 150 million in 2007 for the provision of GSM mobile communications and other ICT products and services in Zambia.



Along with this enormous engagement with the Chinese in different sectors in Zambia comes the issue of Chinese presence in Zambia as Chinese are really known for bringing with them their own work force. This has created a huge Chinese Diaspora in Zambia which is an interesting study for various scholars. Here, we are looking at the reactions of the Zambians as well as of traditional lenders about Chinese presence and the reactions of the Chinese about Chinese presence in Zambia.

### **2.2 Chinese Presence in Zambia**

#### **2.2.a Reactions of Zambians about Chinese presence**

During a workshop organised by the Friedrich Ebert Stiftung of Germany in Zambia in October 2007<sup>18</sup> several stakeholders, especially trade union representatives strongly complained about the working conditions in Chinese operated companies.

“We have problems working with the Chinese. They pay very low wages; they discourage trade union activities and say that our demands go beyond what has been agreed upon between the two Presidents of China and Zambia. When we complain, we are told “go and ask your President what we agreed!” How can we deal with this situation? We do not know what was agreed between our President and the Chinese President. We need help on this!”

Representative of a Trade Union in Zambia.

The discussions among Zambians about the Chinese in Zambia can roughly be divided into three parts. There can only be these three groups and none other. Firstly, parts of the Zambian bureaucracy and the politicians currently in power, who see China as ‘the great saviour’ without whom Zambia would languish in poverty. Any questions about China directed to this category of people would be met with defensive responses like “don’t you know that the Chinese built the TAZARA railway line?” This category of Zambians sees nothing wrong with the Chinese activities as well as their presence in Zambia. This group was lead by late President Levy Mwanawasa.

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<sup>18</sup> This was during the presentation of the following study: Friedrich Ebert Stiftung (2007) ‘The Social and Economic Impact of Asian FDI in Zambia: A case of Chinese and Indian Investments in Zambia’ Lusaka, Zambia.

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During a visit to the Clinton Global Initiative in September, President Mwanawasa urged countries in the West world to redeem themselves before criticizing China for giving more aid to Africa. According to reports in Zambian newspapers, he said that western countries are often reluctant to provide assistance to Africa but China had come out clearly as a dependable partner. Not all Zambians were pleased with this statement.

“I hear the President made a statement when he was in New York that the only thing that will save Zambia is China. That’s very unfortunate. He should have said that the only people that can help us grow the economy are the Zambians. It would have made more sense”

Representative of Transparency International Zambia

The second category is of people who acknowledge the need for investment in Zambia from China and others. These people see the problems with the Chinese investors as a symptom of the weaknesses of an ill conceived and poorly administered investment regime in Zambia. They say that the Chinese are taking advantage of the weak labour, environment and immigration laws. A number of media groups in Zambia belong to this category.

The third and most critical category is that of the ordinary Zambians on the street. The majority of Zambians are poor, uneducated, unemployed and underemployed. This category sees the Chinese as their source of deprivation. They feel that the government is too busy protecting the Chinese and the Chinese are supporting the Government in suppressing them. This is the category of people who want to get rid of the Chinese. They hate the Chinese and see them as exploiters and thus are carried away by the 2006 presidential candidate Michael Sata’s anti-Chinese sentiments.

### 2.2.b Reactions from Traditional Lenders

“EU Cautions Zambian Government...it’ll be a scandal to get back into debt” reads the front page headlines of the Zambian newspaper The Post October 3, 2007. The statement by Dr. Fee, Head of the European Unions delegation in Zambia, followed the previous days’ announcement that China would provide a loan of US\$ 39 to Zambia.

Two days later, another front page headline read “Zambia free to choose partners”. The Zambian minister of finance and planning, Magande had reacted to the EU delegations

## China in Zambia

warning, stating that the EU should not decide for Zambia which partners to associate with. He said:

“While we appreciate the help we receive from the EU, they should not decide for us which country should give us help. It is very clear in international relations that it is not proper to interfere in our relationships with other cooperating partners”.<sup>19</sup>

The Western donors have expressed anxiety at the way the Chinese give loans to countries in Africa generally and Zambia in particular. The reactions of the west have been discussed in the previous chapter in some of the countries in Africa. The main fears are that the traditional lenders have just written off Zambia’s debt and thus the country appears creditworthy. The Chinese, by giving new loans are free-riding and hoping to harvest where they did not plant the seeds. The other fear is that the Chinese are not at all concerned about the issue of good-governance and human rights in Zambia and they are giving loans for projects that do not ‘add value’ to the development process of the country, such as football stadiums and state palaces.

Despite these fears, it was also highlighted that the Chinese investments could be very positive to Zambia. Donors expressed that China would join the Budget Support Donor Group and participate in the Joint Assistance Strategy. They also feel that non traditional donors should come in because they have resources that the traditional donors do not have. What Zambia gets annually from traditional donors is nothing compared to what China can come up with. Like the Zambian civil society, the traditional donors would like to see more openness and transparency from China. Zambia, being a member of the IMF, is duty bound to provide information to the organisation as and when requested to do so.

### 2.2.c Reactions from China

The Chinese authorities have expressed exasperation at the criticisms generally leveled at them by the West. Their standard responses are that the social and economic ties with Africa stretching for over four hundred years and the West have prospered at the expense of Africa during that time. The case of Zambian copper mining is cited where for over a

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<sup>19</sup> This was published in Zambia Daily Mail, 5 October 2007 “Zambia free to choose partners”.

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hundred years, Zambian copper has been mined but Zambia today is one of the poorest countries in the world. The Chinese also believe that being developing countries of Africa, the Chinese may stand to understand and appreciate the problems of Africa more than the West.

Responding to allegations that the Chinese investment does not create jobs for Zambians, the Chinese Embassy stated that this is incorrect:

“The fear that China is employing Chinese workers in Zambia is unfounded. It is Chinese policy to employ Zambian workers whenever these are available with the right qualifications. Only when these are not available do we bring in Chinese experts. In fact, it is very expensive in terms of transport, allowances and housing to bring in Chinese experts”.

Councillor of Commercial and Economic Affairs, Chinese Embassy, Lusaka

Therefore, it is clear from the above discussions how various sections have reacted to the increased Chinese investment in Zambia. So far we have discussed the Chinese investment in Zambia in the various sectors. Now, what is worth noticing is the various problems the Chinese are facing in various sectors in Zambia. What are the factors that have led up to these problems and what could be the possible solutions.

## CHAPTER III

### CHALLENGES FACED BY CHINA IN ZAMBIA

The increasing economic engagement of China with Africa has been seen in different ways by different scholars. There have been concerns about 'neo-colonialism' as well as 'new scramble of Africa' from around the globe. We have seen in the last two chapters how China progressed its engagement in Africa especially in Zambia, what have been the reactions of the West regarding its role in Africa, reactions of the Zambians regarding the Chinese presence as well as the reactions of China and lastly there have been discussions about the challenges that China has faced in some of the countries in Africa like Angola, Nigeria, Sudan and Zimbabwe. The reason why I call these 'challenges' is that because of these happenings in the countries, the role of China has been brought under suspicion. These happenings have turned all eyes towards China. The accusations on China for not being sensitive to human rights, good governance and being supportive to dictatorial regimes have been brought into notice only after these happenings. For example, the coming into formation of the Movement for Emancipation of Niger Delta (MEND) has been researched heavily after revolts against the Chinese (Okonta 2006). In Sudan, China is not taking any concrete stand to bring an end to the ongoing genocide taking place since years. In Zimbabwe, the support of China to the dictatorial regime of Mugabe has raised eyebrows to the role it's playing in the African countries.

The most important thing to be noted in this is the whole talk about 'non-interference in the internal affairs' of any country, which is China's criteria for engaging with African countries. This mask of 'non-interference' that China comes with into Africa is very tempting to all kinds of regimes, dictatorial as well as democratic. Thus, all the countries have engaged with Africa extensively as the terms of engagement are very suitable. This has brought into light the various challenges that China has started facing in Africa. Thus, the West has started arguing that what the Asian (read China) countries are doing to Africa today is much more dangerous as compared to what the Western countries have been doing. Scholars like Chris Alden, Daniel Large and Ricardo Soares De Oliveira in

## Challenges Faced by China in Zambia

the book “China Returns to Africa” have argued that the Asian countries are engaging with Africa somewhat differently than the West. This will infact prove fatal for Africa. Their best and the first argument against the Chinese is their (China’s) violation of human rights, no stress on good governance and open support to the dictatorial regimes. Even after doing this the Chinese still manage to get away with their argument of non-interference in the internal affairs of the country.<sup>1</sup> The Western scholars think that this sort of engagement with Africa is very dangerous and alarming for Africa’s future.

Thus, it’s better to look at the resentment of the people in various sectors that build up as challenges to the Chinese in Zambia. These resentments from the locals are posing as threats and challenges to the Chinese and their investments and the Chinese seem to get worried about it.

### 3.1 Challenges in the Manufacturing Sector

#### 3.1.a Poor working conditions for the labourers

China bought the Mulungushi textiles in Zambia as it was not doing well, with the intention to rebuild it. So, the name changed to Zambia-China Mulungushi textiles Joint Ventures Limited. However, the company is besieged with several problems. In 2004, the Zambian Government asked Chinese managers at Zambia-China Mulungushi textiles Joint Ventures in Northern Kabwe to stop locking in workers at the factory at night (International Business Times 09.08.2006). But the Chinese have always had bad records with the labour rights; they have not given the workers their due rights and have exploited them badly.<sup>2</sup> Thus, the workers keep complaining about the bad working conditions in the mines. This is a cause of concern in Zambia.

In 2006, Chinese explosive manufacturing company Luanshya had an explosion killing all 45 workers on site. The problem was again attributed to lack of enforcement of relevant law regarding safety measures by the Chinese authorities which raised concerns about the role of the Chinese in Zambia. The mill is not operational right now but talks

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<sup>1</sup> Though there have been cases where the principle of non-interference has been broken by the Chinese in Zambia like the 2006 elections.

<sup>2</sup> China has been famous for exploiting the workers in their country as well.

## **Challenges Faced by China in Zambia**

are going on to start the mill by the end of this year (Lusaka Times 10.12.2008). There have been protests by the workers regarding the poor safety conditions in the mills but the protests always fall to deaf ears. The Chinese never talk about any unsafe conditions they are putting the workers into and they continue to do their work (IHLO 2009). The only resort here is the Zambian Government that can initiate talks with the Chinese officials regarding the safety of their workers.

Guy Scott, the Deputy leader of the Patriotic Front has also gone up to say in 2007 that “The Chinese are no longer welcome. They are seen as cheats and our Government as crooks to allow them to get away with it” (China View 02.02.2007).

### **3.1.b Flow of cheap Chinese goods**

The flow of cheap Chinese goods is also one major problem for the manufacturing sector that the businessmen of Zambia have been worried about. This was the main reason that caused the Mulungushi textiles to close down. The same problem was handled differently by South Africa where the Congress of South African Trade Union (COSATU) pressurised the South African Government to talk to the Chinese. Thus, the Chinese were told to cut down their flow of cheap Chinese goods as it was affecting the market.<sup>3</sup> But the point is that South Africa was in a position to negotiate with China but do we think Zambia is in a position to negotiate? So, the authorities in Zambia have to be much more careful while letting the Chinese in.

## **3.2 Challenges in the Mining Sector**

### **3.2.a Working conditions**

Zambia was the largest producer of copper before the 1990s, but after the 90s copper prices fell drastically. Thus, the Zambian Government took the decision of privatizing the copper mines in the hope to renew the failing mines. Thus, the Chinese in 1998 bought the copper mine in Chambishi and found the opportunity to overtake copper production and set up Special Economic Zones. About 50 Chinese enterprises pledged to invest upto

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<sup>3</sup> This is because South Africa has more developed infrastructure, modern economy as well as a functioning regulatory framework to monitor the behaviour of foreign investors. Besides, it has a strong civil society movement and its own position in multilateral organisations and the South (Naidu 2007: 290).

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US\$ 900 million in the zone in 2007. The investment is expected to contribute to the development of the country by the way of creating employment opportunities for many unemployed youth in Zambia. But the working conditions in the mines have always raised serious concerns among the world community. The Chinese pay low wages to the workers, there are no proper safety measures including lower occupational health and safety standards, than other foreign companies (IHLO 2009). Apart from this the Chinese bring the major labour force from China and employ the rest from the local Zambians, which is also raising anti-China sentiments among the locals.

### **3.2.b Explosions and protests**

In April 2005 an explosion at the Beijing General Research Institute of Mining and Metallurgy (BGRIMM) explosives factory resulted in the deaths of approximately 50 workers. BGRIMM is a subsidiary of China Non-Ferrous Company. The report on the cause of the explosion has not been made public yet but it is believed to be negligence on the part of the company. The Chinese government paid compensation of \$ 10,000 per killed employee. Following these tragic events, the company swayed to public pressure not to deny union involvement any longer. The Zambia National Union of Miners and Allied Workers set up at the mine and commenced collective negotiations.

However, the company continued to employ workers at substandard conditions and in July 2006, during a strike over delays in payments by the China Non Ferrous, a large number of employees protested in the vicinity of the living quarters of the Chinese managers. Miners in the night shift stopped work, vandalised the equipment and beat up the Chinese supervisor and the day shift blocked the main road in Chambishi. Two protestors were shot and wounded by a Zambian national working as the head of the company's mine police- a private security company operated by CNF. No prosecutions were initiated. The security manager was subsequently transferred to the nearby town of Chingola (Asia News 03.05.2008).

Apart from this, about 500 workers at a Chinese owned copper smelter in Zambia returned to work after deciding to end a strike over payments and benefits. "The strike



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has ended, but we are not sure if they have struck a deal”, said Albert Mando, General Secretary of the National Union of Mining and Allied Workers (NUMAW), which is trying to unionize the smelter’s employees. The employees of Chambishi smelter which started processing copper in 2008, walked off the job to back their demands for better wages and holiday and transport allowances. The striking workers had blocked the main road, leading to the smelter in Chambishi, 400km north of the capital of Lusaka, to prevent Zambian and Chinese managers from entering the plant and vowed not to return until their demands were met.

In May, 2007 the Zambian Government had to shut a manganese mine operated by the Chinese company Chiman Manufacturing Ltd at Kabwe, approximately 150 kms north of Lusaka, due to pollution being caused by it which was leading to poor environmental management (ABC News 14.05.2007). And in June, 2007 Zambian authorities closed the Chinese-owned Collum Coal Mining Industries in southern Zambia as a result of air pollution.<sup>4</sup>

### 3.2.c National debate

The increasing explosions and protests at the Chinese owned mines in Zambia have shown the sensitivity of the Chinese Government towards the local people. There have been no reports from the Chinese about the explosions that took place in the Chinese owned mines, killing a large number of workers. The Chinese never like to speak about these incidents at all. They term them as merely accidents and do not pay attention to the unsafe working conditions of the labourers. After these incidents the locals have been discontent with the policies of the Chinese in their country and are also unsatisfied with the steps taken by the Zambian Government to resolve this. They are also blaming their government for not negotiating the terms with the Chinese properly. Thus, majority of the Zambians feel themselves as cheated by their own governments.

There have been national debates about the role of the Zambian government in the whole issue of the Chinese role in Zambia. The locals expect more strong actions to be taken by

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<sup>4</sup> There were also reports that workers were being sent underground without protective clothing or boots.

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their government rather than merely being a spectator to all this. Thus, the situation in Zambia became more critical with the media blaming the government and the locals unsatisfied with late Mwanawasa's government.

### **3.3. Zambia Elections**

#### **3.3.a Michael Sata (Presidential candidate 2006)**

The 2006 general elections in Zambia was the most important point from which the Chinese presence in Zambia has been seen from a different perspective. This was the time when the anti-China sentiment was at its peak among the Zambians. This category is the third category that I talked about in the reactions of the Zambians towards Chinese presence in chapter II. The local Zambians, majority of whom are poor, uneducated, unemployed and underemployed can be convinced against China very easily. This is what Michael Sata did in his campaign in 2006 for the elections. He raised anti-China sentiment among the locals to win and convinced the locals that he would drive China out if he won. This gave the locals hope of more jobs for them as they believe that the Chinese bring their own labour and take away the jobs of the locals. Michael Sata said that the Indians, Chinese and Lebanese are taking away jobs from the Zambians (IPS News 18.10.2006). These remarks were dismissed by the Chinese at that time as 'cheap politics'. The Chinese Government also announced that it would officially lodge a complaint with the Zambian government regarding Sata's comments that Taiwan was a sovereign state. Sata is a populist and his remarks can be perceived to reflect an underlying antipathy towards one of Zambia's most important investors. Zambia he declared is becoming a province, not a district of China' (Yaroslav 2007).

#### **3.3.b Principle of non-interference broken**

Michael Sata during his campaign also made contact with Taiwanese representatives in the neighbouring state of Malawi (which had diplomatic ties with Taiwan at the time) and also pledged to give recognition back to Taipei, should he win in the elections. This was not at all acceptable to the Chinese and resulted into a furious response from the Chinese ambassador to Zambia. Li Baodong, the Beijing ambassador threatened to withdraw Chinese investment should Sata be elected. Clearly, the Chinese commitment to non-

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interference in the domestic affairs of the country has been violated. Thus, it can be seen that the commitment of non-interference which is the first condition of engaging with a country by China is not at all respected.

Not only this, after the open threat the Chinese contributed significantly to the Levy Mwanawasa's campaign (the candidate opposing Michael Sata) to make sure Sata was defeated. Several political observers have criticised Sata for making such comments about the Chinese which became a national issue. But there were others who did not appear overly perturbed by Sata's remarks. Sata himself in his interviews says that the opposition has played an important role in influencing the government to act 'more responsibly', especially in its relations with China. He also argues that his remarks were intended to ensure that the Chinese were not treated differently to other political investors.

These remarks made by Sata also sparked attacks by opportunists on Chinese businesses in Lusaka. There were increasing reports of accidents in the copper mines especially owned by the Chinese and suddenly a series of protests rose about the poor working conditions of the Zambian workers.<sup>5</sup> A senior official of the PF was also heard as saying that during the early days of Zambia's engagement with China relations were strong, but that China's investment has reduced significantly, salaries are now poor and the Chinese have to mend their ways if they have to survive in Zambia.<sup>6</sup> This was like an open threat to the Chinese. Thus, the anti-China sentiment that Sata had raised in the run-up to the elections allowed him to establish a popular support base in Lusaka (IPS News 18.10.2006).

President Hu Jintao also had to cancel one of his visits to the Copperbelt to lay the cornerstone for a stadium, due to fear of protests by the dissatisfied workers. The Chinese Government has been continuously telling the media that they are very much conscious

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<sup>5</sup> However, this kind of resentment did not come up suddenly but was piling up from some time when workers died in mine explosions in a Chinese owned mine. This raised the issue of unsafe working conditions.

<sup>6</sup> The statement regarding decrease in the Chinese investment may be wrong but popular sentiment towards the Chinese was undoubtedly changing in Zambia.

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of this issue and the Embassies regularly encourage the Chinese companies to act more responsibly. But other than the people working in the copperbelt, who have been worried about the poor working conditions in the Chinese mines, the overall majority of people have a very favorable perception of China.

Now, China is in a position where the West is constantly mobilising others against its policies in Africa. The Chinese have been accused of not paying attention to human rights and enough proof has been found to support the allegation. They have also been accused of not pressurizing the donor countries for good governance, this is very much visible by the speed with which they are distributing aid throughout the continent with the 'no-strings attached' slogan. Apart from this they have been flooding the African markets with cheap products and causing a disturbance in the economy. Recently, some Chinese medicines have been found in some of the African countries with the label 'Made in India' but actually they have been found to be produced in China<sup>7</sup> (Times of India 09.06.2009). And the Chinese scandal of toys had already given it a bad image when in 2007 toxic lead-based paints and dangerous magnets were found in the toys exported by China (Times of India 15.08.2007). With such allegations coming out on China and being criticised internationally it is becoming more and difficult for China to sustain itself. And if China is not at all worried, it should be worried now.

Learning from all the mistakes that have been done till now, based on this research I give my analysis in the next point, and the Zambian government and the Chinese have to mend their ways if they have to see more fruitful investments in Zambia.

### 3.4 Analysis

The analysis shows the areas that have not been focused upon and need more attention in the future for the successful Chinese intervention in Zambia.

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<sup>7</sup> National Agency for Food and Drug Administration and Control (NAFDAC) of Nigeria has confirmed that the consignment of fake anti-malaria drugs labeled 'Made in India' were found to have been manufactured in China. This consignment has been possibly exported to other countries in Africa also.

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### **3.4.a Training of African labour to cater to Chinese needs**

The Chinese companies engaged in Africa have been bringing a large number of Chinese labour force to work with them. When asked the reason behind this, they reply serious shortage of skilled labour in Africa. A distinct shortage of skilled and experienced workers was reported by a range of Chinese investors in Zambia and other parts of Africa as well. In South Africa, the Chinese government has already recognised this need and has attempted to address the issue by establishing educational exchanges with some of the countries and provision of skills development through the Joint Initiative on Priority Skills Acquisition (JIPSA) initiative in South Africa (Centre for Chinese Studies 2007).

In Zambia several local people were reportedly angry with the Chinese for bringing their own labour which takes away the jobs of the locals. The Chinese, on the other hand feel that it's both expensive and tiring for them to bring labour from China but they don't have skilled labour force in Zambia. Michael Sata had also mobilised much of the locals by blaming the Chinese for bringing labour force with them and thus taking away the jobs of the Zambians. This anti-China sentiment could bring about further problems for China in the coming years so it is better to collaborate with the host country to train Zambian labour.

### **3.4.b Improving the focus of Chinese foreign aid**

Chinese foreign aid spending commitments to the African continent have received much publicity in recent years, especially in the aftermath of Beijing FOCAC Summit in November 2006. Technical and medical assistance, as well as major infrastructure projects have been welcomed by African leaders. However, it remains unclear how the large aid disbursements promised by the PRC will be implemented on the ground. Given Africa's perceived propensity to fall into the 'aid trap' it is crucial that the PRC engages effectively, with a coordinated approach to ensure that the needs of the poor and vulnerable are met. A number of African civil society organisations, for example, the Africa Forum and Network on Debt and Development (AFRODAD) have taken up projects to examine how civil society may most effectively make use of Chinese aid for poverty alleviation. In addition to improving aid harmonisation through civil society with

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traditional donors, other initiatives could be put in place to ensure timely and effective completion of aid projects.

For example the Zambian public should have a right to know about and question all borrowing from both new and old lenders, before the loan agreements are signed. This right should be incorporated in the Bill of Rights. This would increase transparency and would also strengthen the trust of the people on the government, which they are losing in the current situation. Along with this the blame on the Chinese for not being transparent would also not be made.

### **3.4.c Micro African business to be empowered for exports to China**

There are numerous examples of small scale African business that is profiting from exporting to the China market. However, the private sector clearly indicates the need for a small business support mechanism that would assist exporting to the Chinese consumer market. The Chinese traders are controlling the flow of Chinese products to Africa, as Asian traders in many cases lack the knowledge, access and contacts to benefit from the African demand for Chinese goods. There already exists a model in Beijing-based China-Africa Business Council (CABC). This organisation was established in 2005 and was co-funded by UNDP. The CABC does promote Chinese trade and interaction with Africa, but does little to facilitate African engagement of China through small business trade promotion (Davies and others 2008). Besides, there are several African communities existent in Southern China whose strategic potential for African traders is currently unrealised through a lack of coordination.

In Zambia particularly complaints have come from the people who do not belong to or are not part of the executive or ruling party, saying that they do not have access to participation in the trade fairs or delegations exchanged between the two countries. Small businesses in countries like Zambia have difficulty in finding information on business opportunities in China and rarely have the capacity to visit China to establish links for themselves. Local government and donor support would be necessary for an initiative like this and it should be largely driven by African business sector. This would result in

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increased access to the domestic Chinese market for the purpose of both import and export, facilitating employment creation. Gradually, it is desirable that African manufacturers are able to compete with their Chinese counterparts in third markets.

#### 3.4.d Chinese employment localization models to be identified

If we look at the vast majority of senior level and middle level managers in the Chinese investment initiatives in most of the African countries, they are found to be Chinese nationals. This kind of positions requires transferring skills and training to the local African population that is hired by the company and it presents a serious challenge to the Chinese companies in order to properly understand the dynamics of the local environment and engage the local markets. This is also problematic from the African side as they constantly complain of not being hired at managerial levels in the Chinese companies.

ZTE<sup>8</sup> had adopted an Africa-wide policy to employ local people in an attempt to engage and serve local markets in the area more effectively. In Zambia also ZTE has encouraged more and more Zambians to join the management and most of them are happy with the job they have. Zambian Minister of Labour and Social Security has said that the employment of local employees in the management is 'cardinal' since they could act as interpreters between cultures, thus minimizing the strife and disharmony between the investors and the local workforce (People's Daily Online 16.01.2006). This should be encouraged in the other sectors also especially the mining sector which has been of extreme importance in Zambia. Increasing local employment by the rising number of Chinese companies operating in the African continent would also make Chinese companies more responsive to the local needs and facilitate more effective delivery of products and services.

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<sup>8</sup> Zong Xing Telecommunication Equipment Company Ltd is a Chinese company operating in Africa and claims to have two-third of its employees from the local African population (Manila Times 2007).

## **Challenges Faced by China in Zambia**

### **3.4.e Increase cooperation between African and Chinese civil society**

China and Africa bear similarity in the sense that in both the countries the crucial value of civil society has gone largely unrecognised by the government in championing the rights of the poor and vulnerable. Despite similar political contexts, the civil society in Africa is more vocal, experienced and developed than in China. Thus, it would be beneficial for the civil society organisations of both the countries to benefit from sharing of knowledge and experience on a range of issues as both of them are developing countries facing similar challenges. For example, comparative discussion on topics such as combating the spread of HIV/AIDS or tackling environmental challenges with industrialisation would facilitate greater positive engagement of these issues (Centre for Chinese Studies 2007).

The Director of a Zambian agriculture NGO, cited the challenges associated with relations between African and European or North American civil society institutions that have completely different experiences and face difficulties in communication and fostering meaningful exchanges. While on the other hand, he suggested that interaction with Chinese institutions would certainly be able to provide an infinite range of exchanges and an opportunity to benefit from more apt technology and ideas. This kind of exchanges of knowledge, ideas and experiences between Chinese and African civil society organisation would strengthen Chinese and African civil society organisations' responses to the developmental challenges in their respective contexts.

### **3.4.f Understanding of Chinese Diaspora**

The understanding of the Chinese Diaspora is very important especially because the influx of Chinese nationals, more so since 2000, has resulted in the formation of communities and Chinese 'cluster economies' in the African continent. The Chinese migrants that have settled in Africa mostly group together thus forming an inward-looking communities in which local Chinese dialects are spoken, children are schooled in Chinese community schools and there is little interaction with the society around them (Centre for Chinese Studies 2007). The Chinese workers are mostly brought to Africa on some projects and they tend to socialize amongst themselves. The problem is that the impression of the Africans is affected by it and the level of acceptance for the Chinese



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also becomes low. This leads to the problem of generalisation about the Chinese community in Africa and the also the assumption that they are homogenous. For example, in South Africa, tensions exist between the local South African-born Chinese (SABCs) who have been born and raised in the country, and recent immigrants from China, who regard themselves as more Chinese than the SABCs (Alden 2007).

In countries like Zambia, the main problem is the displacement of local business, leading to negative perceptions about China. This is the result of less research on the Chinese Diaspora. In Zambia, the Chinese community is growing quickly and their presence is also becoming increasingly politicised as was seen in the 2006 Zambia elections when the local public was adamant to throw the Chinese out. There was a wave of anti-China sentiment in the country. Not only this, there is also much speculation around the Chinese reactions to these perceptions, and media hype around anti-China sentiment which has only served to perpetuate stereotypes. While the Chinese are not popular in and around Chambishi, Western media reports of anti-China sentiment across Zambia are highly exaggerated and largely unfounded. Thus, there is an urgent need to understand African perceptions of China to facilitate more interaction. It would also help to unfound assumptions upon which most of the international community have based their intervention and would encourage more effective engagement.

Thus, it is very much evident that the challenges that China face cannot be achieved in a short-term. Infact the above analysis that I have given is largely exploratory in nature and requires further research into most of the cases. It is evident from the study that insufficient research has been conducted on the subjects till date and further information is required for successful interventions. There is a serious need for further research in a number of fields before letting the Chinese investment to go further. The training of the African labour is of utmost importance for the Zambians to take up more jobs. This would also solve the problem of unemployment to a certain extent. The granting and implementation of the developmental aid should also be made more transparent by the government, which would make the common masses to have faith in the government. Then the micro African businesses have to be empowered and more and more

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cooperation between the African and Chinese civil society should be facilitated. Lastly, the understanding of Chinese diaspora has to be promoted to remove the generalisation about the Chinese that everyone has. Extensive research into all these areas would be very beneficial for the African business as well the Chinese investment. Thus, if Zambia has to see any better from the Chinese it would be possible only after focus into these areas otherwise the relationship between the two countries would always be asymmetrical.

## CONCLUSION

China's entry into Africa has been the most dramatic and important factor in the external relations of the continent since the end of the Cold War. The speed of the trade relations between the two is simply astonishing. China's engagement with Africa seems to be a lasting one and very unlike any other country's engagement with Africa and is likely to get more extended in the years to come. I certainly do not wish to downplay neither the scale of China's role in Africa nor its likely permanence rather I assume that it will both broaden and deepen, displacing in the process many of the ties that have been established especially with the Western states since the colonial era and before.

China's capacity to develop long-term relationships in Africa also faces constraints that derive from the problems of inserting itself into a set of structures that are already deeply established and extend well beyond the limited range of Chinese interests and involvement. Essentially, what China and other Asian states (including India) are seeking to do is to insert themselves into an existing bilateral relationship between Africa and the West, converting it into a triangular one. China's rapid entry into the continent has not led to any changes in the composition of the African exports but has led to the diversion of these exports away from Western economies towards eastern Asia.

In the present scenario, the narrowness of China's engagement in Africa is likely to prove damaging. On the other hand, the fact that China seeks to impose no ideological agenda of its own on Africa in contrast to the ideological commitments of the Western states, means that it poses less of a threat than its Western counterparts. But 'ideology', no matter how great the arrogance with which external powers seek to promote it, is not merely an alien imposition on unwilling Africans. For Africans who have been subjected to brutal domestic regimes, the demand for human rights strikes a legitimate chord. Similarly the transformation into a multi-party democracy has been proved better than the military and dictatorial regimes. All the Western criticism focuses on the role that China is playing in the continent especially not paying any attention to the human rights and good governance. This criticism has today reached a stage where it cannot be overlooked

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merely as statements to undermine China's growing role in Africa. But today China will have to mend their ways if it is looking for a long-term relationship with Africa. For example, if we look at Zambia we are looking at a non-oil sector investment of the Chinese and what makes it interesting is the way it is different from the oil sector investment in the continent. The oil sector investment of the Chinese is done in a very cautious manner and there is absolutely no room for complaints but looking at the investments in a country like Zambia I found out the policies to be very different from the others. The Chinese in Zambia are unaffected, and this is what the media in Zambia has been saying. They say that the Chinese are going their own way and there is no one to stop them.

The other thing that proves my hypotheses is that the 'no strings attached' policy of the Chinese is not really applicable in Zambia. There have been cases when the Chinese have had so much involvement in the internal affairs of the country that this slogan sounds farce. For example the 2008 general elections that has been discussed in detail was the time when the Chinese controlled it. The most important thing is that China is in control when it thinks its role is in danger. So, the question is where is the 'no strings attached' policy it has always claimed for. Thus, there are indeed strings attached with the Chinese aid in Zambia and there has to be a way of checking the Chinese role in a country like Zambia now else it would be too late. As I could find out from the research, there is nothing as transparency in the case of the Chinese engagement with Zambia which makes it all the more difficult to keep a track of the Chinese progress in the country. Thus, there should be a time bound process to track the Chinese investment. This would keep a record of time to time happenings in the country and would make it easy to counter the Chinese for violation of any rules. For this the civil society has to play an important role.

It is very much evident from this research that challenges that China is facing in Zambia cannot be overcome in a short-term. Insufficient research has been conducted on the subjects till date and further information is required for successful intervention. The training of the African labour is of utmost importance for the employment of the Zambians. This would help a great deal in solving the problem of unemployment. The

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granting of the developmental aid should also be made more transparent by the government, which would put a check on the actions of the Chinese. Most importantly, the understanding of the Chinese Diaspora has to be promoted to have a more clear understanding of the Chinese in the continent. Research into these areas would be beneficial for the African business as well as the Chinese investment. Thus, if Zambia has to improve its future and see any better partnership with the Chinese it will have to focus in these key areas which have also been discussed by me in chapter III in detail.

The question is if the Chinese continue to engage in the way it is doing presently in Africa, how far is it going to sustain itself? I think the first phase of its weakening engagement is quite visible from the various challenges it is facing all over the continent and if China does not take enough measures correct these problems it will have to face much bigger issues in the future.

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