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Global Political Economy of Special Economic Zones: People's Republic of China and Zambia Cooperation

The Case of Chambishi Multi Facility Economic Zone

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<p>China and Africa have a long-standing relationship that in the past two decades has turned into an economic focus for debate and even some controversy. Zambia in particular has been a target for Chinese investment especially in its copper industry. The forerunner to this is China's accumulation of wealth resulting in strategic investments made abroad. One such foreign policy tool is the investment made into collaborative SEZs in selected developing countries. The zones entitle investors to incentives to promote business activities that contribute to the overall host economy. Zambia like many Least Developed Countries is behind in their implementation of such a policy. Despite it being too early to determine if the zone can contribute to structural adjustment, Zambia's implementation of the Multi Facility Zone (MFEZ) framework might be one answer to its' lagging economy. On the other hand, there is much debate on SEZs real impact on an economy.</p>	

Keywords

Special Economic Zone, SEZ, China/Zambia Relations

Contents

1	Introduction	1
2	Special Economic Zones	2
2.1	Defining Special Economic Zones	2
2.2	Global experiences	4
2.3	SEZ policy and investment climate	6
2.4	The determinants for SEZ success	7
2.5	Collaborative special economic zones	8
3	Literature review	9
3.1	Economic development	9
3.2	Manufacturing toward industrialization	12
3.3	Foreign Direct Investment (FDI)	14
3.4	SEZ impact on development	16
4	Geopolitical paradigm in China/Zambia relations	19
4.1	China/Zambia relations	22
5	Case Study: Chambishi Multi Facility Economic Zone	23
5.1	Economic development in Zambia	24
5.2	Investment climate	26
5.3	Chambishi Multi Facility Economic Zone (MFEZ)	28
5.4	Implications	33
6	Conclusion	37
	References	43
	Bibliography	44
	Appendices	
	Appendix 1. Zambian History	
	Appendix 2. PRC strategy	

Glossary (in order of appearance in text)

EZ- Economic Zone

EPZ - Export Processing Zone

FDI - Foreign Direct Investment

LDC - Least Developed Country

SEZ - Special Economic Zone

PPP - Public/Private Partnerships

ODI - Outward Direct Investment

SOE - State Owned Enterprises

STIP-High Tech Industrial Development Zones

HTIZ -High Tech Industrial Zones

ETDZ - Economic and Technological Development Zones

SAP - Structural Adjustment Programs

ZCCZ-IH - Zambia Consolidated Copper Mining Investment Holding

JICA - Japan International Corporation Agency

CNMC - China Non-ferrous Mining Cooperation

NFCA - Non Ferrous Company Africa

CEEC - Citizens Economic Empowerment Commission

IPPA - Investment and Promotion Protection Agreements

1 Introduction

Global Political Economy is a subject that entails the correlations between politics, economics and social constructs. Economics often regards the market mechanisms as independent of politics, the political economy interprets the market mechanisms as socio-politically orientated and thus paying homage to powerful actors including governments, large businesses and unions. Under the umbrella of Global Political Economy lies the relationship between the state and economic development. (Gilpin, 2001) Economic development theories became a dominant discussion during the Cold War period, specifically during the years of the building of the Bretton Woods Institutions of 1945. Development and growth are cited as the path taken toward industrialisation and thus modernization. Whilst the definition of what modernization really means is debatable one can certainly observe that developing countries are under pressure to experience the industrialization and economic growth followed by the successive human development of their developed counterparts. One can establish that the goals of development are based on economic growth and improvement in the quality of life through sustainable development, all of which are highlighted in the Millennium Development Goals of the United Nations. With that being said, in order to understand SEZs' impact on development in Least Developed Countries (LDCs) one must understand what development means on a national and global context.

The purpose of this thesis is to assess Special Economic Zones in a global context as it relates to LDCs particularly in Sub-Saharan Africa. This study will address one of two Special Economic Zones in Zambia, funded and supported by China, from a global political economy perspective. The approach to the thesis is literature based and from a top down perspective. Four questions will address the case example:

- What are the lessons learned from global SEZ experience?
- How do SEZs impact the development of the state?
- What are the socio-political and socioeconomic relationship between China and Zambia?
- Identifying the implementation, investment climate and challenges of the case study of the Chambishi MFEZ?

In order to make this assessment effectively, this thesis will first look at the global conditions responsible for the emergence of Special Economic Zones and their usage in development. Political aspects are taken into consideration throughout the text and

in doing so; insight is made into the wider spectrum of Chinese influence and its notoriety in a changing world. The first part of the thesis will explain the Economic Zone concept, usage, general policy frameworks, success factors and general implications. The theme of the thesis relates to development so therefore the literature review will cover the theories that contribute toward the SEZ and its implications for economic development. The second part relates to China's drive into a new globalization and its bargaining soft power in developing countries by investing significantly in them. The third part will draw from political and historical factors between Zambia and China under the theme of Sino/African relations. The last chapter will follow Zambia's strive toward Vision 2030 from its plight as a middle-income country in the 60s to a low-income country and how despite being a latecomer to the SEZ scheme, using it as one part of their policy mechanisms to achieve the Vision 2030.

2 Special Economic Zones

2.1 Defining Special Economic Zones

The World Bank's definition of an economic zone posits the following

“Economic zones are demarcated geographic areas contained within a country's national boundaries where the rules of business are different from those that prevail in the national territory. These differential rules principally deal with investment conditions, international trade and customs, taxation, and the regulatory environment; whereby the zone is given a business environment that is intended to be more liberal from a policy perspective and more effective from an administrative perspective than that of the national territory” (Baissac & Farole 2011)

The rough estimate of SEZs worldwide is 4300 (Competitive Industries and Innovative Program, 2017). Traditionally zones were government-managed and isolated enclaves in both policy and location. The structure of a zone includes a portion of the national territory, of which the legal frameworks constitute a set of investment, trade and operating rules that are more liberal. The administration of the zone requires governance that is usually centralized, the attributes of which are dependent on the nature of the zone, administrative culture, and the role of the private sector, among many other factors. Zones are provided with physical infrastructure to support the activities of the firms located within it. (Baissac & Farole 2011) There are multitudes of reasons as to why an economy would pursue the EZ policy. These factors include

attracting FDI; gaining foreign exchange earnings; as a mechanism to alleviate high scale employment; and the EZ tool can be used as an experimental playground for implementing new policies and approaches seen historically in closed economies such as China. (Baissac & Farole 2011) (The Multi Donor Investment Climate Advisory Service of the World Bank Group 2008) The EZ programs can experience positive spillovers such as skills and technological know-how including managerial and low skill training of employees. (Madani 1999) Several literatures have categorized the types of EZ models to include Free Trade Zones (FTZ), Export Processing Zone (EPZ), Enterprise Zones, free ports, single factory zone EPZ and Specialized Zones. FTZs are fenced in zones, duty free areas that offer storage, warehousing and distribution linkages. (The Multi Donor Investment Climate Advisory Service of the World Bank Group, 2008) The Colon Free Zone in Panama is a present day leading example of a free trade zone. The zone receives imports and exports to and from the rest of Latin America and the USA attributable to its spatial proximity. The Colon free zone also facilitates commercial activities, especially in the financial services. (Colonfreetradezone.com 2019) EPZs are industrial estates that are aimed at foreign companies and their subsidiaries licensed under a governmental program me and may include non-export activities. Free ports take over large integrated areas and offer retail and tourism, on site residency; these can include large resorts and tourism activities. Single factory scheme zones offer incentives to a single Multinational Corporation (MNC) regardless of location. Enterprise zones are intended to develop distressed, mostly rural areas in developing countries and even urban areas nearby large cities in developed countries. Specialized zones cover smaller landmasses generally of less than 20 hectares and comprise of science or technological parks in urban areas, an example of this is Dubai's Internet City. (The Multi Donor Investment Climate Advisory Service of the World Bank Group 2008) Since its inauguration in 2000, Dubai Internet City is included in TECOM Group Portfolio, which is one of many interconnected zones/clusters that caters to innovative and technological entrepreneurship and ICT operations geared toward Dubai's Wider Vision of being the smartest City by 2017. (TECOM Group 2019) Others groups such as World Economic Processing Zone Association (WEPZA) (2014) labels EZ models as commercial, industrial, mixed and service zones just to name a few. The EZ models are not restricted to the above categories and other variations and combinations do exist.

The management of these zones can be categorized as follows; government-led management models are often adopted in early stages of zones whereby the local

municipality or a centralized government agency manages the zone. The mixed management model is a combination of government and enterprise management. The enterprise management model relies on a development-orientated institution set up by the local government to manage the zone. (United Nations Development Programme 2015) Private Public Partnerships or PPPs are generally defined as any government engagement with the private sector through contracts to carry out investment and infrastructure programs. SEZs are examples of the PPP models where the implementation of policies and land acquisition are managed by the government whilst the private sector manages the site. (Alam & Rashed, 2011) Over the course of 15 years, more SEZs were placed in the hands of private developers: 62% of 2301 zones in 2008 were private sector developed and operated, whereas in the 1980s only 25% were reportedly privatized. Often times, developers are faced with the challenge of not only building the zone infrastructure but also having to build external infrastructure (access roads and utility connections) typically in experienced in Least Developed Countries (LDCs). (Multi Donor Investment Climate Advisory Service of the World Bank Group 2008)

2.2 Global experiences

China is unique in that it was formally a controlled economy, whose usage of SEZs was intended to reap the benefits of a market economy. It launched its 'Open Door Policy' in 1978 as a social experiment under then president Deng Xiaoping. The reform allowed foreign enterprises to set up subsidiaries in sectioned land. By August 1980, four SEZs were established including Shenzhen, Zhuhai and Shantou in the Guangdong Province. The SEZs were large areas that enjoyed financial, investment and trade privileges. By 1981, the four SEZs accounted for 59,8% of total Foreign Direct Investment (FDI) with the Shenzhen Economic Zone alone accounting for half of that share. The SEZs' growth rates contributed to the national annual GDP growth of 10% from 1980 to 1984. (Zeng 2010) Shenzhen began as a designated SEZ with only 30 000 inhabitants in 1980. Overtime, it developed into a technological and communications hub and now megacity with an estimated 14 million inhabitants in a period of 30 years. (Farole & Akinci, 2011) China went further to establish a variant of SEZ dubbed the Economic and Technological Development Zones (ETDZ). In 1992, 35 ETDZs' operations were established in order to extend the coastline further inland through clustering or agglomeration and thus becoming the focus of technology intensive industries. By 2010, there were 69 ETDZs. (Zeng 2010) By 2000, China

authorised 15 EPZs, which altogether account for 40% of export trade. The strategic location of each EPZ was within spatial proximity to selected large cities. Their results have led to imitation by firms located in the cities of export patterns and import patterns of foreign firms within the zones and thus positive spillover effects are experienced. (Li & Lui, 2019) From this example one can conclude that the EZ strategy for those countries who are already technologically advanced, gain the most from the linkages occurring whereby technological spillovers are fostered by existing technological sophistication including the highly skilled labor force. (Madani 1999) Thus, advanced economies gain the most by adopting technological and science zones for research and development similar to Dubai Internet City.

The harnessing of EZ policy success can come in the form of utilizing a country's comparative advantage. Bangladesh, known for its textile industry, implemented the first EPZ program in 1983 with a number of smaller zones gradually appearing around the country. A general outlook was that the EPZ program attracted significant amounts of FDI by the mid 1990s particularly in the garment and textile sector. (Shakir & Farole 2011) Similarly Honduras' own EPZ in 1970s by which the main objective was to absorb the surplus employment, but the real take off began 15 years later when Honduras, much like Bangladesh, attracted significant amounts of FDI. The advantage was its geographic proximity to the US, combined with the low labor costs relative to the region. (Engman 2011) The first African EPZs began in the 1970s in Liberia, Senegal and Mauritius; by the 1990s 16 African Countries adopted EPZ programs followed by more in the 2000s. Zones usually do not see rapid growth in the early years therefore it is in fact too early for many of the African zones implemented in the 2000s to be pronounced a success or failure including the case study of Zambia. This is in part due to general slow growth of zones into maturity (Farole 2011). The most successful African EZ belongs to Mauritius. The implementation of the EPZ in the 1970s sought the strategy of an aggressive export diversification with simple fiscal incentives including tax holidays, repatriation of profit and duty free exemption of imports. It is now a middle-income country with a diversified economy with much literature citing SEZ policy as the central reason. (Tang 2018) To summarize the key roles of EZs Farole and Akinci (2011) have identified a strategy-based framework to enable understanding of the transition economies and EZ implementation. The premise of the framework is based on lessons learned and patterns recognized in the EZ experience. Small economies tend to take into account location and trade preferences to create the EZ programs most likely in the pursuit to move away from natural

resource sectors into manufacturing. Small economies then have to address issues of limited factors of production and consider economy wide zone status. Larger economies such as Bangladesh leverage comparative advantage and an existing labor force to transition away from inward looking development (import substitution) to export-led growth. (Akinci, Farole & Baissac 2011)

2.3 SEZ policy and investment climate

The investment climate is defined as the risks, opportunities and transaction costs, determined by law, government policies and their implementation, among other factors. Firms ultimately assess where to invest and how to operate based on the perception of the investment climate. Investor zone selection is derived from the following: the traditional incentives (low wages, trade preferences), the national investment climate (administrative and governance), the climate within the zone (administrative and infrastructure) and finally market access (size and location of EZ). Market size in particular explains why countries like Brazil and China attract large amounts of FDI. (Farole 2011) From the EZ perspective policy frameworks usually appear to be similar globally speaking in that they include allowances for expansion of activities, equal treatment of investors (local and foreign) which reduces distortions in terms of the real impact of the incentives given. Naturally, incentives are offered to private zone developers along with relaxed export requirements. Other notable policy frameworks involve the treatment of local sales of goods into the zones via backward linkages and adaptation towards integrated incentive schemes outside the zone to prevent unfair competition. (The Multi Donor Investment Climate Advisory Service of the World Bank Group, 2008 p17) In practice however backward linkages can be complicated to foster where low levels of technology exist such as those experienced in LDCs.

The World Bank (1992) suggests policy factors that determine success of EPZs including a clear FDI regime that guarantees 100% foreign ownership and profit repatriation, duty free access to inputs and exports, low cost customs clearance for imports, a liberalized foreign exchange regime, speedy responses to investment applications, minimal regulatory control, appropriate site selection, access to low cost labor and finally working utilities and efficient zone management. Historically, the investment climate within Sub-Saharan Africa has been rated poorly (at varying degrees) and depending on the nation in question. One study addresses these barriers and labels them as follows; a lack of voice and accountability, encompassing military involvement in politics and how reactive a state is to its people: political stability,

absence of violence, regulatory quality and rule of law all indicate the strong protection of property rights and contract enforcement and lastly control of corruption (Shan, Lin, Zeng 2018) One can also add operations-related barriers by segmenting them into three groups; 'at-the-border barriers', 'behind-the-border' barriers and lastly between-the-border barriers. Whereby 'at-the-border' constitute policies that affect market access, FDI policy regimes and multilateral trade agreements. 'Behind-the-border' issues relates to the business environment, competitiveness of the market structures, supply constraints, underdeveloped labor and quality of infrastructure. Lastly, 'between-the-border' factors are those related to cross border logistics regimes, access to quality information about foreign markets, impact of technical standards and the role of migration. (Boardman 2007) These barriers have generally contributed to low levels of FDI in LDCs.

2.4 The determinants for SEZ success

Developing countries are now competing for FDI, and one factor in SEZ success is determined by the amount of investment it attracts (Farole 2011). Measuring SEZs' short-term success is achieved by evaluating their contribution to key indicators, including real GDP, total employment, foreign direct investment and merchandise exports. Static economic benefits include employment creation, FDI, foreign exchange earnings and government revenues. Dynamic benefits include indirect employment creation, skills upgrading, female employment, demonstration effects from best practices, and regional development. (The Multi Donor Investment Climate Advisory Service of the World Bank Group 2008 p 32) Another way of viewing these benefits is direct and indirect benefits. Direct benefits include foreign exchange earnings, FDI, government revenue, export growth and skills upgraded. Indirect benefits include testing for wider economic reforms, technology transfer, export diversification and enhancement of trade efficiency of domestic firms. (Zheng, 2010) Determining the benefits requires sufficient data collection to which many African countries experience problems. Often times the total FDI combines local and foreign investment so determining the exact amount of FDI into the zone remains unclear.

EZ location takes into account both firm preferences and national development. Firms located in developed areas have a higher chance at gaining from clusters (Madsen, Smith & Hansen, 2003). Location of firms is a contributing factor to a firm's competitiveness (Karakaya & Canel, 1998). In addition, the extent to which backward

linkages are made is dependent on the host countries' technological capabilities (Lall 2000). SEZs are prone to the effects of global market shifts including the rapid changes of consumption habits. Therefore, the consumer preferences and the pressure to meet these, impact the geographical choice for investors. It is no surprise that those countries that are included in trade agreements and preferential arrangements fare better in attaining investments for their SEZ programs (Madani 1999) EPZ models have been subject to criticism for having negative socio-economic impacts such as the exploitation of women, suppression of labor standards (trade unions), poor employment conditions and environmental issues. (The Multi Donor Investment Climate Advisory Service of the World Bank Group 2008)

2.5 Collaborative special economic zones

China has sought to expand its investment portfolio by offshoring or partnering in SEZ programs in the developing world. A number of reasons can be identified, including China's desire to increase locally made machinery and equipment, by producing overseas and exporting to Europe and North America and thus avoid imposed barriers on their Chinese products. This occurs through preferential trade agreements that cater to developing countries, and in the case of Sub-Saharan Africa, the African Growth and Opportunity Act (AGOA) and the 'Everything but Arms' (EBA) agreements benefit China's export agenda. Ultimately, the overseas zones would benefit the domestic restructuring of both China and its partner state. The intention is to create economies of scale by sending clusters of businesses overseas to assist less developed regions. Chinese officials and host governments from various countries have authorized 19 zones and 6 in Africa, namely in Nigeria (two zones), Egypt, Ethiopia, Mauritius and Zambia. There are more reports indicating that more than 40 other zones are to be announced in the future globally. (Brautigam & Tang, 2014) Cooperative special economic zones are one evolution of economic zones and are a long-term foreign investment. Based on China's own SEZ experience; it typically takes 12-15 years for zones to mature while the collaborative zones with African countries are expected to take longer due to barriers that include cultural differences. (Tang 2015)

An example of China's history of cooperation in SEZs is a high profile project called Suzhou Industrial Park (SIP) in partnership with the government of Singapore. SIP covers 278 square kilometers and is reported to have attracted USD26.7 billion in FDI. (Jiangsu.chinadaily.com.cn 2019) The zone is located 80 kilometers outside of Shanghai, and caters to port facilities and a commercial center. It has an estimated

labor force of 500 000. The lessons learnt from this experience were that the zone had the highest level of support from both governments to ensure a win/win success. Some of the challenges experienced were meeting both commercial and political objectives, therefore incentives had to be aligned to avoid conflict. Three structures coordinated the project: the steering committee that functioned as a platform for policy intervention and problem resolution, the local authority that performs the government role with interest to the zone, and lastly a joint venture development entity invested in by both parties who share the costs, risks and profits of the zone. SIP's success can be attributed further by recognizing its flexibility partly due to the long-term nature of these projects, the large amount of sunk costs and the willingness to evolve and make changes to the business model as necessary. Lastly, it was important to build mutual respect and recognize capabilities and constraints, particularly those of the host government. There are practical operations that require attention such as those that generate an attractive business environment in the host nation such as reducing time spent on customs procedures. SIP established a one-stop service that offered an on-site customs service with a strong mandate. This eventually evolved into an integrated free trade zone within the SIP. Supporting information transfers in the form of frameworks for training and enhancement of curriculum through software was of great importance. (Farole & Zhao 2011)

3 Literature review

This section will review development perspectives on EZs.

'Development theory is concerned with the process of change within a society and interventions that purport to solve emerging problems or critique existing policies'. (Amanar 2013)

3.1 Economic development

Neoclassical theories came into fruition after the Second World War, when the Marshall Plan was implemented to rebuild the destroyed European nations. (Cypher and Dietz, 2013) The decolonization of African states in the 1960s further elaborated the neoclassical theories of growth as the orthodox view that conceived the problem of underdevelopment as a problem of resource allocation and that government policies inhibit market forces that work against economic development. (Gilpin, 2001)

Neoclassical theories are based on linear models that emphasize labor and capital as the key factors of production that influence development along with technology and knowledge, the latter being exogenous in nature. (Giplin, 2001) Walter Rostow's theory described 'The Stages of Development' and argues that the steps toward modernization can be witnessed in 5 stages: ¹The Traditional society: The economy system is dominated by agriculture with traditional practices and thus remains dormant. Followed by ²The Preconditions to Take Off: the rates of investment increase and dynamism in development are experienced. ³Take Off: Economic growth is experienced. This growth is sustained without exogenous input. ⁴The Drive to Maturity: This stage is described as experiencing continuous investment and as a result technological progress is made. Lastly, ⁵The Age of High Consumption: Most of society is living in prosperity and reaps the benefits of high investment. (Amanar 2013) These types of models historically were associated with modernization theory, which has been criticized for its' ethnocentricity and concern only with western ideologies and less inclusive of alternative ways of thinking. The Harrod-Domar Model (1946) emphasizes the need for capital to generate investments and so every country must establish a target growth rate and the required savings rate. In the case that domestic savings were not sufficient than foreign savings must be mobilized. (Dang & Sui Pheng, 2015 p16) Solow's neoclassical theory (1956) dubbed the 'Solow Model' states that three factors determine economic growth namely the increases in labor quantity and quality (population growth and education), increases in capital (savings and investment) and lastly improvements in technology (provided exogenously). Therefore the liberalization of markets and their policies in developing countries would allow FDI to flow in more easily. (Dang & Sui Pheng, 2015) Overall, these among many other theorists contributed to neo-liberalization, which are a set of policies that is geared toward free market or *laissez-faire* where the markets experience little to no state intervention. John Williamson (1990) coined the term the "Washington Consensus" that identifies a set of recommended neoliberal policies that include trade liberalization, liberalization of inward FDI, deregulation and privatization just to name a few. Historically, these were the core features of the IMF and World Bank's Structural Adjustment Programs (SAPs) of the 1980s. SAPs were development assistance programs that guaranteed loans to LDCs under special conditionalities, which included changes in government reforms gearing them toward liberalization on a macro level and democracy orientated politics. The efforts of these theorists were meant to steer LDCs toward modernity. Modernization as it stands is a difficult concept of which to extract the variables that lead to modernity. Modernity can be identified by multifaceted factors (political,

economical, cultural etc.) or else described by critical variables (such as industrialization through manufacturing). (Tipps, 1973) Either way, the perceived idea of modernity remains based on assumptions of the 'superficial' factors such as levels GDP per capita, quality infrastructure, human development, levels of export output among other factors.

Contemporary times have led to the heterodox view on underdevelopment namely in the form of the developmental state theory and endogenous growth theory. Developmental state theories challenges the aforementioned orthodox approach in that the state does in fact play a central role in economic development. A routinely classic example is the 'late development' of East Asia, which industrialized between the 70s and 80s. The World Bank (1993) identifies the 'Four Tigers', which are the states of Hong Kong, Singapore, Taiwan, China and South Korea. The orthodox view would conclude that the 'Four Tigers' economic success is as a result to liberalist (market friendly) policies alone. However, these states experienced substantial levels of state intervention that the heterodox view is deemed the key to their success. (Giplin, 2001) In practice, the developmental state describes the coordination of private and public sector in achieving economic development. (Johnson, 1999) Amsden (1997) studied the 'late' East Asian industrialization in contrast to other developed countries and determined that there is no prospect for less advanced economies to ever catch up if they leave it to the work of free trade and the neoclassical concepts on markets. Johnson (1999) describes Japanese growth of the 70s and 80s, which neither conformed to laissez faire capitalism nor soviet style communism but instead led the development state model whereby state interventionist policies in selected industries was implemented to achieve its development goals. Typically the interventionism by the state is given in the national industrial policy that constitutes a set of rules that intentionally alters incentives to drive the behaviors of producers.

The endogenous growth theory contrasts the Solow Model in that it addresses technological growth through the collecting and sharing of information and thus occurs internally within the economy as a key to economic success. The knowledge is used to create more sophisticated products and enhance education. The pace of any technological process is dependent on the existing level and type of education, investment, government policies and organizational capacities. (Cypher and Dietz, 2013) Therefore endogenous growth is tied closely with knowledge as an economic good. The shortcomings are that there is no guarantee that individuals can capture these knowledge gains and therefore policy intervention is crucial. (Dang & Sui Pheng

2015) Measuring such knowledge transfer can additionally prove challenging, especially where a nation state experiences barriers that inhibit data collection for observation.

3.2 Manufacturing toward industrialization

It is largely accepted that industrialization is the gateway to economic prosperity. Human development is cited as the expansion of individual freedoms and advancement in quality of life. Human development is therefore tied to industrialization in that economic growth should ultimately enhance the lives of individuals. (United Nations Development Programme, 2016) However, it is worth noting for this text that economic growth in the form of GDP does not necessarily override income disparities. To review, conceptually the ideas of investment geared for economic growth Rosenstein-Rodan (1943) dubbed 'The Big Push' theory as the idea of making large-scale complementary investments that would create ripple effects and ultimately create synergy leading to a balance across sectors. The source of the strategy would be for governments to undertake strategic oversight, with the assumption that the private entrepreneur is unable due to its more limited frame of reference. Ideally this investment should begin with social overhead capital (power, transportation, water facilities, education) of which complementary investments are made thereafter. (Cypher & Dietz 2013) Similarly, Hirschman (1969) proposed that developing countries should prioritize the big push for key sectors only, partly due to the limited capital and perhaps shortages in other resources experienced. This became known, as the unbalanced theory, which proposes the use of existing limited funds in certain industries whilst creating overcapacity in them, would cause shortages in some that would eventually result in entrepreneurship to close of the shortages. (Cypher and Dietz, 2013) Thus investment made in social overhead capital (power, water supply, education) would lead to complementary investment and eventually create more ripple effects of investments. Hirschman's most influential work with regard to his theory was on industrial linkages and their effect. A backward linkage is where a firm accesses their inputs for their production; the forward linkages produce moving toward the final consumer. (Alacevich, 2017) The investment in key sectors would attract foreign direct investment in the form of greenfield investment and eventually contribute to linkages formed. The East Asian economies in particular placed emphasis on backward linkages from EPZs in 70s and 80s by implementing free trade status for the local suppliers for their indirect export items which eventually attracted foreign firms into the

component industries and ultimately attracting more regional investment while creating significant backward linkages. (The World Bank, 1992)

Development theory holds manufacturing as the engine for economic growth and thus the manufacturing value added in gross domestic product (GDP) gives insight into the size of industrial production. (Correa & Kanatsouli 2018) A few points can address issues that support the view that industrialization is the main engine that drives growth and the potential to enhance human development. Chenery (1982) who identified the empirical correlations between the degree of industrialization and the per capita income of developing nations, meaning that high levels of industrialization tend to have highly educated labor forces using their skills for innovative and technology driven fields. Other studies have described the economic diversification from linkage and spillover effects are stronger in manufacturing. (Szirmai, Naude & Alcorta 2013 seen in United Nations Development Programme 2016). The manufacturing sector offers higher levels of capital accumulation, especially in capital-intensive industries. (Howitt & Aghion 1998) Manufacturing offers opportunities for economies of scale, which are less available in agriculture (Pratten 1972 seen in United Nations Development Programme 2016). The manufacturing sector offers unique opportunities for technological progress (Cornwall 1977 seen in United Nations Development Programme 2016 and United Nations Conference on Trade and Development 2016). The relative size of the manufacturing sector provides useful insights on an economy's potential capacity to grow. Two indicators determine the size of manufacturing include the share of manufacturing value added to GDP and then the size of industrial production of a given area. (Correa & Kanasouli, 2018) The movement of labor from low productivity activities to high productivity activities is an indicator of development (McMillan, Gallo & Rodrick 2014) The development process requires the shift away from agricultural productivity into industrialization. Certainly, Many LDCs over the past few decades have witnessed a decline in agricultural productivity where commercial based industries have replaced that particular output. (Fulginiti & Perrin 1998) On the flipside, commercial industries such as natural resources extraction remain the backbone for most African economies, the dependency of which has resulted in lower levels in manufacturing. Therefore these economies are at great risk of declining terms of trade, commodity price sifts and Dutch disease. (Kraglund 2017) The latter is the phenomenon by which the increase of the natural resources sector comes at the expense of other sectors that are crucial. This occurs when certain policies that should promote manufacturing instead promote the natural resources comparative advantage

making the country dependent on the natural resource sector (Guadagno, Fortunato & Bateman et al 2016) It is therefore crucial for LDCs to increase manufacturing value added to GDP to promote industrialization. The EZ model implementation should take into account structural transformation, which is defined as the movement from agrarian based economics into industrialization. Structural adjustment is measured by manufacturing industry's total employment shares in the sector and the total value added to GDP. (Guadagno & Fortunato & Bateman et al 2016).

3.3 Foreign Direct Investment (FDI)

FDI into developing countries has been cited as a stable form of capital flow as opposed to other forms such as aid or low interest loans. The global trend is the substantial increases of FDI experienced in Sub Saharan Africa especially after the 2000s with the average of 6% of Sub Saharan Africa's combined Gross Domestic Product (GDP) between 2014-2016. This figures surpassed both Latin America and the Middle East (International Monetary Fund 2018). The countries experiencing high concentrations include South Africa, Nigeria and Kenya. The top investors are United States, United Kingdom, France and China. (United Nations Conference on Trade and Development 2018) Africa is resource rich continent and the countries carry with them large markets. China has experienced exponential economic growth over the past 30 decades, thus triggering demand for natural resources. (Shan, Lin & Zeng, 2018) Studies of the economic impact of EPZs to the host countries include an analysis of the factors flowing in and out of the enclave to the host country, investor country and the rest of the world. FDI is defined as a cross border investment and reflects the objective of establishing an interest by an enterprise in one economy in an enterprise that is resident in another economy (also through a subsidiary) whereby the investor has a significant degree of management within the foreign located enterprise. (Organization of Economic Co-operation and Development 2008) FDI remains an important factor to developing countries because domestic capital accumulation is too low to generate economic growth. In addition FDI may be accompanied by the intentional or unintentional spillover effects inclusive to technological and production knowledge. (Farole & Winkler, 2014)

The largely accepted 'eclectic paradigm' proposed by Dunning (1979) describes three types of investment seeking behavior that can address a choice of location, namely market seeking FDI, which takes into account gross domestic product (GDP) and

market size and access to regional markets; resource seeking is aimed at natural resources such as raw materials and low cost labor, skilled labor force and technology, efficiency seeking FDI is motivated by low costs of production including economies of scale practices; and lastly strategic asset seeking behavior is motivated by connecting with global and foreign networks. (Reddy & Wadhwa, 2011) Ping and Saggi (2005) suggested a simple model that outlines two potential effects that MNCs have on the local economy; the outcome is either a substantial degree of linkages are made that local firms experience demand increases or the MNC creates competition for the local firms. The extent of the impact is thus dependent on the firm's technological advantage and the local firm that has moderate levels of technology will most likely increase backward linkages and the high technological advantages over local firms will have the opposite affect. Naturally, this model makes the assumption that 1) the foreign firm sources from the immediate local market and 2) its technology is more advanced. Wage spillovers are defined as the wages due to local labor market and the effects it has on the economy, typically foreign owned firms are larger and pay significantly higher than local firms. (Moran, Graham & Blomstrom 2005, p 25) Productivity and technological spillovers are measured by labor productivity, the factors of production and differences in production. Although the definitions of technological spillovers are diverse and can also mean the knowledge of consumer tastes in different markets. (Moran, Graham & Blomstrom 2005) With that being said, productivity spillovers should form backward linkages to have the maximum effect. MNCs can be expected to have minimal effect on the domestic economy if they operate in so-called enclave sectors with no contact with the domestic economy. The argument provided is that the greater the backward linkages between host country firms and the investor firm the greater positive effect of spillovers. (Gorg & Strobl, 2004) FDI's impact on economic growth is arguable, while some spillovers may positively affect some firms and industries, it may not impact the wider economy. Transfers of technology may be nurtured by existing liberal policies and lowered barriers to trade. Chinese FDI does not necessarily differ from the eclectic paradigm version but understanding its traits can better reveal the globalization process of the MNCs from developing countries. Much of the Chinese FDI into the developing world comes from State Owned Enterprises (SOEs). A 2011 survey of 38 Chinese State Owned Enterprises (SOEs) from various industries, found that key industries for Chinese investment are resource extraction, handling and processing which presented by 27,7% of overall investment. (Alon, Wang & Shen et al 2014) Other notable details from the survey include that greenfield investments are the most common types of investments followed by joint ventures for the Chinese SOEs. The

survey also identifies a pattern in which the investor gains knowledge via joint ventures, mergers and acquisitions in developed countries before greenfield investments are made. In terms of FDI, Africa remains the second largest recipient of Chinese FDI. (Alon, Wang & Shen et al 2014)

3.4 SEZ impact on development

Warr (1989) used an enclave approach to measure the benefits and costs on welfare by measuring them against hypothetical results (opportunity costs of not having a zone) of 4 Asian countries. The analysis used 4 zones in Indonesia, Philippines, Malaysia and South Korea (one in each). Warr's research drew the following conclusions: profits and losses of foreign owned firms have little to no impact on the welfare of the host country; foreign exchange earnings only have a significant impact when the local currency is spent on wages and purchases of local materials; and technology transfer tended to only have significant impact where purchases of raw materials were made locally. Warr's conclusion was that benefits from EPZs are limited and thus are not engines for development but rather projects that absorb surplus labor. That is not to say they don't have an influence on technology transfer in early industrialization. Taiwan and Korea were pioneers of EPZs in 1960s and 1970s; however they decreased their usage in the 1980s and thus Warr concluded that those countries heavily interested in EPZs would lose interest in a few decades. (Warr 1989) It is worth noting the World Bank shares Warr's assessment of the net benefits perspective on the nature of the EPZ on welfare by evaluating the opportunity cost. (The World Bank, 1992) The drawback is that the model has limitations in that it does not measure the impact of technological transfers in productivity and labor management transfers. (Baissac 1996) The World Bank follows the neoclassical route and supports economy wide liberalization and thus EZs are viewed as a second best option. The World Bank posits the following guidelines 1) Economy wide duty free imports should be emphasized over EPZs 2) support for EPZs should be considered on an individual basis, based on strategy where a shift is experienced toward an outward orientated development 3) private development and management is encouraged. (The World Bank 1992) The World Bank's opinion is that the SEZ remains a tool for which to gain short-term gains as opposed to a catalyst for structural adjustment. (Competitive Industries and Innovative Program 2017)

The idea of knowledge gaps in underdevelopment is further illustrated by Romer (1993) who defined object gaps as a lack of physical objects in an economy and the idea gaps are the limitation in access to knowledge that industrialized nations have. Naturally, a country may suffer from both gaps. Endogenous growth theory suggests that a country strategy associated with import substitution industrialisation is the cause of SEZ growth. (Farole, 2011) Johannsson and Nilson (1997) determined that in order for a state to generate any SEZ effects at all, The EPZs must nurture backward linkages. Firstly, the EPZs must attract investment; export the majority of their output and function without heavy subsidies. In doing so, the EPZ may be successful in attracting investment and generate export earnings; it is not automatic that the export supply response will spread outside the zone. If the trade policy reforms are confined to the EPZ and an anti-export biased policy situation remains in the rest of the country, foreign firms may have a positive influence on domestic firms within the zone but fail to stimulate the emergence of a domestic export sector outside the zone. (Johansson & Nilsson 1997) Thus the point made is that the incentives should apply for both local and foreign firms and this will result in the EPZ acting as a catalyst and close the idea gaps. Both Romer and Johannsson highlight that the transmission of ideas and knowledge can be asserted along with backward linkages. From a Political Economy perspective Moberg (2014) takes into consideration the problems associated with public ownership and the knowledge problem in addition to the incentive problems. The knowledge problem is thus the distance between public decision makers and those with market knowledge (entrepreneurs). The potential for cluster building with EPZs therefore is seen as being placed in the hand of market actors as opposed to politicians. Decentralizing of decision-making is seen as a resolution. The incentive problem is closely tied to corruption whereby self-interested politicians and civil servants prevent the promotion of the appropriate policy EPZ, on the grounds that they stand to enrich themselves by allowing other firms in rent seeking behavior. To further point out PPP policy orientation and the potential internal complexities and from a development perspective; there is a strong argument against industrial policy and its distortions; instead of national development being at its core objective, the state can in fact use it to enrich itself and a selected group of 'friends'. (Johnson, 1999)

The EZ success is determined by how well it integrates with the local economy, to which the government policy and administration are crucial which should be inclusive to firms outside the zone to enable them to take advantage of incentives and upgrade inputs. Case examples are the Mactan Zone in the Philippines where initially 50% of

the firms belonged to the garment and textile industries. However, by the end of 1990s at least 29 out of 105 firms exported garments and similar goods whilst the remaining firms engaged in metal fabrication and production of electronics, automotive parts or software. Another case example of enclave transformation is one empirical study that found a shift in the Taiwan province of China where the EPZ project was meant to increase investment from developed countries and accelerate export growth. Overtime, it quickly transformed from labor intensive to technology intensive production over the course of roughly 30 years until 1994. (Omar & Stoever 2008) Two policy indicators mentioned were crucial for Taiwan's success: a simplifying guide to procedures, and a foundation for science comprising of industrial knowledge via a teaching institution. (The World Bank 1992) EPZ progression can be illustrated in three scenarios based on the assumption that the EPZ attracts some level of FDI, generates employment, and increases exports. Scenario a) the EPZ exports, creates employment and FDI increases but the sophistication of technology in these products do not increase. Scenario b) The EPZ may have some success but fails to attract significant greenfield investment to create more or even maintain backward linkages into the host economy. Therefore integration remains stagnant. Scenario c) the zone has been successful in closing barriers and thus employment, exports and FDI have increased because of the integration into the wider economy. (Omar & Stoever 2008) A key observation of structural reform can be observed when both export and employment indicators decline within an EPZ indicative of policy integration with the rest of the economy (Madani 1999) Typically, the experiences of the wider economy reform occurs in smaller economies.

Present day Chinese SEZs cover larger land areas than any other type of SEZ. SEZs in this context are referring to specific zones, namely Shenzhen, Zuhai, Shantou, Xiamen, Hainan, Shanghai pudong, Tianjin, Ninhai. China's SEZs are also related to other types of Economic and Technological Development Zones (ETDZ) and High Tech Industrial Development Zones (STIP). These SEZs ultimately contributed to the annual GDP, FDI, and employment. Decades of development has resulted in certain SEZs turning into information and communication clusters, such as Zhonguancun (Beijing), electronics and biotech clusters in Pudong (Shanghai) and the software and electronics cluster of Wuhan and of course Shenzhen. (Zheng 2010) Clusters or firm agglomerations are another way of sharing the knowledge. Market, technical and other information can be utilized to make production efficient. Proximity, supply and technological linkages can foster the information flow within a cluster. (Porter 2000)

Where significant barriers to trade exist such as the economies of Sub Saharan Africa, investors are attracted to low wages and fiscal incentives. In the long run, assuming the investment climate improves so should the zones, whose point of attraction then becomes quality infrastructure, administrative management and cluster creation. In short, where an economy experiences fewer barriers; agglomerations should occur. (Farole & Akinci 2011) Clusters are relevant mechanisms that enable firms to cooperate in pooling information and resources and thus spurring innovation. Clusters do not necessarily foster innovation if the environment is not conducive. In addition, innovative clusters are not necessarily high technology clusters. Indeed, some clusters have emerged from industrial SEZs. (Zheng 2010) China's own experience with information clusters is the case of the development of the Torch Program policy that initiated the High Tech Industrial Zones (HTIZ). The HTIZ may also be referred to as science and technology industrial parks (STIPs). The program was introduced in the 1980s as a way to pool together the resources and capacity of research institutions and enterprises to develop and promote high technology products. The first HTIZ was established in Zhongguancun in Beijing. The current status of the Torch Program is successful: between 1991-2002 the increase in revenue of the 53 zones was from USD 1,4 billion to USD 2,29 trillion. (China.org.cn 2003)

4 Geopolitical paradigm in China/Zambia relations

The case of Zambia and Chinese cooperation can be better understood under the umbrella of the China/Africa Relations. It is a recent significant 'phenomena' under the even larger context of the contemporary South/South cooperation; a broad framework promoting economic collaboration among other benefits steered by the United Nations. (Unoscc1.undp.com 2019) Much of the historical literature regarding China/African relations is presented in the Cold War (1946-1990) context. The Cold War is accepted as a period of competition between two ideologies; capitalism and communism; more exactly the United States' hegemonism versus the Soviet Union's influence, the consequences of which were proxy wars fought in the developing world. China during the 1960s and 1970s engaged with African nations in an attempt to gain influence. In 1974, Chairman Mao Zedong established the 'Three Worlds Theory' stating that the United States and the Soviet Union belonged to the first world. The developed countries in between the two superpowers are considered the second world. Lastly, the developing countries of Asia, Africa and Latin America and similar regions belonged to the third world. China considered a developing country was therefore a 'leader' of the

third world (The Foreign Ministry of the People's Republic of China 2019) China invoked anti-colonialist rhetoric in their diplomacy that would see China gain significant favor in many parts of Africa. (Lee, 2008) Historical events including the Bandung Conference of 1955 can be considered the initiation of China/Africa relations: 18 African countries formed diplomatic ties with China between 1955-1964. (Bo 2016) The rhetoric of China being a leader and model for the developing world can be seen today in the status of China's current rising position as an economic and political power. Examples other than its economic ties with Africa and Latin America include multilateral agreements including the Shanghai Cooperation Organization formed in 2001 (Lee 2008). China's strategy also includes ambitious projects like the 'One Belt One Road' initiative, which comprises of improving infrastructure networks that span across Asia and East Africa and into Europe and Russia thus integrating trade regimes. (Worldbank.org 2019) The One Belt One Road is a network of planned routes that involve a number of emerging and developing economies with a total population of 4,4 billion and account for roughly 29% of the world's economic aggregate income and therefore raises the potential of exponential economic growth for these countries. (Minghong 2016)

China surpasses the European Union (EU) and the United States (US) as Africa's biggest trading partner. Chinese FDI toward Africa in particular is increasing rapidly with China's peak investment of 2008 to the African continent equaling approximately USD5.5 billion (Ministry of Commerce of the People's Republic of China 2010) Much policy analysis perceives competition between China and the West for soft power illustrated throughout Africa (Barton 2016). The Chinese government in cooperation with Africa has overseen increases in foreign aid, concessional loans, grants and debt cancellation. In 2006, President Hu Jintao pledged USD 5 billion in loans and credits for African firms. (Men & Barton, 2016) China is said to have a non-interference policy and therefore there are almost no conditionalities for their assistance. However, the perception of 'no conditionalities' with the aid it provides is said to be misguided because project aid more likely requires African countries to hire Chinese contractors (interview 3 seen in Schoneveld, German & Gumbo 2014) This loosely translates as a conditionality. However China's non-interference has come under scrutiny through its weapons relations to war torn Sudan and the relaxed loans offered to Angola, despite the overwhelming evidence of corruption. Other controversies involve China's unwillingness to apply sanctions against Zimbabwe during the 2008 elections that were reportedly rigged to keep Robert Mugabe in power.

China's strategic African policy is influenced by the following factors: assuring the current and future supply of raw materials for China, obtaining land for agricultural purposes, channeling migration of Chinese people to Africa, gaining diplomatic support from African countries, presenting an alternative model to the Western model, enhancing development cooperation and lastly emphasizing China's status as a new superpower (Van Dijk 2009) China's 'Going Global' strategy has seen the move of Chinese MNCs first into both developing and underdeveloped territories. China offers incentives and other preferential policies to encourage their investors to go abroad through institutions that answer to political stakeholders, namely the China Export-Import Bank established in 1994 that oversees the deployment of capital abroad. (Davies 2016) The China/African relations has since formed multilateral institutions, including the China-Africa Development Fund, with the aim of stimulating investment into Africa, in addition to the Forum of China and Africa Cooperation (FOCAC), which was formed in 2000. (Men & Barton, 2016) The 'Going Global' strategy turned China into a major economic trading partner, even more so with its admission in to the World Trade Organization (WTO) in 2001. The objective of the strategy has been translated as a way to gain influence in the developing world as opposed to a strictly economic rationale. (Zhu, 2018) Joshua Ramo coined the term Beijing Consensus describing Chinese economic and diplomatic foreign policy as being knowledge and innovation led whilst provisions are made for quality of life and balance of power thus not necessarily governed by economics as is in the case of the Washington Consensus. Both models have been routinely compared in policy analyses and media outlets worldwide. (Men & Barton 2016)

In recent years China has expanded by investing into overseas economic zones. PRC has invested in 6 out of 50 planned (SEZ) Special Economic Zones between 2006-2015. These are located in Zambia, Nigeria, Mauritius, and Ethiopia. In 2015, there were 11 proposed SEZs under review. (United Nations Development Programme, 2015) The Zambian SEZ, unlike those of Mauritius and Ethiopia, were planned outside of Chinese investment and the Chinese just so happened to take on the opportunity to collaborate. China's government provides support by offering special funds for the companies that win tenders for building African zones. This support comes in the form of subsidies covering 30% of specific costs of zone development for preconstruction (feasibility studies, travel for negotiations etc.) and implementation costs (e.g. infrastructural and administrative costs). The China Development Bank has gone as far as setting up a Zambia team to provide funding support for the zones and its activities

in Zambia. (Brautigham & Xiaoyang 2011) In 2009 the Chinese government set up a USD 1 billion fund for African Small and Medium enterprises (SME) to influence their investments in these zones. (Forum for China-Africa Cooperation 2009) The Chinese government gives incentives to Chinese firms who move into these zones, such as access to foreign currency, tax rebates, low interest loans. Lastly, Chinese embassies act as the middlemen in negotiations over these incentives. China SEZs are thus a pathway to share developmental knowledge across to developing nations. The zones include three parties: Chinese developers, African governments and the Chinese government. Out of the six zones Mauritius and Ethiopian SEZs are 100% Chinese owned and the rest are in cooperation. The size of these zones varies and there is said to be no single Chinese model for cooperation. (Brautigham & Xiaoyang 2011)

4.1 China/Zambia relations

Diplomatic ties between China and Zambia began in October 1964 at the same time Zambia gained independence as Northern Rhodesia from Britain. Several historical events link the two; China's investment in the TanZam railway that links the Zambian Copperbelt to the Port of Dar es Salaam in Tanzania. The railway ran from Kapiri Moshi to Dar es Salaam as to avoid using rail links from Portuguese ruled Mozambique and minority ruled Zimbabwe. The two states were able to support the liberation movements of the region without fear of economic sanctions imposed by the other colonized/minority ruled nations that made up Southern Africa. The assessment by many policy analysts describe the TanZam railway as a symbol of China's anti-hegemonist policy which boosted China's role as a Third World leader at the same time China was reducing the Soviet Union's influence within the region. (Taylor 2006) Zambian President Kenneth Kaunda signed the economic and technical agreement with Moscow in 1967. However, he remained strictly non-aligned during the Cold War. Under Kaunda's early rule both bilateral political ties and economic relations with China were established. (Taylor, 2006,p.166) Kaunda, who was president from 1964-1991, was important to the PRC's policies in Southern Africa as he was at that time the Executive Chairman of the then OAU (Organization for the African Union) presently known as the African Union (AU), therefore making him a person of interest to court and influence.

Present day relations are marked with a negative rhetoric from the Zambian society toward the Chinese based in the country. Negative notions are based on rumors of the use of Chinese convicts as labor, bad working conditions and low wages and

repatriation of profits are complaints that often occur in Zambian media outlets. It is unclear the number of Chinese nationals living and working in Zambia. The current numbers based on statistical work permits alone are 2300 however former president of Zambia, Michael Sata, (2011-2014) was quoted as saying there were 80 000 Chinese residents living in Zambia in 2007. (Hampwaye & Kraglund, 2013) During the 2006 Zambian presidential elections the Patriotic Front (PF) led by Michael Sata who won the election, openly criticized the Chinese and their investment in Zambia. Despite this view not necessarily pertaining to the government, many Chinese felt uneasy. However, upon winning the election and the financial crisis of 2008 that affected copper prices, Sata changed this narrative quickly. (Hampwaye & Kraglund, 2013) The current president of the PF Edgar Lungu recently denounced any negativity toward China saying that much of the negative press is propaganda. (LusakaTimes.com 2018) He maintains a positive narrative in describing relations with China and puts down to rest any rumors of China seizing public assets to cover debts. (Rahman & Shaban 2019)

At the turn of the century economic relations became more important and China's access to copper and cobalt became a significant factor. Chinese mining investment is perceived generally positively although controversies do exist. (Hampwaye & Kraglund, 2013) An explosion occurred in Chambishi at a factory partly owned by a Chinese subsidiary that killed 50 people in 2005 and in 2006, 5 people were shot by police at a Chambishi mine site following a protest to increase wages. (Schoneveld, German & Gumbo 2014) These incidents shaped the Zambian perception of the Chinese relation to poor labor conditions. Visibility matters to the international media, and Zambia is no different in that context. Without a doubt, Chinese companies become easy targets for criticisms without taking into account despite that these companies do often face challenges in adapting and operating in democratic countries. (Hampwaye & Kraglund, 2013) By 2009 the total realized Chinese investment in Zambia was USD 844 million, 98% targeting mining and manufacturing. China is Zambia's largest export partner surpassing both South Africa and Switzerland. (Schoneveld, German & Gumbo 2014).

5 Case Study: Chambishi Multi Facility Economic Zone

This chapter will begin by evaluating Zambia development over time toward the present day. The literature review serves as a guide in which to understand the case study of the Chambishi MFEZ. Furthermore, this section will exhibit why Chambishi is of importance to both Zambia and China. In concluding, perspectives will be drawn based

on development theory on whether the MFEZ is in fact contributing toward development.

Zambia is a landlocked country located in Southern Africa bordering Angola, Tanzania and the Democratic Republic of Congo. Zambia is the world's eighth largest producer of copper and 6th place in copper reserves globally. 70% of Zambia's export earnings derive from copper production. The country remains a multi party democracy and provides a free market liberalized environment. Zambia is an LDC member of the World Trade Organization (WTO). It is also part of the Cotonou agreement and has benefited from duty free market access for the European market under the Generalized System of Preference (GSP) and Everything But Arms (EBA) and the US market under the African Growth and Opportunities Act (AGOA). It is also part of the preferential trade agreements including the Southern African Development Community (SADC) and Common Market for Eastern and Southern Africa (COMESA) (New Partnership for Africa's Development-Organisation for Economic Cooperation and Development 2011) Zambia has attracted FDI averaging roughly 6% of GDP between 2000-2016 making it the 13th destination for FDI out of the 41 countries from Sub-Saharan Africa that the IMF reported in 2018. In 2013, alone Zambia attracted USD2.1 billion in FDI inflows. (Data.worldbank.org 2019) Generally, Zambia confronts costs with accessing global markets such as high fuel prices, delays at the borders and long distances. However its landlocked position allows it to have borders with 8 countries and thus benefit from regional trading.

5.1 Economic development in Zambia

Prior to Zambia's independence in 1964, Zambia followed the colonial capitalist model to which the focus was primarily on natural resource development. The model did not fail to build strong institutions. Nevertheless, Zambia obtained the highest per capita income in Southern Africa at that time; despite unequal distribution of income due to a minority rule regime that was in place at the time. (United Nations Development Programme 2016) Under British colonial rule two private companies owned the copper mining industry. Post independence, the copper mining sector was then slowly nationalized. (Schoneveld, German & Gumbo 2014) By 1968 President Kaunda implemented the Mulungushi reforms to address the inequality issues. In short, the reforms set about nationalizing private retail, transport and manufacturing firms to counter minority rule in the rest of Southern Africa and the high levels foreign ownership. (United Nations Development Programme 2016) The Mulungushi reforms

were followed by the Matero reforms of the 70s and early 80s, which oversaw 50% of the mining being nationalized. The results were the disinvestment from the foreign conglomerates that initially ran the copper mines (Barton 2016, p 54). By the mid 70s the oil crisis tampered with the global copper prices and as a result of the nations dependency on the copper mining sector, a trade deficit was created. (United Nations Development Programme 2016). In the 80s Zambia implemented Structural Adjustment Programme (SAP) elicited by the IMF and the World Bank of which the conditionalities resulted in causing a drop in living wages of workers due to significant decreases in public spending. Devaluation of currency was a significant IMF conditionality aimed at balancing food prices in the long run but the short-term rise of food prices had triggered riots. Since then various programs had been implemented including the Zambia's own new economic recovery program (NERP) of 1987 that facilitated some economic growth more so by 1988. The measures included were the price controls on maize, limiting debt services and nationalizing private milling firms. NERP however was underinvested and considered unsustainable. (Barton, 2016) (Fagernas & Roberts 2004) Since the 80s, the combination of falling copper prices allowed for the economy to collapse resulting in the reduction of per capita income by 50%. (Schoneveld, German & Gumbo 2014) After which, Zambia had to implement liberalist economic and democratic policies to attain another loan by the IMF under the Rights Accumulation Programme to balance of payments. The policy implementation included the removal of price controls of maize and the reduction in government social expenditure. The end result caused societal upheaval due to the rising prices of maize. In short, the government by the end of the 80s through various mechanisms experienced inabilities to control debt, severe foreign exchange shortages, high budget deficits, hyperinflation, weak industrialization, eroded social and capital infrastructure, and high unemployment. (United Nations Development Programme, 2016) Present day Zambia has placed industrial development at the core of its development in line with the 'Zambia Vision 2030' strategy, which aims at transforming Zambia into a middle-income country by year 2030. The fifth National Development Plan recognizes that improved indices such as diversified contribution to GDP are key to poverty reduction. The plan also gives credence to the importance of linkages between capital-intensive sectors and the rest of the economy. (Schoneveld, German & Gumbo 2014)

Zambia continues to depend on its copper mining industry with the manufacturing sector lagging. This under diversified economy remains unsustainable and vulnerable to exogenous shocks and FDI withdrawals despite experiences with high growth.

(United Nations Development Programme, 2016) Although, the recorded economic growth of the 2000s was high, inequality remains rampant particularly to non-mining and non-urbanized areas. (Kraglund 2017) Zambia's economic growth average was 5,7% per annum between 2003-2013, its income per capita was USD1299 in 2011 and the recorded gini coefficient was 0,52 making it one of the worst sub-Saharan African countries in terms of income distribution. (World Bank 2013) By 2014, the jobs accounted for by the manufacturing sector was only 223 681(3.2% rise since 2012) this totals 3.8% of the 5.9 million inhabitants whilst 48.9 percent are employed by agriculture, forestry and other industries. (New Partnership for Africa's Development-Organisation for Economic Cooperation and Development, 2011) The mining industry in total has roughly 62 236 employees. (Zambia Chamber of Mines 2019) The manufacturing sector accounts for only 10% of Zambia's GDP and 12% of manufactured goods contribute to total exports (World Trade Organization 2016). Structural adjustment however moved backward in terms of agriculture, recorded as 23% of GDP in 2005 as opposed to 9% in 1950. Manufacturing was 11% of GDP in 1980 and 2005 remains at 11%. (Guadagno & Fortunato 2016).

5.2 Investment climate

The manufacturing sector attracts the second highest in terms of FDI after the mining sector by 31% of inflows in 2013. The mining sector attracts 22% whilst agriculture attracts 21%. (New Partnership for Africa's Development-Organisation for Economic Cooperation and Development, 2011) The Private Sector Development Reform Programme (PSDRP 1) was first developed in 2004, which aimed to improve the investment climate to boost the private sector. The reforms were designed to promote a market-based economy as opposed to the state economic system that transpired earlier in the 90s. Under PSDPR the Zambia Development Agency (ZDA) was established, and the Citizens Economic Empowerment Commission (CEEC). (Siame 2007) The Zambia Development Act of 2006 aimed to rationalize investment and operationalize the concept of the one stop shop for investment facilitation including private public partnerships (PPPs) of infrastructure projects such as SEZs. (Siame 2007) PSDRP 2, which ran from 2009-2014, was focused on business licensing; regulatory framework and priority sectors included tourism, agriculture and manufacturing. (New Partnership for Africa's Development-Organisation for Economic Cooperation and Development 2011) The CEEC is essentially a broad based framework whose mission is to empower citizens specifically targeted citizens by

integrating them into the economy by increasing levels of formal employment, increasing ownership, improving education and the enhancements of skills. (Citizen's Economic Empowerment Commission 2017) The CEEC is likened to affirmative action programs whose aim is to empower formerly disadvantaged individuals by attempting to create economic equality between these targeted groups. As a result of the PSDRP reforms, Zambia's rank in 'Doing Business' in 2015 was 97th in the World, 6th in Sub-Saharan Africa, 4th in COMESA and 5th in SADC. (The World Bank, 2016) Global Competiveness Index in 2017 Zambia ranked 118th in the World, the most problematic factors of doing business were access to financing, corruption and tax rates. (Schwab & Sala-i-Martin 2017-2018) Zambia has the most open FDI regime in Sub-Saharan Africa. Political stability is a major factor contributing to its attractiveness. (Kumar, Karimjee & Dreyhaupt (et al) 2015) However, policy regimes are said to be unpredictable. Two such policies included the increases of mining royalties in 2012 and the adoption of Statutory Instrument (SI) 33, which prohibits domestic transactions in any currency other than Kwacha. Both have spurred doubts about Zambian policy predictability. (World Bank 2013)

According to the Zambia Development Agency (ZDA), there is a need for the sectors to develop high quality value added goods for the export markets. These include engineering textiles, wood and wood products, building material, processed foods, chemicals, leather and leather products. The ZDA offers investors fiscal and non-fiscal incentives. Incentives offered to manufacturers who are located in the multi facility zones, an industrial park or a rural area include 0% percent tax on dividends from the first five years of operations, 0% tax on profits for first five years of operations and lastly 0% import duties on capital equipment and machinery for five years. Priority sectors investments that are less than USD500 000 are entitled to fiscal incentives of 0% import duty of capital equipment and machinery for 5 years. Priority sectors include construction of infrastructure (excluding renovation and expansion), energy and water development. Investment of not less than 250 000USD in any other sector (non priority) are entitled to non fiscal incentives characterized by investment guarantees and protection against state nationalization, free facilitation for application of immigration permits, secondary licenses, land acquisition and utilities assistance. Legal frameworks for investment protection are based on the ZDA development act, which assures investors of their property rights. The ZDA offers further security for investments through the signing of the investment promotion and protection agreements (IPPA). Zambia has signed eleven Investment and Promotion Protection Agreements (IPPA)

since 1966. IPPAs are useful in promoting specific investments however there are issues arising with discrimination (in preferential treatment) in investment laws and regulations with local businesses complaining of the preferential treatment of foreign firms. (Zambia Development Agency 2017)(World Trade Organization 2016) The ZDA is instructed to monitor and report trade, investment and employment proposals and operations and thus acts as an information agency however in the past critics have suggested their mandate is too broad and requires more governmental support in funding. (New Partnership for Africa's Development-Organisation for Economic Cooperation and Development 2011) The agency has admitted to challenges in delays in rights for investors, lack of sector specific and performance incentives. The follow up on investor compliance regarding these incentives remains weak. (Schoneveld, German & Gumbo 2014) The ZDA also finds implementing correct policy on a continuous basis challenging which suggests a lack of support from the government. The ZDA annual report of 2017 found the threshold of USD500 000 to attain incentives proved to be high for Zambian citizens which in hindsight is counter to CEEC's own mission of empowerment and perhaps even a hindrance toward linkages forming. The average time for processing of MFEZ applications is 3-6 months, which includes attaining the necessary licenses, and permits, even though the ZDA is the one stop shop, in practice there are a number of agencies that investors have to sought out before beginning operations. (Zeng 2016)

5.3 Chamibishi Multi Facility Economic Zone (MFEZ)

Zambia's Multi Facility Economic Zone (MFEZ) scheme is a government initiative to stimulate development for the country. The MFEZ tool is meant to encourage the diversification of the economy by manufacturing. (World Trade Organization 2016) The ZDA works directly under the Ministry of Trade and Industry (MCTI) and the legislation responsible for the MFEZ scheme is the ZDA act no. 11 of 2006 which establishes the ZDA as the one stop shop that is responsible for attracting and facilitating investment in line with Zambia's development plan and long-term goal. Section 18 of this act addresses the MFEZ scheme under which all economic zones in Zambia are addressed (Zambia Development Agency 2006). (Zeng 2016) Both the IMF and the World Bank consulted Zambia on the EPZ act prior to the MFEZ program's implementation. (Barton, 2016) (United Nations Development Programme, 2016) The Japanese government through its body the Japan International Cooperation Agency (JICA) officially introduced the MFEZ program to Zambia in 2005. (ZDA.org.za, 2019)

During President Levy Mwanawasa's reign, JICA along with selected Malaysian experts advised Zambia to abandon EPZ initiative and adopt the MFEZ program as a means of attracting investment. (Barton, 2016) The MFEZ framework as the name suggests should allow for a number of complementary industries to operate within the designated area to promote multi diverse development. It therefore is mixed model and draws from variations of zone types including EPZ, FTZ and HTIZs. According to the ZDA there are 6 areas declared as MFEZs or industrial parks including Chambishi, Lusaka-East, Lusaka-South, Lumwana, Sub-Saharan Gemstones exchange and Roma. 5 of these zones are privately owned whilst the government through the Industrial Development Cooperation owns the Lusaka-South MFEZ. (ZDA.org, 2019) The firms applying to operate in an MFEZ must display a degree of export orientation, their planned usage of the preferential trade agreements and foreign exchange earnings among many other factors. (World Trade Organization 2016) Lusaka South Zone established in 2010 is a collaborative effort with Japan and stretches over 21 square kilometers. It is a mixed development economic hub and within it are various targeted industries including research and development, high technology, commercial institutions and agriculture industries among many others. (Lsmfez.co.zm, 2019) Lumwana zone was established in 2009 is an area in the North West Province of Zambia within the mine owned and operated by the Barrick Gold Corporation a Canadian based mining company, since 2011 upon its acquisition the prior operator was Equinox minerals. The Lumwana zone is a town that remains under development, which will include manufacturing, agro processing, and hotels among many other multi-facility factors. Lusaka East zone is collaborative zone between China and Zambia under the Zambia China Economic and Trade Cooperation Zone (ZCCZ), the Lusaka East Multi-facility Economic Zone covers 5,7 square kilometers relatively close to the International airport. It is a communications hub dedicated to developing commercial, logistics, process, and real estate industries. (United Nations Development Programme 2015) The 'Roma' industrial park focuses on residential housing, commercial and retail activities to which the current status is that its has three foreign conglomerates already established, other plans for 'Roma' include the development a medical facility and retail park. Sub Saharan Gemstone Industrial Park is centered on activities related to gemstone production. However this zone is still under construction. (Mcti.gov.zm 2019) There are reportedly 4 other proposed MFEZs within Zambia (World Trade Organization 2016)

China through the state owned China Non Ferrous Metal Mining Group (CNMC) and

Zambian government established the Zambia-China Economic and Trade Cooperation Zone Development Limited (ZCCZ) under which the Chambishi zone was created. CNMC originally purchased the inactive mine in Chambishi in 1998 and refurbished it. (China Nonferrous Metal Mining Group, 2011) By, 2007, The Chambishi Zambia China Cooperation Zone was established occupying 5,26 square kilometers (Zeng 2016) However according to the master plan, the planning area was 11,28 square kilometers within mining sites of 3,6 square kilometers belonging to China Non-Ferrous Metals Mining Corporation (CNMC) through its subsidiary Non ferrous Company Africa (NFCA) in the Kalulushi Municipality in the Copperbelt Province which is connected to the well-known TanZam Railway. The zone applied the MFEZ framework with an expectation to attract USD 800million in investments toward Zambia's mining industry. (Barton 2014) Chambishi MFEZ was created in the frameworks that were planned in conjunction with JICA and the Zambian government. The framework included the proposal to have similar incentives and legal processes are offered to both foreign and local enterprises. (Japan International Cooperation Agency 2007) CNMC built the infrastructure within the zone with the Zambian host government being responsible for managing infrastructure surrounding the zone (e.g electricity and water supply). The zone received the highest level of support by China's Ministry of Commerce People's Republic of China (MOFCOM) and was inaugurated by then president Hu Jintao officially in 2007. (Brautigam& Xiaoyang 2011) Zambia like many host countries offers tax holidays, waivers on import tariffs and attractive labor incentives. Most zones have African shareholders and stakeholders that play an indirect role often because of a relatively small stake of 20% or less. In, 2011 it was reported that CNMC set up thirteen subsidiary companies in the Chambishi zone all related to mining or processing of minerals. (Brautigam & Xiaoyang, 2011) The companies include, the Chambishi Copper Smelter owned partly by CNMC, which became operational in the zone in 2008 and has a production capacity of 150 000 per annum tones of copper (Schoneveld, German & Gumbo 2014) In addition, CNMC owns 85% of NFCA (NFC Africa Mining Plc.) whilst the government owns 15%. (Zambia Development Agency 2013) More recently China through NFCA reinvested USD832 million in 2019 in another copper mine producing over 60 000 tones per annum. (Reuters.com 2019). Presently, Chambishi MFEZ has over 36 companies operating within it and thus far has attracted USD 1,6 billion. (World Trade Organization 2016) The industrial development plan for the Chambishi zone includes; 1) non ferrous metallurgy cluster based on mining of copper and cobalt, 2) extending industries include metal processing aimed primarily for regional trade, by products of copper and cobalt and finally the manufacturing of

mechanical materials. 3) Light industrial products mainly garment, food and household appliances mainly in the Lusaka sub zones 4) the supporting industries are those that include transportation and logistics. (World Bank 2011)



Fig 1. China Nonferrous Metal Mining (Group) Co., Ltd., China Association of Development Zones, Master Plan for the Zambia-China Economic and Trade Cooperation Zone, June 2007 seen in Power system development plan for Zambia 2010-2030, 2011)

The zone's aim is to channel investment toward mining of metals (copper) and by-products such electrical wire, cable, mine equipment, construction equipment, chemical products, fertilizers and pharmaceuticals. Production is aimed at supplying local and regional markets. (Brautigham & Xiaoyang, 2011) The copper fabrication industry or copper value added is when the raw material copper is used in finished products. However, in 2011 Zambia used only 5% of its copper output toward the copper fabrication industry. A large constraint is due to its low base of manufacturing both locally and regionally resulting in limited demand. (World Bank 2011) In 2017, China was reported to be the largest importer of semi fabricated copper products whilst being the second largest exporter of other fabricated copper products. (International Copper Study Group 2018) China's demand for copper is based on their 13th five-year plan that will increase by 15%, due to increases in consumer demand in power infrastructure and building construction. In addition China's demand for renewable energy will result in extensive investment into solar, wind and hydro power which requires 4-12 times

more copper per kilowatt than a traditional power generation. There are also prospects from Chinese electric vehicle production, which will impact copper demand positively. (International Copper Association 2016) The copper demand for China is tied to their Belt and Road initiative, which will result in vast demand of 22% increase by 2027. The direct impact of copper will stem from the infrastructure required from vast power grids and telecommunications. The copper intensive power equipment, power cables and transformer and switchgears. A forecast prediction of 6.5 million tonnes will be in demand by 2027. (International Copper Association 2018) Presently, NFCA has the 4th largest copper output in Zambia in terms of production based on 2009 estimates of 23 489 megatons. (Schoneveld, German & Gumbo 2014)

The MFEZ is hailed to be the answer to the development of expansion of industrial manufacturing according to the Zambian Competition Commission however the World Bank report on Zambia's copper operations in 2011 states clearly that that the World Bank maintains its position that the benefits from Zambia's MFEZ policy are simply that of sophisticated infrastructure and the traditional fiscal benefits. Several challenges have also been identified regarding MFEZs in Zambia including a lack of transparency for stakeholders, a lack of cohesive legal framework that facilitates positive spillovers from shared expertise, differences in work ethic, language and culture. (Alves, 2015) The Zambian Mines and Minerals Development Act mandates that holders of mineral rights should give preference to Zambian products however no specific targets are quoted and thus the enforcement of the regulation is a challenge (Nickerson & Klimova 2018) There are unfortunately shortcomings in nurturing backward linkages through local procurement due to the low capacity of the local SMEs. Despite this, the government has implemented tools as the Zambia mining local content initiative (ZMLCI), a micro level policy tool which allows small and medium sized suppliers to access an online database whereby they can search for opportunities only after the local firms meet capability appraisals, however this has been critiqued for its slow progression. In 2017, reportedly 100 suppliers were registered some of whom were local and some foreign and most notably only 4 mines were registered. (Kraglund 2017) The Zambian government has implemented programs to assist SMEs in building capacity by offering services that improve overall management. However, the results remain that 95% of procured goods remain imported. (Nickerson & Klimova 2018) Whilst Zambia is part of several preferential agreements that enable access to foreign markets, there are issues with local SME firms and their low productive capacity and therefore they are unable to take advantage of the opportunities. (New Partnership for

Africa's Development-Organisation for Economic Cooperation and Development, 2011) The ZDA confirms that the fiscal advantages provided for the MFEZs are available for companies outside the zones that meet the investment criteria. (World Bank 2011) Several papers have criticized the Zambian political elite for continuously marginalizing local suppliers by not enforcing those policies that would nurture the linkages, perhaps partly due to not obtaining the any rents in doing so. (Kraglund 2017)

Zambia's copper industry is dominated by eight foreign copper mining operations including CNMC. In the 2000s copper production had returned to the high numbers prior to the copper price crash in the 1970s (Barton 2014) There is a growing trend of further privatization of the mining sector, with a significant drop in government ownership between 2007 of full or part ownership in 15 mining companies to 2015. Zambia now has only full ownership of two firms Ndola Lime Company and Zambia Consolidated Copper Mining Investment Holding (ZCCM-IH) (World Trade Organization 2016) The updated mining tax regime in 2016 allowed numerous amendments on royalty taxes increases from 3% to 6 %. (Zambia Development Agency 2013) (World Bank 2013) This lead to decreased profitability for mines with the assertion that the mines could not afford to source locally and thus affecting local suppliers and inhibiting structural transformation. The statutory instrument SI 55 prohibits quoting of goods and services in foreign currency, which the mines viewed as costly to purchase locally due to volatile currency exchange. Lastly, the VAT rule 18 states the increase in electricity tariffs did not help foster linkages. (Kraglund 2017)

5.4 Implications

The nature of Chinese investment is a reflection of the Chinese ownership structure where private in China means the state owns 50% of total equity. FDI from an SOE displays features of tendering from large contractual exchanges with African states with formal state-to-state agreements whilst building provincial state ownership, which are the enterprises incorporated in Sub-Saharan Africa via conglomerates. (Kaplinsky & Morris 2016) The latter presents how CMNC through NFCA and its investment into the Copper Smelter Ltd in Chambishi. It is also worth noting that China's FDI into Zambia like many other African countries has been reportedly inconsistent, contradictory and thus inaccurate. 2006, was a noteworthy year for Chinese investment with an estimate of 17,8 billion inflows into SSA. The target countries for this FDI are those resource rich and Zambia placed in 7th place as a prime target in 2005 (Kaplinsky & Morris 2016) Zambia's own reporting of Chinese FDI is misleading because of missing data, the

actual amount of investment may in fact be higher than earlier perceived however it is estimated that China is between 1st and 3rd place as Zambia's top investor. (Kraglund 2016) It is reported that the Chinese government has a hands off approach to SEZs and no evidence has been found of conditionalities of zone investments but rather the MNCs are the main actors in the management of these zones. (Brautigham & Xiaoyang, 2011) However, this conclusion is mostly based from interviews only and other available published data. The Chambishi MFEZ has been interpreted on mainly focusing on Chinese investment evidenced by a list in 2011 of investors based in the Chambishi MFEZ whom were mainly Chinese. A reported interview with a senior planning officer of the ZDA in 2011 clarified that the MFEZ is open to all investors. (Barton 2014, p 94) CNMC has made it a point in their social responsibility report to procure from local suppliers (China Nonferrous Metal Mining Group 2011) However, interviews with World Bank officials claim that 95% of mining imports of all mining activity in Zambia are sourced outside Zambia, despite mining companies claims of mostly sourcing locally (Kraglund 2018 p 61) The Chambishi mines hires 687 employees on fixed term contracts 1-5 years and 1093 casual workers. The workers at Chambishi are generally paid less because contingency based work is not covered in the mineworkers union of Zambia nor the national union of miners and allied workers (Schoneveld, German & Gumbo 2014) The land for the cooperative zones has been leased for roughly 80 years. However secrecy surrounding the negotiations has fuelled accusations that the land was given for free or for a very low price by the government. Both the Zambian government and CNMC have denied these allegations. (Alves, 2011) The lack of linkages draws more criticisms from academics such as Kraglund (2016) whose assessment of the issue is suggests China is attempting to own the entire copper chain in Zambia. A concern for vulnerable states such as Zambia is the consequence of large amounts of foreign investment and what it means to national sovereignty and the much larger regional sovereignty with reference to SADC and even COMESA. These critics are perpetuated further with media outlets claiming that Zambia is being sold to China to cover debt and rumors circulating that large public goods such as power utility ZESCO is being taken over by China with Zambia denying these claims. (LusakaTimes 2018) The ownership regime of collaborative zones between Africa and China often draws criticism that China is merely running a projects and comparisons to neo-colonization makes its way into these narratives. Examples include the Nigerian Lekki zone where 40% of shares of the zone are owned by the Lagos State government and the Ethiopian zone is wholly owned China, however despite the differences in equity almost all 6 collaborative zones have very few Africans

in senior management. (Tang 2015) Initially when operations began, rumors suggested that the Chambishi MFEZ like many of the African/China collaborative zones only allow Chinese firms to operate there despite policies suggesting otherwise. On the other hand, China did set up funding mechanism of US 996 million for 38 SMEs in Africa after 2006 according to FOCAC. (Ministry of Foreign Affairs of the People's Republic of China, 2018)

Lee (2014) studied the key differences in strategy and management of what he called 'China state capital' (Chinese investment from SOEs serving china interests) versus 'global private capital' (private capital serving profit maximizing interests) in the Zambian Copperbelt. All major mines in Zambia are run by subsidiaries of multinationals. Among these is the Chinese NFCA, KCM (Konkola Copper Mines) owned by Vedanta (India/United Kingdom) and (Mopani Copper Mines) a subsidiary of Glencore (Switzerland). The latter parent companies are listed on the London stock exchange. All three mining houses began operations in Zambia in the early 2000s with a clear task of profit maximization for their shareholders. Lee dubbed the strategy of CNMC of profit optimization 'encompassing accumulation' seeing as China aims to have long-term political influence and access to raw materials, whereas profit maximization is the exclusive strategy of the global private capitalists KCM and MCM. When the global financial crisis of 2008 occurred copper prices fell drastically from USD 9000 to USD 3000 per ton in 2009. Panic led to mines announcing lay offs. The NFCA announced no layoffs, no production reduction and no salary cuts and thus operating on long-term interest as opposed to reacting to market fluctuation unlike the KCM and MCM who both announced layoffs and production decreases. (Lee 2014)(China Nonferrous Metal Mining Group 2011) NFCA salaries are generally 30% lower than both KCM and MCM. The low wages of NFCA perpetuates the criticism that China negatively exploits foreign labor. The flipside of that criticism is that relative employment security is higher at NFCA. It is worth noting that NFCA took over Chambishi, which was closed down for 13 years and thus requiring investment into refurbishing and generally delivered low-grade ore. Another note to add is that the Chinese were dealing with unfamiliar autonomous unions and collective bargaining practices unusual to them. Both KCM and MCM took over already functioning mines and as a result had to offer workers the same level salary. (Lee, 2014) Larmer and Larteza (2017) addresses the problems experienced by extractive communities across Southern Africa and its relation to the exploitative colonial history, where laborers were segregated, and western mining knowledge imposed on the natives. By contrast

modern day extractive groups are unionized, however the underdevelopment of these states has allowed foreign firms to own majority of natural resource extraction to which some may perceive as a loss of sovereignty. It is also no surprise that the historical narrative of colonization of Africa would play into modern day narratives of MNC relations with African states and its peoples. Foreign companies in Zambia do come across criticisms of corporate choices, which ultimately boil down to culture. Chinese work culture is viewed as over intensive and inhumane and fuelled exasperated with rumors of china's negative exploits in Africa generally. (Lee, 2014)

There are potential implications on Zambia's inclusion in Regional Trade Agreements (RTAs) such as SADC and COMESA. Similar to MFEZs, RTAs offer both direct and indirect benefits by offering lowered exporting/import duties and thus boosting trade. SEZ and RTAs together could cause trade triangulation whereby a foreign product has been relabelled and processed through a preferential scheme of an EPZ causing an infringement of RTAs. Nonetheless, the prohibition of the free movement of products from SEZs in RTA regions would undermine investment opportunities. SADC does not specify rules governing goods from SEZs however there are restrictive on rules of origin and requirements on high local quality, COMESA is less restrictive in that they require 60% of inputs to qualify for duty free trade (Koyama 2011) If SEZ products have a high import ratio, they do not meet the SADCs' rules of origin. SADCs' rule of origin stipulates that the products must meet wholly produced criteria with limited use of non-originating materials (Southern African Development Community, 2003). COMESA alone requires the Cost insurance and freight (CIF) of 60% of the total costs of materials. (Common Market for Eastern and Southern Africa 2013) Zambia's MFEZ scheme has the potential to undermine local competitiveness where the incentives given for duty free import of supplies is given to SEZ firms and local firms must pay full duties. (Koyama 2011) Chinese conglomerates could essentially take advantage of the trade triangulation to send fully manufactured goods made in China through these regional blocs.

Chinese investment in Zambia can be further discussed and criticised from various points of view. Barton (2014) highlights three schools of thought based on Sino/African policy research analysis. China can be considered as and 'authoritarian capitalist' in which China has gained significant influence in African elites which causes concern for the US. Therefore China is viewed as coercive economic and diplomatic entity that extracts resources from Africa without considerations on appropriate distribution or

compensation. The 'wide open door' is the second school of thought states that the China's investment is a result of western liberal ideologies that left African markets open to investment and thus less about coercion. The rationale for the investment is that Africa has a large open market with little competition. That last school of thought is drawn from the title of Laura Brautigham's book about China/Africa Relations 'The Dragon's Gift'. China/ Africa relations are perceived more positively in light of China breaking the western monopoly over Africa. China is then viewed as an economic opportunity for Africa. More positively, there is something to be said about the rates of GDP growth in Zambia and the timeframes. The pre-structural period 1980-1991 the average GDP rate was 1,1%, the structural adjustment period saw 0,7% compared to the Asian driver led phase 2003-2008 which reported average growth of 5,6% (Carmody 2009 p 1198) Certainly, other factors have influenced the Zambia's growth in the 2000s including increases in regional trade and investment with SADC particularly with South Africa; a transition economy with a noteworthy development sectors (Carmody 2009)

6 Conclusion

The Zambian Economy and its strive toward development has experienced a number of policies overtime that have been contradicting. The Mulungushi reforms aimed at nationalising large assets went against World Bank and IMF proposals. The IMF and Word Bank subsequently imposed their liberalist policies that ultimately did not have the desired effect on the economy. However, the privatization of capital assets remains a growing trend in the Zambian economy through their promotion of a market-based economy. SEZ strategy matters to economies and due diligence should be done to ensure that the maximum benefits are reaped. The factors to be decided are location, linkages, comparative advantage considerations and value added activities to name a few. In the case of Zambia we indeed see that local capacities inhibit linkages from forming. It appears, while a number of programs exist to assist in nurturing linkages, the enforcement of these regulations remains sketchy. Zambia is a latecomer to the SEZ model and despite its interpretation of the model as instrument toward development; institutions such as the World Bank would disagree. The World Bank holds the orthodox view on development and therefore posits that as little government intervention into market mechanism is the driver to success. The Chinese government holds the heterodox view that the development state model is the prime indicator of successful development owing to the strategic oversight of investments through their

own SOEs. Zambia can learn from China's experiences with SEZs through their collaboration despite the obvious technological and cultural differences. China's own collaborative zone with Singapore proved successful, keeping in mind that both states are technologically advanced and share cultural similarities. The crucial lessons from China's SEZ policy was the building of linkages by locating zones within reach of commercial towns and based on SIP's example; the formation of information sharing institutions to fill knowledge gaps.

The Chambishi MFEZ is centred on Zambia's comparative advantage with value added manufacturing included. Alone, this cannot steer the country away from the Dutch disease phenomenon. However, the implementation of a number of MFEZs across the country specifically geared toward manufacturing and the technology industry means that its variety may offset some of these experiences in the long term. Chambishi MFEZ is an example of a successful PPP despite controversies surrounding labor issues. Certainly, it follows the recommended advice that private developers are better at creating the business environment. The creation of a value added industry alongside the copper mining is a long-term strategy to increase manufacturing value added to GDP. The copper is of great importance to China, hence the strategic investment.

From an investment perspective, it is easy to see how 'the Big Push' theory that states that the private entrepreneur is too short sighted to see market signals and the potential for complementary investments, and this is particularly true for LDCs. China is an example of strategic oversight providing a 'Big Push' by allocating capital in their own EZs. However Hirschman's unbalanced growth theory points out that LDCs have such limited capital savings and in the case of Zambia, investment were made into social overhead capital pertaining to power and water supply to prepare for the MFEZ whilst China injected the necessary capital to build the infrastructure. The development perspective points out the lack of linkages formed in Zambia that puts constraints on knowledge transfers and thus knowledge gaps remain unfilled, in line with endogenous growth theory. Warr 1989 found that foreign exchange earnings have very little impact unless the firms purchase in local currency. However, in the case of Zambia's recent regulations to make local purchases using only the Kwacha currency and not foreign currency discouraged foreign firms from procuring locally, a setback for backward linkages formed. The other concern is that public servants may not have the desire to enforce regulations, due perhaps to distance between the market and decision makers suggested by Moberg (2014), or in the case Kraglund (2016) suggested, due to the

rents obtained; suggestive of high level corruption. Yet again it is too early to predict the long-term prospects for nationwide structural adjustment in Zambia using the MFEZ policy generally. However the ZDA fails to stipulate the actual impact of Chambishi MFEZ on the entire economy most likely due to shortcomings in data collection.

In the previous chapter, Barton (2014) highlights three schools of thought into China's relation with Zambia. It is easy to assume negativity of the Chinese, but one must take into account the poor leadership afflicting Zambia. The Zambian institutions stand to learn from the Chinese model of economic development through MFEZs. Despite the contradicting views on SEZ models and development, there are lessons to be learned from the East Asian usage of EPZ in the 1970s and 1980s. An even closer example is Mauritius' own development success with a single EPZ. In conclusion, based on the information provided in this thesis, one recommendation would be for the Zambian government to integrate its institutions. The CEEC and the ZDA should be enforcing policies that nurture linkages and promote SME capacity, thus making them more competitive. Finally, the two institutions can align themselves to promote the skills transfer for targeted citizens by promoting a program for foreign firms to train and hire Zambian managers.

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Zambian History

Northern Rhodesia became independent from the British in 1964 and became known, as the Republic of Zambia with Kenneth Kaunda of the united national independence party (UNIP) becoming president. Zambia relied heavily on copper resources and white ruled Rhodesia for consumer goods (Elliott, 1971). Zambia was in a dilemma seeing as they were threatened with sanctions by neighbouring nations whom were under minority rule, if they assisted any nationalist movements based in Lusaka. Zambia engaged with black ruled Northern Africa and China as a means to increase maneuverability. China/Zambia relations were influenced by two reasons Zambia's position in the southern African fight against white minority ruled which represented to china as western hegemonic rule and Kenneth Kaunda's appeal and political orientation. Kenneth Kaunda was verbal in his opposition to racism and minority rule and intrinsically was a socialist. In fact he developed his own philosophy called humanism, which was a desire to remain non-aligned and away from superpower global competition. (Taylor 2000)

The Zambia China Mulungushi textile factory joint venture (ZCMT) is a textile company in Zambia. Based in Kabwe northern Kusaka it employs 2000 workers and produces 1800 tons of cotton yarn. The factory was built with interest free loan of 11 million British Pounds and completed in 1983 initially under Zambian management with a few chinese consultants, however it shut down (check date). By 1997 it became a joint venture with 66 percent Chinese stake and 34 % Zambian stake with the Chinese filling all executives and main managerial positions. In short, the results were that the ZCMT became Zambia's third largest cotton purchaser and sells their products throughout southern Africa and have expanded and built subsidiaries across Zambia, Tanzania and Namibia. (Taylor 2006)

China's Going Global Strategy

China prepared with lessons learned from the first strategy was now prepared for Going Global 2.0 (2005-present) that is the expansion into the sophisticated markets of the West. China's growth is steadily moving from manufacturing into consumption. China's ODI had increased rapidly into the Western hemisphere since 2005 whilst remaining a source of FDI for the developing world. With that being said China's SOEs lack the competitiveness of their private counterparts and remain heavily subsidised by the state. In addition, many western consumers hold negative perceptions of Chinese products as low quality and cheap and thus Chinese businesses are now purchasing valuable western brands (Zhu 2018).