CHINA-ZAMBIA RELATIONS IN DEVELOPMENT COOPERATION: TOWARDS CONCLUDING SOME UNFINISHED BUSINESS

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1. China’s Global Presence

**Size of the Economy:** the International Monetary Fund (IMF) estimates that China was the second largest economy in the world in 2017 after the United States (US), and that its Gross Domestic Product (GDP) would reach US$19.6 trillion in 2023 compared to US$24.7 trillion for the US. Some observers estimate that China will overtake the US as the largest economy by 2030.

**International Trade:** The IMF suggests that China was the third largest exporter and second largest importer in the world last year (2017); overall, it was the second largest trader in the world after the European Union (EU). The economy, like all other large economies in international trade, held a large and growing trade deficit, which stood at US$2.4 trillion in 2017, compared to US$5.8 trillion for the EU, US$1.5 trillion for the US and US$421 billion for Africa. The world is becoming increasingly more dependent on imports for consumption and production, China included.
Foreign Direct Investments (FDI): from UNCTAD statistics, China’s current stock of FDI in the world might be small (US$1.5 trillion in 2017) compared to advanced economies (e.g., US$10.6 trillion for the EU and US$7.8 trillion for the US in the same year), but its outward flow of investments has increased significantly, reaching US$124.6 billion in 2017 compared to US$435.1 billion and US$342.3 billion respectively for the EU and the US. In effect, China’s outward flow of FDI averaged a nominal growth rate of 21.7% per year over 2001-2017 compared to growth rates of -4.0% and -3.5% per year for the EU and the US over the same period.
2. China’s Plans for Africa and the World

Forum on China-Africa Cooperation (FOCAC): the traditional investment and development plans in FOCAC were kept at the same absolute quantum of financing in 2018 as the previous amount in 2015 (US$60 billion over roughly three years in both cases). However, the FOCAC financing has been nuanced in 2018, with a new line for Chinese company investments in Africa, worth US$10 billion (see Chart).

Belt & Road Initiative (BRI): according to anecdotal sources, China’s “One Belt, One Road” (or Belt & Road) Initiative will cost between US$4-8 trillion and will affect 65 countries, stretching from East Asia to East Africa and Central Europe. The megaproject is to be completed in 2049 and will change the global trade, infrastructure, economic and geo-political landscape. However, the strategic approach to including the rest of Africa in the BRI and synchronizing it with FOCAC is currently unclear.

3. Nervousness about China-Zambia Relations

Common street-level views about China in Zambia: anecdotal evidence of China’s growing presence in Zambia abounds, and the sentiments are usually negative or skeptical. For example:

- **Rumors of public asset takeovers**: at various points in the recent past (2016-2018), rumors emerged that key assets like ZESCO, ZNBC, ZAFFICO, NRDC, Jacaranda school, COMESA market, etc. had been taken over by Chinese entities. Public suspicions of corruption and selling off of State assets to the detriment of Zambia’s posterity have abounded, and China is seen as part of the problem.

- **Private land and property acquisition and “Chinatown” approaches**: some privately acquired properties give rise to mysteries and suspicion about what might be going on “behind the walls”; for instance, a Chinese Government sponsored 2016 study on China-African Trade Developments and Impacts by ZIPAR failed to gain access to the Chambishi MFEZ. Similarly, labeling or signage around establishments, particularly stores targeting Chinese
customers serves as an access barrier for Zambian, escalating the misgivings about Chinese operations in Zambia.

- **Takeover of basic jobs**: some basic jobs that are perceived as being for locals (Zambians) only have on occasion been taken up by Chinese nationals temporarily resident in Zambia. These include micro-level restaurant (“nsima” selling) services, small-scale poultry farms, micro-scale retail of low-cost Chinese consumables, etc. This, and the seemingly large number of Chinese nationals migrating to Zambia, has increased perceptions that Chinese nationals are crowding out Zambians from the job market. Interestingly, official IOM statistics show that out of a total stock 156,982 of international migrants in Zambia in 2017 only 1,055 or 0.7% of the total, down from 2,480 or 1.9% of 127,915 in 2015. The anecdotaly perceived large numbers of Chinese labour is therefore most likely related to temporary (1-3 month) work permits or business visa, implying that the migrant workers can only take over cyclical, not permanent, formal and informal jobs.

- **Social misdemeanors**: behaviours – such as locking up, shooting or otherwise mistreating workers, using racist slurs against locals, committing gross public misconduct (e.g. defecating in public), operating illicit outfits (e.g. brothels), etc. – have on occasion been witnessed among some Chinese operatives in Zambia (and Africa). Of course, relative to the numbers of Chinese nationals who are legitimately in Zambia as residents or temporary workers, the incidences of social misdemeanors are few; however, the old adage that “one rotten apple spoils the whole barrel” comes readily to mind here.

Ultimately, the bias towards negative news and publicity – some of which is true and other of which is “fake news” – in the absence of systematic empirical (or verifiable) data, information and knowledge has caused considerable nervousness and xenophobic attitudes and practices in some circles in Zambia.

**Empirical Observations and Unobservable Aspects**: on the empirical side, evidence also abounds, which explains the nervousness in Zambia. For one thing, the rising level of Zambia’s indebtedness to China – with debt owed to China at US$2.3 billion or 27% of total external debt in 2017 – has caused worry in Zambia. ZIPAR published a paper in April 2018 in which the following questions were raised regarding China’s debt in Zambia, questions that largely
remain unanswered:

- What is the formal or structured debt contraction process for Chinese loans and why is this process not officially published in Zambia and placed in the public domain for scrutiny for its reliability and consistency with Zambia’s laws [and policy practices]?

- How are the projects [that are] financed by Chinese loans selected and appraised for value-for-money (fair pricing), feasibility, economic viability or rates of return, environmental impact and so on? Why are the project appraisals associated with Chinese debt shrouded in secrecy?

- What transactional benefits does Chinese financing offer to the Zambian economy [as local content] considering that the bulk of it goes through Chinese financial intermediaries to largely Chinese contractors and other goods and services suppliers?

- What is the “fine-print” in the Chinese loan agreements, which should be disclosed to the Zambian public, e.g., which of the physical assets (roads, airports, electric power plants, etc.) being financed by Chinese loans are currently or designated to be collateralized and under what terms?

Unsurprisingly, these issues add to the negative perceptions about the presence of China in Zambia.

Beyond the macroeconomic level aspects (trade, investments, debt, etc.), at a very practical level, where business is concerned, Chinese operatives have dominated the activities of sectors were Chinese debt financing is prevalent. A good example is the construction sector in Zambia, where the bulk of infrastructure development projects (roads, national airports, public buildings like health facilities and schools, etc.) are China debt financed. In this sector, Chinese contractors have positioned themselves very well to dominate business in Zambia. Out of 3,791 contractors of various grade – from Grade One (with the highest competences) to Grade Six (the weakest) – 249 firms are classified as Grade One and 169 as Grade Two. Of these, respectively, 123 (or 49% of Grade One) and 39 (or 24% of Grade two) are Chinese. The Grade One and Two firms get all the large and most lucrative construction projects. Anecdotal indications suggest that Chinese construction firms get about
80% of construction business in Zambia. The facts that these firms: have invested heavily in machines and equipment, technology and high-end human resource competences in construction; receive significant State support; and inherently understand Chinese procurement, financial and State systems of securing a share of the “cake” is lost to most observers. What is visible is the fact that they dominate the business landscape and contribute to the marginalization of Zambian businesses.

4. China’s Core Interest in Zambia and Africa

Responses and Non-Responses to Demographic Transitions in China and Zambia: A core interest for China in Africa and Zambia in particular is to do business. Why? The empirical evidence on China and Zambia’s demographic profiles in the future suggests that China will face an aging-population problem while Zambia (like the rest of Africa) is young and will get younger, with an increasing productive age group. China is aging and has thus focused on education, particularly science, technology, engineering and mathematics (STEM) since 2006. As of 2015, it had developed a home-grown workforce of 154 million persons with STEM skills. This workforce was more than 10 times Zambia’s entire 2015 population (and was 13% of Africa’s total population). This workforce comprises of highly skilled and talented individuals who are able to participate in the creation and production of new products. They are doers who can conduct research, decode global consumer preferences and trends, and figure out what the world wants; they are expected to carry China’s aging population burden by becoming global high-income earners.

It is fundamentally because of this new breed of workers that China’s GDP and global exports are rising so rapidly. Exports from China have a significant technology-content orientation, a feature that is on high demand in world markets. On the other hand, Zambia and Africa have remained in the peripheries of global trade volumes and show very low export trade sophistication, with primary and resource-based exports dominating their profiles. They clearly have not harness human capital development in STEMs or technological advancement.
Zambia seems oblivious to its projected demographic transition. Immense opportunities exist for Zambia to learn from the strategic thinking and persistent will-power of China about how to chart its own course to human resource development, economic growth, and trade expansion. Tapping into China’s wisdom and coupling it with access to Chinese development finance, including under FOCAC, would be a potential game-changer for Zambia’s growth and development. Zambia must have its eye on the fact that its demographic transition is taking a very different trajectory from that of China.

Minding the Environment: Another aspect Zambia and Africa should be mindful of is that the general state of the environment is still relatively very “clean” or “green”, except for a few isolated places like South Africa. On the other hand, China’s growth has not been without marked environmental costs. Its global environmental footprint is strikingly different from that of Africa. In terms of CO₂ emissions China is one of the top-two polluters in the world along with the USA while Africa and in particular Zambia, are among the “greenest” places on earth. With China looking “south” for investment destinations and having established FOCAC as one of the points of contact for strengthening China-Africa relations, it is important to foster green FDI from China. In the past, some observers have raised concerns about the environmental sustainability of Chinese investments and have called for FOCAC to be proactive about environmental safeguards. This is important for Zambia and Africa to vigorously follow up on.

Pollution and GDP Growth (2014)

- China’s economic growth has the side-effect of heavy pollution (e.g., CO₂ emissions (’000 tonnes per year));
- Africa/Zambia: among the “greenest” places on earth.
5. Conclusion and Policy Suggestions

**Conclusion:** ultimately, Africa and Zambia, as they deepen their engagement with China, must think about this Chinese proverb and what it means for them:

*You do not discuss with a tiger concerning the stripes of its skin when you want a tiger-skin coat*

(by unknown)

More formally, what are some of the profound elements of unfinished business in China-Zambia relations which tie to Zambia’s developmental goals and aspirations, including those in the Vision 2030? This policy brief sought to undertake a critical comparative assessment of the trade (and other underpinning socio-economic) developments in China, Africa and Zambia, with a view to understanding their impetus as well as their consequences, both positive and negative, for the three territories. We offer unique perspectives and understanding about China-Africa and China-Zambia relations, taking a descriptive look at the history and present-day GDP, trade, investment and demographic trajectories of the three territories. We hope this unravels the latent interests of the three territories, and highlights some of the tensions and opportunities that exist behind their trade, investment, debt and developmental relations.

**Policy Ideas:** against the forgoing observations, we offer a number of policy suggestions for Zambia, China and Africa, many taken from Cheelo and Nakamba-Kabaso (2016). These include the following:

- Minding their projected demographic transition, African countries, Zambia included, should plan for deep-rooted reforms in education, skills development and talent discovery, with the first step towards this being the undertaking of comprehensive, systematic and time-bound reviews of their education, skills development and talent development sub-sectors and systems, benchmarked against leading world economies (like China).

- In order to cope with and mitigate the effects population growth and urbanization pressures, particularly the pressures on environmental sustainability in China and Africa, the blocs should formulate a common, standardized monitoring and evaluation system for measuring the “greenness” of FDI funded activities and State-sponsored developmental projects.

- The current approach of the FOCAC exchange initiative, which focuses on Africa-to-China learning should be reviewed as it does little to help Chinese people to get familiar and comfortable to operate in African social, economic, political and legal spaces and systems. Given the near parity of the total populations in China and Africa, the exchanges could be on set at a 1:1 ratio.
China-to-Africa learning will also help to resolve some of the challenges emanating from the cultural differences between China and Africa.

- In order to address language and communication barriers between China and Africa, Chinese and African social and linguistic research centers as well as information and communication technology (ICT) centers should be identified as part of a specific FOCAC programme, and commissioned to conduct public sector R&D.

- China and Africa should establish a common platform such as a Sino-Africa stock exchange through which investment vehicles, companies and project operators can be listed, and equity options offered.

- To prevent a potentially divisive scramble for Chinese term financing among African countries, FOCAC should establish pro-rata quota-based and performance-based mechanisms for determining the allocations (of at least some portion) of its resources to African countries.

- China and Zambia should establish a common local content policy in line with Zambia’s industrial policy, and should set up mechanisms for ensuring the implementation, monitoring and evaluation of the policy.

- China and Zambia should establish robust, official and empirically verifiable public information sharing (or dissemination) systems and norms, to dispel misconceptions and misunderstandings about the presence of Chinese operatives, investments and debt in Zambia. This should include basic messaging such as dual (English and Chinese) labeling on all signage advertising or describing Chinese operations in Zambia. Other useful information for the Zambian private sector would include guidelines on how they might participate in joint venture investments with the Chinese firms through which the US$10 billion earmarked for Chinese company investments in Africa under the FOCAC 2018 will be channeled.

- China and Zambia should establish and promote a formal Code of Conduct along with a Doing Business in Zambia Guide specifically for Chinese entities establishing themselves in Zambia. The Code should contain rules and norms while the Guideline should contain advisory notes, to aid the Chinese entities operating in Zambia, based on a systematic and official understanding of the key laws and regulations, salient economic and political aspects, key social norms and so on in Zambia, as informed by the Zambian Government.
References:

i. IMF World Economic Outlook (October 2018)


“Working towards the formulation of sound public policies”.