China's Investment in African Industrial Zones:
Prospects, Challenges and Opportunities for Africa

Deborah Brautigam
and Tang Xiaoyang

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Context for the Zones:  
I. China: “Going Global”

- Chinese FDI overseas
- New markets
- Chinese MNC champions (“Dragon heads”)
Holley Pharmaceutical’s Artemisinin Factory, Tanzania.
Enugu, Nigeria: Joint Venture Tire Factory (under construction)
II. China’s Push for Industrial Restructuring at Home

• Chinese Leader Cites Need for 'Industrial Restructuring' – WSJ June ’09

• China's drive to move up the value chain and away from low-end processing --

• China's Stimulus Package Boosts Industrial Restructuring – May ‘09
Restructuring Policies in China

• Flat export tax on each garment: 2005
• Export licenses for 216 textile products
• End of export rebates for some products
• Higher minimum wages & benefits
• Appreciating currency
• Crackdown on emissions, energy use
• Financial crisis: slower, but not derailed
Nnewi, Nigeria
Nnewi, Nigeria: Instant Noodle Factory (JV)
Enugu, Nigeria
“China will build 50 overseas trade & economic cooperation zones”

- 2006 announcement
- Part of 11th Five Year Plan
Why 50 Overseas Zones?

1. Reduce trade frictions and barriers
2. Assist China’s domestic restructuring
3. Increase demand for Chinese machinery, & boost local supply of construction materials
4. Economies of scale for overseas FDI
5. Allow SMEs to venture overseas “in groups”
6. Diplomacy: transfer China’s success
“Our cooperation with Africa today, as well as aid, has shifted from direct financial assistance to the output of development experience.”

Mr. Fung, Deputy General Manager of Tianjin TEDA Investment Holding, Egypt Suez Economic and Trade Cooperation Park, October 16, 2008

http://www.cec.mofcom.gov.cn/ciweb/cec/info/Article.jsp?
Process: Two Competitive Tenders

2006: 60 submissions of interest
- 30 companies invited to submit proposals
- 12 invited to Beijing => panel
- 8 selected (Zambia, Mauritius, Ogun)

2007: 50 submissions of interest
- new requirement: minimum turnover of US$2 bil
- 20 invited to submit proposals
- 11 selected (Algeria, Egypt, Ethiopia, Lekki)

Total = 19 Zones selected as experiments
China’s First Seven Overseas Zones in Africa
## Profiles of Chinese Cooperation Zones in Africa

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Investment</th>
<th>Size</th>
<th>Initiation</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zambia Chambishi</td>
<td>US$ 410m</td>
<td>11.58 km² (7.98 km²) startup 2km²</td>
<td>2003</td>
<td>In Operation &amp; Construction</td>
</tr>
<tr>
<td>Zambia Lusaka (subzone)</td>
<td>(subzone)</td>
<td>5 km²</td>
<td></td>
<td>Construction</td>
</tr>
<tr>
<td>Egypt Suez</td>
<td>US$ 80 m</td>
<td>5.08 km², startup 1.07 km²</td>
<td>1998</td>
<td>In Operation &amp; Construction</td>
</tr>
<tr>
<td>Nigeria Lekki</td>
<td>US$ 264 m for 2-3 years, RMB 2.52b (US$ 369 m) in total</td>
<td>30 km², Phase I 10 km². Start up 3.5 km²</td>
<td>2003</td>
<td>Under construction</td>
</tr>
<tr>
<td>Nigeria Ogun</td>
<td>RMB 1.5 b (US$ 220 m) for startup, US$ 500 m for whole 1st phase</td>
<td>100 km², 1st phase 20 km², startup 2.5 km²</td>
<td>early 2004</td>
<td>Construction</td>
</tr>
</tbody>
</table>
| Mauritius Originally Tianli, renamed Jinfei | 1st phase RMB 1.5 b (US$ 220 m) , Total US$ 720 m | 2.11 km²
Startup 0.75 km² | 2006-2007 | Construction |
| Ethiopia Oriental (Eastern) | RMB 690 m (US$ 101 m) | 2 km², startup 1 km² with 10 km² reservation area | 2006-2007 | Construction                  |
| Algeria Jiangling         | RMB 3.8 b (US$ 556 m)             | 5 km², 1st phase 1.2 km²      | 2006-2007 | Planning                      |
Profiles of Chinese Cooperation Zones in Africa

Zambia-China Economic and Trade Cooperation Zone
Investors: China Nonferrous Mining Co. >95%
Zambia state-owned mining company< 5%

Chambishi zone:
• Focuses on copper & cobalt mining and processing
• Currently 13 enterprises, all belong to CNMC group
• Employ 700 Chinese, and 3,300 Zambians

Opening ceremony by Hu Jintao & Mwanawasa Feb. 2007
Profiles of Chinese Cooperation Zones in Africa

Zambia – Lusaka sub-zone:

• Focuses on service and light industries,
• Launched (Symbolically) in Jan. 2009
Profiles of Chinese Cooperation Zones in Africa

Egypt Suez Economic and Trade Cooperation Zone

- Investors: Chinese >80%, Tianjin TEDA + CADF
  Egyptian <20%, Banks + Suez Canal Authority


Initial Discussion
MOU for North-West Zone, TEDA set up Suez International
ECCI founded, ECCI returns most of its land, TEDA opens SME
TEDA sets up Suez International
ECCI founded, TEDA set up Suez International, TEDA won MOFCOM bid
Egypt TEDA tender (March)
Suez zone opened (November)

Profiles of Chinese Cooperation Zones in Africa

Egypt Suez

• Focuses on 1) textile & garments, 2) petroleum equipment, 3) assembly of automobiles and 4) electrical equipment.

• High-tech (electronics) and heavy industries to be added in the 2nd phase

• Status (Nov 2009): 16 companies, 1850 local jobs
Profiles of Chinese Cooperation Zones in Africa

Ethiopia Oriental Industrial Park

- Investors: 100% Chinese owned, Qiyuan Group (steel) + two small companies.
- Zhangjiagang Free Trade Zone as a technical partner
- Former major shareholder Yonggang quitted early 2009
- Substantial change
  - Area: 5 sqkm to 2 sqkm,
  - Investment: RMB 1 bn to RMB 690 million
- Focuses on construction materials, steel products (plates and pipes) and others.
Profiles of Chinese Cooperation Zones in Africa

Mauritius JinFei Economic and Trade Cooperation Zone

- Investors: 100% Chinese owned, Tianli + two big SOEs, CADF may join.
- Delayed because of financial difficulty, started in Sept. 2009
- Manufacturing and service base for Sino-Africa business.

- 2nd phase (up to 2016): multi-function hub
  Solar energy,
  Healthcare,
  Real estate etc.
Profiles of Chinese Cooperation Zones in Africa

Nigeria Lekki Free Trade Zone

- Investors: Chinese 60%, four companies + CADF
  Nigerian 40%, mainly Lagos State Gov.

- Focuses on automobile, textile & light industry, home appliances and others

- Construction behind schedule, companies to move in early 2010
Profiles of Chinese Cooperation Zones in Africa

Nigeria Ogun-Guangdong Free Trade Zone

- Investors:
  Chinese Consortium based in Guangdong (82%)
  Ogun State Government (18%)

- Focuses on light manufacturing, may be a high-tech agricultural demonstration park

- Originally sited in Imo State, relocated to Ogun State, because of high administration fees and insecurity

- Project delayed and construction began in the first half of 2009.
Profiles of Chinese Cooperation Zones in Africa

Algeria-China Jiangling Free Trade Zone

- Investors:
  Jiangling Automobile Group
  Zhongding International Group (Construction)

- Focuses on automobiles and construction materials.

- 2009 reform in Algeria’s investment regime, requiring joint-ventures with Algerian partners as majority shareholders

- Negotiation still ongoing
Profiles of Chinese Cooperation Zones in Africa

Unofficial Chinese Overseas Zones

- Six zones in operation or under construction: Sierra Leone, Nigeria (2), Guinea, Botswana, South Africa

- Smaller; focus on textile, construction materials light industries; some mainly trade-oriented

- Other proposals: earlier stage or failed to begin
Chinese Developers are *Firms*

- **Provincial & Municipal SOEs**
  - Shanxi -- Guangdong -- Jiangxi
  - Tianjin -- Jiangsu

- **Minying ("private" firms)**
  -- Qiyuan -- Beiya

- **National SOEs**
  -- CCECC -- China Railways
  -- CNMC
Transfer of Expertise from China’s Zones: Three Models

• **Initial Developer (Egypt)**
  Tianjin Economic-Technological Development Area (TEDA)

• **Investment Partner (Nigeria-Lekki)**
  Nanjing Jiangning Development Zone

• **Technical Partner (Ethiopia)**
  Zhangjiagang Free Trade Zone
Who Gets In?

• Agreements Vary
  – Zambia target of 40 Chinese, 10 non-Chinese (including locals) by 2011
  – Mauritius govt. refused to allow locals

• Other foreign firms welcome in theory …
  … but in practice? Egypt, Nigeria-Lekki

• Profit motive versus language, insularity
Design of Zones

- Infrastructure, energy at world-class standards (?)
- Can be export processing, import substitution, services – no fixed model
- Both PPP Model & “Private”
- Planned Living areas

Nigeria Lekki
Mauritius Jinfei
Chinese Developmental State’s Benefits for Chinese Developers

- Grants: RMB 200 to 300 million ($29 to $44 m)
- Long-term loans up to RMB 2 billion ($294 m)
- Trade and Economic Coop. Zone Dev. Fund
  - Subsidizes up to 30% of some dev’t. costs
- Economic and Technical Coop. Special Fund
  - Partial rebates on interest for Chinese bank loans
- Subsidized moving costs for Chinese investors
Support from Provinces & Municipalities

• Ethiopia: Jiangsu & Suzhou
  – > 100 million RMB ($14.6 million) grant

• Egypt: Tianjin
  – subsidized 5% of investment cost
  – paid rent & utilities for service firms
  – paid FDI & overseas pers. accident insur. for 3 yrs
  – 10,000 RMB ($1470) food subsidy for each Chinese employee, first year

Zambia: Multi-facility Economic Zones

Egypt: Northwest Special Economic Zone

Nigeria: Export Processing Zones of NEPZA

Mauritius: Free Port

Ethiopia: Sustainable Development and Poverty Reduction Program and per negotiation

different preferential policies regarding income tax, import duty, VAT, profit repatriation, FX, etc.
Preliminary Assessment

• Plan Implementation
  - Six zones out of seven began construction
  - Ethiopia and Mauritius substantially modified plans because developers were hit by economic crisis
  - Economic fluctuation in host countries did not affect much, as the zones are long-term investment
  - Chinese government plays an important role in guaranteeing implementation, e.g. Mauritius
Concerns from Chinese side

- Different Levels of enthusiasm and support from African government

- Poor infrastructure outside the zones
Concerns from Chinese side

- “Bureaucracy” and unfulfilled promises
- Frequent change of economic policies
- Land acquisition
- Foreign exchange
Potential Issues from African side

- Transparency & Expectations
- Employment & Chinese Workers?
- Technology diffusion & cluster strategy
- Competition with local firms
- Learning Process & eventual takeover?
- Social & environmental responsibility?
- Resettlement and compensation
- Zones used for transshipments?
Conclusion

• Risks:
  – History of failed zones in Africa
  – Enclaves
  – Labor standards
  – Global economic crisis

• Opportunities:
  – New policy frameworks
  – Some govt. commitment
  – Leverage Chinese know-how, interest