China's Investment in African Special Economic Zones:

Overview and initial lessons

December 2009

Draft for comment only
Please do not quote

Principle Authors:
Deborah Brautigam – American University (dbrauti@american.edu)
Tang Xiaoyang – New School for Social Research (tangxyang@gmail.com)

Note: This paper is part of a wider project led by the International Trade Department of the World Bank (PRMTR): "Special Economic Zones in Africa: Comparing Performance and Learning From Global Experience". A series of notes, papers, and workshops related to this project will be made available during 2010. The project is supported through a trust fund grant from the Bank Netherlands Partnership Program (BNPP). For questions or comments on this paper or the wider work program, please contact:

Thomas Farole
Senior Trade Specialist
International Trade Department (PRMTR)
Email: tfarole@worldbank.org
Extension: 37818

CONTENTS

All currency figures presented in this note are based on an exchange rate (as per November 2009) of RMB 6.83 = US$ 1.00

EXECUTIVE SUMMARY

In 2006, as part of the implementation of its 11th five year plan, the Chinese government announced that it would establish up to fifty overseas "economic and trade cooperation zones", or special economic zones (SEZs). Seven of these zones have now been approved for Africa – six are under construction or already operating. These zones are not expected to conform to a single model but can be manufacturing bases, service centers, or multiple-use facilities, for import substitution or for exports. The zone developments are all led by Chinese consortia of private and state-owned enterprises.

Strategic Objectives: Overseas economic zones serve several strategic objectives for China: increase demand for Chinese-made machinery; reduce trade frictions and formal barriers imposed on Chinese exports to Europe or North America; assist China's domestic restructuring by sending mature industries offshore; create economies of scale for overseas investment and assist less experienced small and medium-sized enterprises to venture overseas "in groups"; and transfer one element of China's own industrial development success to other developing countries. Experienced operators of China's SEZ – Tianjin Economic-Technological Development Area, Nanjing Jiangning Development Zone, and Zhangjiagang Free Trade Zone – are involved in several African zones.

The Zones: The first African zone approved by China under the plan was in Zambia, a metallurgy cluster at Chambishi with a satellite electronics assembly zone near Lusaka. In Mauritius, a service and light manufacturing cluster was approved. Nigeria received two zones, in Ogun State and in Lagos State's Lekki Peninsula. Ethiopia and Egypt each had zone proposals approved (in the case of Egypt, cooperation on SEZs began as early as 1994). Finally, a zone in Algeria was approved but has not moved to construction. It is worth noting that outside these government-supported projects, there are a number of private initiatives in Africa (e.g. Sierra Leone, Guinea, Nigeria, Botswana, South Africa) that are independent of government support.

Mechanisms for Chinese Government Support: Chinese support is organized under the Ministry of Commerce (MOFCOM), which established a competitive tender process. Chinese companies submit proposals, with winning bids eligible to receive a number of incentives, including: grants; long-term loans of up to RMB 2 billion (US$ 294m) and subsidies to cover up to 30% of some preparation costs; rebates on interest for Chinese bank loans; and diplomatic support. China-Africa Development Fund has taken equity shares in three of the zones, with a total investment of US$ 100m. Some Chinese provinces offer additional support. It should be stressed, however, that development of the zones is done on a for-profit basis – this is seen by the Chinese government to be critical to ensure the sustainability of the projects.

Mechanisms for Cooperation with African Partners: The zones in Africa are developed by Chinese consortia, sometimes in joint ventures with local interests, as in Egypt, Nigeria, and Zambia (although in Ethiopia, and Mauritius there is no local partner). They are open to other foreign investors and all but Mauritius are also open to local investors. With the possible exception of Mauritius, the zones do not have special agreements on the use of Chinese expatriate workers. In the two zones that have begun operating, local labor makes up the large majority of employment, but employment of Chinese nationals is substantial (particularly in construction and start-up phases) and has been a source of some tension. Host government incentives take no standard form, and in most cases do not appear to go beyond the standard incentives offered in national SEZ programs.

Outcomes: Almost all the projects remain in the very early stages; as such, it is difficult to assess their success. However, most of the projects have faced delays at some stage of development and appear to face many of the same challenges (land access and compensation, infrastructure gaps, policy changes) that have affected many zone projects in Africa, and indeed throughout the world. Progress at several of the zones was slow to take off, as a result of financial difficulties on the part of the Chinese developers, deriving from the global economic crisis. To date, there are examples of some high-level knowledge sharing and training of local managers, but given the early stages of development, local employment, supply chain linkages, and technology transfer remains limited.

Concerns and Challenges: Chinese developers have been concerned about inadequate support from some local governments, including poor infrastructure outside the zone, policy instability, and administrative inefficiencies. African governments and civil societies worry about a lack of transparency, potential for misusing the zones to re-label Chinese goods for local sale, or transshipment to preferential European and North American markets, the risk of expensive infrastructure investments without guaranteed returns, and low wage rates and labor standards for African workers.

Maximizing the Benefits for Africa: African governments can take a number of steps to improve their potential to generate lasting benefits from this investment (beyond simply job creation). These include: ensuring high-level commitment and active participation from national and local governments; viewing the projects explicitly as opportunities for learning how to develop and operate SEZs; increasing the use of PPP mechanisms to ensure effective delivery of critical infrastructure to support SEZs; phasing in local control of zone management; improving the enforcement of standards, developing programs to support the development of local supply linkages into the zones; and improving transparency and community relations.

1. CHINA'S OVERSEAS SPECIAL ECONOMIC ZONES: AIMS AND OBJECTIVES

In 2006, as part of the implementation of its 11th five year plan, the Chinese government announced that it would establish up to fifty overseas economic and trade cooperation zones. In the experimental manner that characterizes many Chinese policy innovations, the rollout of these zones has been done gradually. In Africa, two competitive tenders (discussed in Section 2I) have led to the selection of seven proposals for overseas zones, all of which became eligible for incentives from the Ministry of Commerce and other Chinese government agencies. The purpose of this paper is to outline the background of this policy innovation, describe the current status of the seven African zones, shed light on the variety of mechanisms by which these zones have been established and operated, provide a preliminary assessment of the benefits and drawbacks of the zones, and provide recommendations that might be helpful in allowing African economies to fully maximize potential benefits from these investments. It draws on field research done previously by the two authors,[1] as well as a literature review and telephone interviews done for this project.

A. Background

China's own efforts to attract foreign investment relied at first on special economic zones. In 1979, four special economic zones were established in the southeastern coastal region of the country (a fifth zone was later added on Hainan Island). These were patterned after similar zones established by governments in Taiwan, Korea, Singapore, and Hong Kong. In 1984, fourteen Chinese coastal cities set up industrial and technological development zones, many of which nurtured clusters targeting a particular industry. More than a hundred zones of various kinds have now been established around the country, with low taxes[1] and infrastructure at international standards. They have become one of the principle means by which the Chinese government, at the local, provincial and national levels, provides preferential policies to foster the development of technology and industry.

China has some experience with international partnerships in the development of these zones. In 1983, the Japanese government helped develop a master plan for the port of Qingdao, and in the early 1990s, Japan's International Cooperation Agency (JICA) provided foreign aid for the Jiaozhou Bay Highway, a railway, and a sewage treatment plant, all connected to the Qingdao Economic Development Zone. In 1993 and 1994, the Jiangsu province cities of Wuxi and Suzhou developed industrial parks with Singaporean partners in order to learn from Singapore's model. These zones were run on a commercial basis, as joint ventures. The Singaporean interests held majority shares, and took the lead in developing and marketing the zones until around 2001-02 when the capital and management were restructured and Chinese interests became the major shareholders and decision makers in both zones. The process was followed closely by the Chinese government: the Suzhou zone even had a vice-premier as chairman of its board. In recent years, several Chinese development zones have invited institutes from the US, Japan, Australia and UK to participate in planning.

In the mid-1990s, after nearly twenty years of "bringing in" (*yin jinlai*) foreign investment, technology, and skills, the Chinese government began to emphasize "going out" (*zou chuqu*) or "Going Global". "Going Global" involved finding new markets for Chinese goods and services, building up Chinese brand names, and ratcheting up China's own foreign investment. In an experimental fashion, the Chinese government and Chinese companies began to establish overseas industrial and trade zones, as early as 1998. In 2006, a

[1] Some of this has now been published in Deborah Brautigam, *The Dragon's Gift* (Oxford University Press, 2009).

policy decision was made to eventually establish up to fifty special economic cooperation zones in other countries as a central vehicle for this aim.

The China-Africa Development Fund (CADF), a venture capital instrument set up by one of Beijing's policy banks, China Development Bank, is one of the key tools set up for the "Going Global" strategy. First announced at the November 2006 Summit of the Forum on China-Africa Cooperation (FOCAC), CADF was established with US$ 1 billion in assets – it is expected to rise to US$ 5 billion over time. CADF's role is to invest in Chinese companies, Sino-Africa joint ventures, or African companies, with the commercial objective of at least breaking even. CADF has taken equity shares in some of the overseas zones projects.

B. Objectives

Overseas economic zones were believed to serve several strategic objectives. First, they would help increase demand for Chinese-made machinery and equipment, while making it easier to provide post-sales product support. Second, by producing overseas and exporting to Europe or North America, Chinese companies would be able to avoid trade frictions and barriers imposed on exports from China. Third, they would assist China's efforts to boost its own domestic restructuring and move up the value chain at home.[2] Fourth, they were intended to create economies of scale for overseas investment, and in particular, to assist less experienced small and medium-sized enterprises to venture overseas "in groups". Finally, fifth, they were viewed as a way to transfer one element of China's own success to other developing countries, a strategy that the government believed would be helpful for recipient countries, while also benefiting China. These multiple objectives mean that Chinese companies also have a variety of objectives in constructing and investing in these zones. Indeed, evidence from the zone in Egypt – which is the most advanced of the projects – supports the perspective that there is no single model being followed by companies investing in the Chinese zones. Some of the Chinese manufacturers in the zone are producing for the European market (garments). Others are serving the Egyptian market (oil rig assembly; women's sanitary products), while others are exporting back to China (marble).

C. Brief History of China's Overseas Economic Zones

The policy established in 2006 built on earlier overseas experiments. For more than a decade, Chinese companies had already ventured into establishing a variety of overseas industrial and trade zones. For example, in 1999, the Chinese government signed an agreement with Egypt to assist in the establishment of an industrial zone in the Suez economic area. Also in 1999, the giant Chinese appliance firm Haier built its first industrial complex outside of China: a 46 hectare industrial park in South Carolina, USA. Fujian Huaqiao Company built an industrial and trade zone in Cuba in 2000. In 2001, Haier and a Pakistani company, Panapak Electronics, constructed a joint industrial park near the Pakistani city of Lahore. A Chinese company began to implement an industrial zone in the Chambishi area of Zambia in 2003. In 2004, China Middle East Investment and Trade Promotion Center and Jebel Ali Free Trade Zone constructed a US$ 300m trade center, designed to host 4,000 Chinese companies in Dubai. Similarly, Tianjin Port Free Trade Zone Investment Company and the United States Pacific Development Company set up a Chinese trade and industrial park in the South Carolina city of Greenville in 2004.

Thus, the decision to establish overseas zones as a part of the "going out" policies was made after Chinese companies themselves had already set up industrial and trade zones overseas. China's Ministry of Commerce and the National Development and Reform Commission studied the experience of these companies in formulating the policies of support.

2. CHINA'S OVERSEAS ZONES IN AFRICA: CURRENT SITUATION

Chinese support for the development of "economic and trade cooperation zones" is not limited to Africa. To date, the Chinese government has selected nineteen overseas zone proposals (*see Appendix 1*) across fifteen countries for official support under the Going Global policies. Seven of these projects – across six countries – are in Africa (5 projects in four countries are located in Sub-Saharan Africa with two in North Africa), with the goal of developing at least 10 overseas Chinese economic and trade cooperation zones during the 11th five year plan (2006-2010), and stimulating overseas investment of US$2 billion from some 500 Chinese companies.[3] These zones are not expected to conform to a single model. They can be science and technology parks, manufacturing and processing bases, or multiple-use facilities. They can emphasize domestic markets (import substitution) or export processing. In addition, some mainland Chinese and Hong Kong companies have established industrial estates and other spatially delimited areas for trade, logistics, or manufacturing in Africa and elsewhere, outside of the scope of official government support.

This section outlines the overall plans for the zones. Their results to date are discussed later in the report, in Section 4.

A. China's Seven Approved Zones in Africa

China's Ministry of Commerce has approved seven African zones for special funding under the "Going Global" initiatives – six had commenced construction as of November 2009. These zones are located in Zambia, Mauritius, Egypt, Ethiopia, Nigeria (two), and Algeria. This section provides an overview of the seven zones, including their location, participants, investment, their industry focus, and current status. It also discusses the future of the Chinese initiative, and contains a brief look at Chinese investments in industrial parks and other special economic zones in Africa, but outside of the special initiative. Appendix 2 provides a chart giving comparative data on the seven approved zones.

1. Zambia-China Economic and Trade Cooperation Zone/Chambishi Multi-Facility Economic Zone

China Nonferrous Mining Co. (CNMC Group) began planning the Zambia-China Economic and Trade Cooperation Zone in 2003 in Chambishi, about 420 km north of the capital of Lusaka. CNMC's decision to open a zone for mineral processing and related industries allowed the company to make full use of the 41 km^2 surface area of its Chambishi copper mine. In 2006, CNMC won official support from MOFCOM for the Chambishi zone. In a sign of the political importance of this initiative, in February 2007, China's president Hu Jintao presided at the opening ceremony of the zone.

The Chambishi Zone focuses on the value chain of copper and cobalt: mining, processing, recycling, machinery and service (Appendix Table 2). It aims to attract 50-60 enterprises, create some 6,000 jobs for Zambians, and reach an annual output of over US$ 1,500m by 2011. By July 2009, eleven enterprises had been established in the zone, including the Chambishi copper mine, copper smelters, a sulfuric acid plant, and a foundry, for a total investment of US$ 760m.

CNMC's Lusaka sub-zone project, adjacent to the Lusaka airport, was launched, at least symbolically, in January 2009. The zone is planned to have an area of 5 km^2. A masterplan for the zone is expected to be completed by the end of 2009, with construction slated to begin in 2010. Although the focus of the zone remains to be determined, CNMC has indicated a wish to focus on services (hotels, a conference center) as well as light industries such as food and tobacco processing, assembly of home appliances and electronics. The strategic purpose of the Lusaka sub-zone may be to diversify out of resource-intensive investment as well as to accommodate the Zambian government's desire for urban employment opportunities. China Development Bank has set up a Zambia team to provide funding support for the zones and CNMC activities in Zambia. The Chambishi and Lusaka zones were the first of five Multi-facility Economic Zones planned by

Zambia. Malaysian interests are also constructing an MFEZ zone near Lusaka, with technical assistance from Japan's International Cooperation Agency (JICA).

2. Egypt Suez Economic and Trade Cooperation Zone

Egypt Suez Economic and Trade Cooperation Zone is located in Section 3 of the North-West Suez Canal Economic Area just outside Egypt's new deepwater Sokhna Port, just below the southern entrance of the Suez Canal, 120 km from Cairo. It is being developed by Egypt TEDA Investment Co., a joint venture between Tianjin Economic-Technological Development Area (TEDA) Investment Holdings (discussed further in Section 2I below), Egyptian interests, and the China-Africa Development Fund. The Suez project has a long and complicated history (see Box 1). Discussions on a transfer of China's experience were initiated by Egypt in 1994. TEDA Investment Holdings was tasked by Beijing to set up a zone project in the Suez area in 1998. A joint consortium, Egypt-Chinese Corporation for Investment (ECCI), was set up to implement this initial project. TEDA relied on the experience of their Egyptian partners to learn how to operate in Egypt. The venture began long before the area infrastructure was complete and the initial years were not very successful, but with time a number of companies have set up operations in Sector 3 of the zone.

In November 2007, TEDA participated in the second tender of MOFCOM for overseas zones. After winning the bid, they bought additional land in Sector 3 of the zone and formed a new joint venture with Egyptian interests. The zone builds on the earlier investment, and will be established on a cluster model. Currently plans exist for four clusters: textile & garments, petroleum equipment, automobile assembly, and electrical equipment. In the second phase, electronics and heavy industries may be added.[4] As of July 2009, 16 enterprises had already moved into the first one square kilometer start-up zone. This start-up phase is planned to conclude around 2011, when the zone aims to have around 50 companies. Chinese companies with high energy consumption and high labor intensity are especially encouraged to invest in this zone.

In March 2009, TEDA won an international Egyptian tender, competing against 29 other companies for the right to develop Egypt's first "Chinese-style" special economic zone ("Chinese-style" means that part of the zone will be developed for residential use). Phase I of the SEZ zone is located in an undeveloped portion of Section 3 of the North-West Economic Zone. It will develop approximately 6 square kilometers (600 hectares) out of the available area of 20.4 sq km, adjacent to TEDA's existing Section 3 industrial development. TEDA's investment in infrastructure and basic construction was expected to amount to between US$ 200m and US$ 280m.

Box 1: Timeline: Tianjin TEDA in Egypt

1994	Egypt and China begin discussion of cooperation in economic zone development
1998	Chinese and Egyptian governments sign an MOU to construct a free trade zone in North -West Suez. TEDA assigned the task. Sets up Suez International Cooperation Co. [or year 2000?]
1999	Egypt-China Corporation for Investment (ECCI) was formed by TEDA, Arab Contractors Co., National Bank of Egypt, National Investment Bank, and the Suez Canal Authority. TEDA had 10% of the shares. ECCI acquires rights to 21.95 km^2 of land in NWSEZ (all of Sector 3).
2000	TEDA sets up Suez International Cooperation Co. which is 100% TEDA because already saw joint venture was not viable/problematic because unclear plan on Egyptian side. They plan to develop 1 sq km for SMEs on their own. They started construction.
2003	After slow start, ECCI releases most of its land rights in Sector 3, retaining 6 km^2. The infrastructure is established. Some companies established (marble co)
2004	January. Egypt-China Joint Working Group established to boost cooperation at zone. TEDA concentrates on Sector 3 of North-West Suez, 1 sq km. White Rose moves in. China textile machine, drilling equipment joint

	venture, steel tableware, luggage case company, women's sanitary products.
2004	October. International Development Ireland wins contract to design overall plan for Suez zone, trains staff of Egypt's General Authority for Investment and Free Zones (GAFI)
2007	November. TEDA's proposed Suez Economic and Trade Cooperation Zone won the Chinese MOFCOM tender
2008	July. Egypt TEDA established by TEDA (75%), ECCI (20%) and Suez International (5%) in order to develop the industrial park over three 3-year phases
2008	October. China-Africa Development Fund signed an agreement to invest in TEDA's Suez Economic and Trade Cooperation Zone. They set up a new holding company with TEDA (60/40). This new company now holds the 75% of shares originally held by TEDA.
2009	March. Chinese-Egypt TEDA wins Egyptian tender for SEZ development in North-West Suez
2009	July 17. TEDA and Egyptian government sign contract to develop part of Sector 3 in North-West Suez as a Special Economic Zone. TEDA will invest US$ 280 million for infrastructure within zone.
2009	November. Chinese and Egyptian premiers presided at the opening ceremony of the North-West Suez Special Economic Zone in Sector 3.

3. Ethiopia Oriental Industrial Park

The Ethiopia Oriental Industrial Park is located 30 km from Addis Abba. It was originally formed by two private Chinese steel product makers: Yonggang Group and Qiyuan Group from Zhangjiagang city. Qiyuan initiated the idea of building an industrial zone in Ethiopia and the participation of Yonggang, a much larger conglomerate, guaranteed financing so that it won the 2nd MOFCOM bidding in 2007. Later, two additional Zhangjiagang companies, Jianglian and Yangyang Asset Management, joined the project. Zhangjiagang Free Trade Zone was brought in as a technical partner, but not a shareholder. However, because of financial difficulties, Yonggang left the project early in 2009 and the smaller company, Qiyuan, has become the major shareholder and executor.[5] Originally the park planned to attract 80 projects in five years and create 10,000-20,000 jobs for Ethiopians. This plan will be subject to substantial revision after the capital restructuring.

Because of the Chinese partners' financial difficulties (related to the global economic crisis), the area of the zone has been reduced from five to two square kilometers (500 to 200 hectares) and the investment from RMB 1 billion (US$ 146m) to RMB 690 million (US$ 101m). The start-up area is 100 hectares and is expected to cost US$ 22m to launch. It is currently under construction, with an expected completion date of 2010. The zone developers are still negotiating with China Eximbank for loan finance, [6] while CADF is also studying the feasibility of equity participation. Meanwhile, the first project in the zone, the Oriental Cement plant, in which CADF has invested, laid the cornerstone in September 2009. Eleven enterprises with US$ 91m total investment have signed letters of intent to move in – these cover industries such as construction materials, steel products (plates and pipes), home appliances, garment, leather processing, and automobile assembly.

4. Mauritius JinFei Economic and Trade Cooperation Zone

JinFei Economic and Trade Cooperation Zone is located in Riche Terre, an undeveloped area 3 km northwest of Port Louis, near the Free Port. The sole original developer was the Shanxi province Tianli Group, a provincial state-owned enterprise active in trade, construction, real estate, and textiles. Tianli arrived in Mauritius in 2001, establishing a state-of-the-art spinning mill, which has since expanded several times. Tianli's plant supplies much of the demand for cotton and synthetic thread in the Mauritius textile industry, as well as exports to other countries.

Tianli's proposal for an overseas zone was one of the winners of the first MOFCOM tender in 2006. However, securing land and resettling farmers caused delays, and then the zone ran into further difficulties after the developer was hit by the global economic slowdown. The Chinese central government then instructed Shanxi province to coordinate capital restructuring of the Tianli zone. Two much bigger partners, Shanxi Coking Coal Group and Taiyuan Iron and Steel Company, joined the team. CADF also invested in the zone. Construction finally began on September 16, 2009.

The zone has an area of 211 hectares; the first development phase is on 70 hectares (0.7 km^2) with an expected investment of US$220m. On completion in early 2012, the zone is expected to provide a manufacturing and service base for Chinese enterprises doing business in Africa. A second phase, targeted for 2016, aims to focus on solar energy, pharmaceuticals, medical equipment, processing of sea food and steel products as well as housing, hotels, and real estate. If fully implemented, the total project is estimated to cost US$ 720 m and hopes to create from 30,000 to 42,000 jobs.

5. Nigeria Lekki Free Trade Zone

The Lekki Free Trade Zone (LFTZ) is located 60 km east of Lagos alongside a new planned deepwater port. The project is a joint venture between a consortium of four Chinese companies and Nigerian interests, including the Lagos State Government. The government of Lagos state provided 165 square kilometers (16,500 hectares) of land – of which 30 square kilometers (3,000 hectares) has been officially transferred to the developer so far – and the right to a 50 year franchise. CADF will also provide equity finance and a proposal to include CADF on the board of directors is still under negotiation.

The project was initiated in 2003 by China Civil Engineering Construction Corp. (CCECC), which has been operating in Nigeria for over a decade. In March 2006, a Chinese consortium, CCECC-Beyond was set up in Beijing. In May 2006, they partnered with Nigerians to establish Lekki Free Trade Zone Development Co. In November 2007, the Lekki zone won support in the second MOFCOM tender.

The development of the initial 3,000 hectares is divided into three phases. The first phase (1,000 hectares) is the official China-Nigeria Economic & Trade Cooperation Zone. Construction on these 1,000 hectares (designed to support 200 companies) began in October 2007. An investment of approximately US$ 267m is planned for the first 3 years and the total investment is estimated around US$ 369m. The zone will be divided into six sections, 1) transportation equipment, 2) textile & light industry, 3) home appliances & communication, 4) warehousing, 5) export processing and 6) living & business. According to Chinese sources[7], this initial phase will serve only or mainly Chinese companies. However, sources from the Nigerian partner indicate that the zone is open to all investors, and the list of investors which have signed MOUs are mainly non-Chinese. Although an initial group of companies (all Chinese) was expected to begin construction in March 2009, management now indicates they are expected in early 2010.

6. Nigeria Ogun-Guangdong Free Trade Zone

Nigeria Ogun-Guangdong Free Trade Zone is located in the Igbessa Region of Ogun State, 30 km from Lagos international airport. Its shareholders include Guangdong Xinguang International Group, China-Africa Investment Ltd., Chinese CCNC Group, and the Ogun state government. The project originated from a 2004 study of South China University of Technology on the feasibility of setting up a Guangdong economic trade cooperation zone in Nigeria. This report was used for the successful bid by Xinguang International Group in the first MOFCOM tender in 2006. The project was originally sited in Imo State, but the developers apparently ran into high administration fees imposed by the State government, and a general climate of insecurity, and decided to relocate to Ogun State.[8] This delayed the project, and construction began in Ogun only in the first half of 2009. By July 2009 several Chinese enterprises had begun to build staff housing.

The zone has a total area of 100 square km which will be developed in two phases. Phase I utilizes 20 square km (2,000 hectares) with estimated investment of US$ 500m; within this, the start-up zone will be developed on 250 hectares, with an investment of US$ 220m. The zone will focus primarily on light manufacturing, including construction materials and ceramics, ironware, furniture, wood processing, medicine, small home appliances, computer, lighting, and paper. A high-tech agricultural demonstration park may be added in the future. The developers aim to attract over 100 enterprises to the zone within 5 years, and 700-800 companies within 10 years.

7. Algeria-China Jiangling Free Trade Zone

Algeria-China Jiangling Free Trade Zone in Algeria will be developed by Jiangling Automobile Group from Nanchang, Jiangxu province and Zhongding International Group – there is no local partner at present. Jiangling Automobile, one of China's flagship companies, has more than 40 sales agents in Algeria and by 2007, had taken one third of Algeria's automobile market. Zhongding International Group is the arm for overseas construction and engineering of Pingxiang Coal Group (PKCC). It has been operating in Algeria for over 17 years and contracted dozens of medium and large sized projects there. Responding to the Ministry of Commerce's call for applications, the Jiangxi provincial government coordinated an effort to link Pingxiang Coal Group and Jiangling Automobile group, both based in Jiangxi, to establish a platform for the enterprises of Jiangxi province to go global. They won in the second MOFCOM bidding round in 2007.

The Algeria zone was projected to have a total investment of US$ 556m and a land area of 500 hectares, with a first development phase on 120 hectares. It planned to attract 30-50 Chinese enterprises into an industrial park focusing on automobiles and construction materials. In March 2008, Zhongding International and Jiangling sent a combined team to Algeria for preparation. However, the zone has been in limbo since May 2008. Legislative reforms in Algeria's investment regime, passed in early 2009, require foreign investors to form joint-ventures with Algerian partners as majority shareholders.[9] This may not be acceptable to the Chinese developers. Negotiations with the Algerian government were still on going as of November 2009.[10]

B. Future Plans

Although in 2006 the Chinese government stated that it intended to set up 50 overseas cooperation zones worldwide, there was no timeframe given for reaching this target. [11] Chinese officials have emphasized that they would establish pilot projects and learn lessons from these. No new zones were announced at the Forum on China-Africa Cooperation meetings held in Egypt in November 2009.

C. Other Chinese Investments in African Economic Zones

Other Chinese companies and provincial governments have experimented with the establishment of industrial parks and free trade zones in Africa. Some of them sent proposals to the MOFCOM tenders, but did not win. Most are quite recent, and their experiences vary widely: some failed at an early stage, but others have survived and grown. In comparison with the seven official zones, their sizes vary, forms are more diversified and strategies are more flexible.

1. Sierra Leone: The Sierra Leone Guoji Industry and Trade Zone, located in Freetown, is a joint-venture between Henan Guoji Co. and the Ministry of Trade and Industry of Sierra Leone. Henan Guoji is a private company specializing in project contracting, international trade and investment. They came in 2002 originally to develop real estate (they renovated and now manage a large hotel owned by the Sierra Leone government), and were persuaded by Sierra Leone's government to rehabilitate an old railway yard as an industrial park. The zone began to operate in April 2005. It applied for the first MOFCOM tender in 2006, but was not a winner. In June 2009, CADF apparently signed a contract to invest in the Guoji zone, but the amount has not been disclosed.[12]

The zone is located near the port. It is relatively small, with a land area of 13.3 hectares and a building area of 4 hectares. Investment has reportedly totaled over US$ 6m. Some 25 Chinese enterprises, mainly from

Henan province, were said to have moved into the zone by April 2008,[13] although a site visit by one of the authors in December 2007 found almost no manufacturing activity at the zone (electricity supply was a problem at the time, however). Some modest assembly operations appeared to exist, but several factories said to be manufacturing colored tiles, batteries, paint, mattresses and plastic products appear to be moribund. Local importers have charged that the factory owners have abused their position to import products duty-free and sell them on local markets. The zone also includes bonded warehouses and an exhibition center.

2. Nigeria: Nigeria Lishi-CSI Industrial Park, located in Ogun state 50 km from Lagos Apapa and Tincan ports, is an investment by Ningbo CSI (Zhongce) Power & Machinery Group and Nigeria Lishi Group, a Hongkong-based company that has been operating in Nigeria since 1964. Lishi Group owns over 50 factories in different African countries, and has interests ranging from plastic products, ceramic, and printing, to transportation and construction. CSI group produces diesel engines and generators. The zone started its planning in 2006 and applied for the first MOFCOM tender but was not successful. In July 2009 the zone began operation. It has an area of 664 hectares and plans a total investment of US$ 600-1,000m. It hopes to attract 50 enterprises and create 10,000 jobs, focusing on rubber and plastic products, home appliances, textile, construction materials and machinery manufacturing. Another project proposed for Nigeria, Nigeria Yuemei Park, has an area of about 40 hectares and investment of US$ 50m. It plans to recruit 15-17 textile related enterprises to build a complete value chain, most of them from Zhejiang province.

3. Guinea: Linyi (Guinea) Industrial Park is located 38 km from Conakry (in the city of Linyi) and has been developed by Shandong Yahe Textile Ltd.,. The park is anchored by a former Belgian textile mill. It has an area of 17 hectares and the investment is said to total US$ 54.5m. It is said to include textile, pharmaceuticals, rubber products and wood processing factories. The turnover of Linyi Industrial Park in 2005 was reported to be US$ 20m.[14]

4. Botswana: China Daheng Textile Industrial Park, with an expected investment of US$ 51.8m and an area of 500 hectares, is the first phase of a planned China-Botswana Economic Trade Cooperation Zone outside of Gaborone. It expects to attract 66 companies in textiles and land manufacturing and create 8,000 jobs. The project was conceived in November 2006 but the cornerstone of the first phase, Phakalane Industrial Park, was laid only in May 2009. China Daheng has been doing business in Botswana since 1999, and has manufactured textiles and blankets locally since 2005.

5. South Africa: Shandong Xinguang (South Africa) Textile Industrial Park, located near Durban in South Africa, is being developed by Shandong province's city of Linyi Foreign Trade and Economic Cooperation Bureau, together with Shandong Xinguang's Neo-Africa Blanket Co, which itself set up production in South Africa in 2000. The park began construction at the end of 2008, and is expected to begin operations in 2010. Seven Chinese companies, all in textile industries, have made preliminary commitments to invest in the park, producing for the South African and regional market.[15]

Several other proposals for industrial parks or zones have been mentioned in various media, but they are either still at a very early stage, remain under discussion, or failed to begin. These include Tunisia-Chongqing industrial park for automobiles; a construction materials park discussed by the private Hong Kong company China International Fund in Angola; a science and technology park for which an MOU was signed between the Mozambique and Chinese governments in early 2008, but for which there has been no further activity; Uganda Rakki Free Trade Zone, sponsored by a Chinese entrepreneur but with no apparent government involvement; and Nigeria Ogun-Shandong Industrial Park. In 2005, Zambia-China Mulungushi Textile Co. launched a 170 hectare industrial park, but this company went bankrupt in 2007.

3. CHINA'S OVERSEAS ZONES: MECHANISMS

The initiative to establish up to 50 overseas special economic zones involves both the Chinese government and Chinese enterprises. The Chinese government built on earlier experiences working with Chinese companies to establish Investment, Trade, and Development Promotion Centers in Africa and elsewhere, beginning in the mid-1990s, and studied experiences such as TEDA's in Egypt. Officials also considered China's past difficulties in ensuring that development projects established in Africa would be sustainable once Chinese involvement ended. This dictated a new model of engagement,[16] in which the Chinese government decided to give Chinese enterprises incentives to build and operate the zones.

Chinese enterprises take the lead in proposing and developing the zones for profit, but compete for subsidies and support from the Chinese government. They propose the location, invest their own capital, negotiate with the host government, and compete with other Chinese companies for support through an open tender system. Once the zones are developed, the enterprises will rent space and offer services to other companies, the same model developed earlier in China's overseas Investment, Trade, and Development Promotion Centers. As with many Chinese policy innovations, the zones are treated at present as an experiment, with a variety of approaches encouraged. The results of the first two sets of pilot projects (i.e. those projects approved during the two MOFCOM tender calls – *see below*) will be examined for lessons before the effort is scaled up.

A. The Tender Process in China

After developing guidelines for the tendering process, China's MOFCOM asked its branch offices in the provinces and municipalities to promote the idea and the guidelines among enterprises in their region, and help them to apply. Two rounds of tenders were held, in 2006 and 2007, after which the government paused to see the initial results of the pilot projects. Although MOFCOM was primarily concerned with the potential for the projects to succeed as businesses, the Ministry of Foreign Affairs also had to provide a political sign off on the projects, as they were to receive official government subsidies. There does not seem to have been any specific strategy for locating the zones in particular countries and indeed, two separate proposals were funded for projects in Nigeria, one of Africa's largest markets. As a counter example, the Tanzanian government was very interested in having a zone, and political ties between Tanzania and China are close, but no Chinese company was interested in proposing a zone in Tanzania.[17]

More than 60 companies submitted expressions of interest in the first round held in 2006. About half of these were invited to submit formal proposals, documenting the market potential and investment environment, and providing written evidence of support from the host country. Twelve companies were invited to Beijing as finalists to appear before a panel of independent outside experts (officials from Chinese special zones, and university professors). Eight were finally selected, with the major criteria being the proposal itself (including the market potential, investment environment, and support from the host government), the financing capacity of the developer, and the developer's proven capacity to implement a major construction engineering project.[18]

Based on lessons from the first round, the government added new requirements in the second round in 2007. The most important of these was a stipulation that companies proposing zones for support needed to demonstrate an annual turnover of RMB 15 billion (about US$ 2 billion) for at least the two previous years. This was an effort to ensure that companies would have the resources to successfully finance the development of the zones themselves, with the Chinese government playing only a supportive role. More than 50 companies applied in the second round, 20 of which were invited to submit formal proposals, with 11 proposals finally selected. At least two of the losing proposals were also located in Africa, including the

Guoji Industrial Zone in Sierra Leone, and the Nigerian industrial estate proposed by Ningbo CSI (Zhongce) Power & Machinery Group and Nigeria Lishi Group.

B. Chinese Government: Mechanisms of Support

1. Ministry of Commerce (MOFCOM): In addition to the general "Going Global" policies in support of Chinese overseas investment, the MOFCOM assists companies with winning proposals in a number of ways. Winning companies receive RMB 200 to 300 million (US$ 29 to US$ 44 m) in grants and long-term loans of up to RMB 2 billion (US$ 294m). Subsidies can cover up to 30 percent of specific costs of zone development, for pre-construction (feasibility studies, visits for planning and negotiating, securing land, the costs of preparing a bid) and actual implementation (the purchase or rent of land, factory or office space, legal and notary fees, customs, and insurance) through MOFCOM's Trade and Economic Cooperation Zone Development Fund. These costs can be retroactive to January 1, 2004 for pre-construction and January 1, 2006 for implementation.

Chinese enterprises moving into the zones are also eligible for a number of incentives. First, they can be reimbursed for up to half of their moving expenses. They receive export and income tax rebates or reductions on the materials sent for construction, and get easier access to foreign exchange in China's strict capital control system. They can also apply to a second MOFCOM fund, the Special Fund for Economic and Technological Cooperation, to receive a rebate on up to 100 percent of the interest paid on Chinese bank loans, a benefit good for five years. In addition, the stamp of approval from the government is expected to help Chinese policy banks (China Development Bank or China Eximbank) or funds like CADF look more favorably on companies' applications for low cost finance or equity participation. For example, China Development Bank established a dedicated Zambia team to provide funding support for the Zambia zone and NFC activities in Zambia. Finally, Chinese embassies provide diplomatic support in negotiations with the host government over land, tax incentives, or work permits.

2. Provinces and Municipalities: Some provinces and municipalities have provided additional funds for these overseas zones. [19] For example, Jiangsu province and Suzhou municipality have awarded the Ethiopian Oriental zone over RMB 100m (US$ 14.6m). In the Egypt zone, the government of Tianjin has promised to provide a subsidy of 5 percent of the actual investment amount, pay the utility costs (rent, gas, water and electricity) for service enterprises in the zone, and provide full foreign investment insurance and overseas personal accident insurance for three years. The Tianjin government has also given RMB 10,000 (US$ 1,470) for every Chinese employee in the zone as a food subsidy in the first year.

C. Chinese Companies in Africa: Experience with SEZs in China

Special economic zones, industrial parks, and science and technology zones in China are usually managed by special authorities which are often subsidiaries of provincial or local governments. Some of these authorities have established investment companies to explore opportunities overseas. At least three of these are among the firms and consortia involved in the winning bids for the zones in Africa.

1. Tianjin Economic-Technological Development Area (TEDA): The Tianjin Economic-Technological Development Area (TEDA) was set up in 1984 as one of China's first provincial-level special economic zones. Today TEDA is the largest multi-industry, economic-technology development area in China, with a focus on electronics, ICT, automotive industry, and bio-pharmaceuticals. As of 2008, its investment company, TEDA Investment Holding Co. Ltd., was managing state assets of US$ 15.4 billion. In 1997, the Chinese and Egyptian governments signed a memorandum of understanding to construct a special economic zone in one

of the 13 blocks of the 233 km^2 Suez economic zone. (Egypt has a number of zones of different kinds, many constructed with foreign partners). The Chinese government appointed TEDA to carry out the task and a joint venture was created with Egyptian interests.

2. Nanjing Jiangning Development Zone (JNDZ): The Nanjing Jiangning Development Zone (JNDZ) was set up in Jiangsu Province in 1992, and approved as one of China's first national-level high-tech development zones in 1997. The zone is managed by the Jiangning Development Zone Administration Committee. The Chinese construction company that is leading the Lekki Free Trade Zone (CCECC) sent teams to investigate economic and technical development zones in Shanghai, Beijing, Hangzhou, Nanjing and Ningbo in 2003. They brought Jiangning Economic & Technical Development Co. into the consortium because of their fifteen years experience in attracting investment and managing the Nanjing zone in Jiangning. Jiangning holds 15 percent of the consortium shares (the consortium holds 60 percent of the joint venture). Nanjing-Beiya International Investment Group Ltd. (Nanjing-Beyond) holds 35 percent of the consortium shares.

3. Zhangjiagang Free Trade Zone: This free trade zone was set up in 1992 in Zhangjiagang town, a satellite city of Suzhou municipality (Suzhou also hosted the Singapore cooperation zone). It focuses on export processing, foreign trade and logistics & warehousing. Companies from the US, Japan, UK, France, Singapore, Australia, Hong and Taiwan invested in the zone, including Dupont, Dow Chemical, Chevron, etc. The consortium constructing the Ethiopia zone brought in the Zhangjiagang Free Trade Zone committee to provide support in planning, recruiting companies, and training. A staff member from the Zhangjiagang Zone sits in the office of the Zone in Ethiopia, but the zone is not a shareholder in the Ethiopia venture.

D. Strategy and Financial Commitments: Local Partners, Other Investors

The overseas economic zones have a variety of models with regard to local partners, level of financial commitments, managerial, development and marketing roles, and openness to non-Chinese companies (local African companies and other FDI). The Chinese companies developing these zones include national and provincial state-owned enterprises, but also include some private firms (*minying*). The majority of the companies winning bids had already been operating businesses in the respective countries for some time, at least decade in many instances. Ethiopia and Nigeria-Ogun are exceptions, and in Algeria Jiangling had been involved only in exports of its vehicles, but had developed relationships with a network of agents.

1. Local Partners and Joint Ventures.

The first overseas zone established under the new MOFCOM program was in Pakistan. A large Chinese appliance company, Haier, had earlier constructed an industrial park near Lahore with a Pakistani company, Panapak Electronics, the distributor of Panasonic electronic products. In 2006, Haier proposal to establish the China Pakistan Enterprise Zone, an overseas trade and economic cooperation zone, with Ruba General Trading Company, became the first overseas economic zone to be launched. However, the Haier-Ruba zone ran into problems with the acquisition of land. According to some sources, Haier-Ruba insisted that land for the project be provided without cost, or with heavy subsidies, while the local government resisted this demand. A minimum of 40 percent of the companies in the Haier-Ruba zone were expected to be Chinese.[20]

In Africa, the partnerships and policies for the zones vary. Some are 100 percent Chinese-owned while others are African-Chinese joint ventures, usually with host governments as minority partners. In fact, there is no participation from the African private sector.

Table 1: Structure of investment in China-Africa SEZs

Zone (country)	Model	Details / comments
Jiangling (Algeria)	100% Chinese	• Jiangling Automobile • Zhongding International (construction)
Suez (Egypt)	JV (75%+ Chinese)	• Tianjin TEDA (45%) • CADF (30%) • Egypt-China Corporation for Investment (ECCI) – formed in May 1998 by TEDA, Egyptian banks and other interests, and the Suez Canal Authority (20%) • Tianjin Suez International Cooperation Co. (5%)[21]
Oriental (Ethiopia)	100% Chinese	• Qiyuan Group (steel) • Jianglian and Yangyang Asset Management
JinFei (Mauritius)	100% Chinese	• 3 partners: Taiyuan Iron and Steel Company (50%); Shanxi Coking Coal Group (30%); Tianli Group (20%) • CADF recently announced it would become an equity partner
Lekki (Nigeria)	JV (60% Chinese; 40% local) using special purpose vehicle: Lekki Free Zone Development Co. Ltd[22]	• Chinese partners: CCECC Beiya consortium (4 partners); in 2009 CADF joined as an equity partner • Nigerian partners: Lagos State (20%): Lekki Worldwide Investments Limited (20%); Note that Lekki Worldwide Investments Limited is an investment company also owned largely by the Lagos state • Lagos state received its shares in return for provision of land and 50 year franchise to operate the zone; it is also expected to contribute US$67m to construction costs • The Chinese consortium is to invest US$200m • Negotiations with communities affected by the project resulted in an agreement to transfer five percent of the shares of the Nigerian consortium (i.e. 2% of total project shares) to local communities, making them a stakeholder in the success of the project.[23]
Ogun (Nigeria)	JV (82% Chinese; 18% local)	• Chinese consortium based in Guangdong • Nigerian share owned by State Government – provided land and 100 year concession in return for shares[24]
Chambishi (Zambia)	JV (95%+ Chinese)	• CNMC (95%)- has provided all the capital • NFC African Mining PLC (15%) – this is a JV between CNMC (85%) and Zambia Consolidated Copper Mines Ltd., a Zambian government-owned holding company (15%)

2. Responsibilities for Development, Management, Marketing of Zone.

The Chinese government initiated the concept of overseas zones and established a framework for support for Chinese companies on an experimental basis. MOFCOM has had a role in negotiating double taxation treaties and general investment protection treaties with host governments, but several of the zones have been established in countries in which there is no double taxation agreement (Zambia, Ethiopia) or no investment protection agreement (Algeria, Mauritius, Zambia, Nigeria). MOFCOM has also stepped in to help Chinese companies in their negotiations – particularly when by stepping in, they were able to assure host governments that companies did have Chinese government support in their plans. However, from all accounts, the Chinese government has taken a "hands off" attitude toward African policies on these zones. There is no conditionality imposed on host governments by the Chinese government in return for investment in these zones – this is in keeping with long-standing Chinese policies that regard conditionality as interference in the internal affairs of another government. Chinese companies take the lead in negotiations with host governments over particular incentives.

<u>Development</u>: In China, most zones have infrastructure provided by various branches of the Chinese government. In some cases, such as the Qingdao Zone, foreign donors (Japan Overseas Economic Cooperation Fund) provided ODA loans for some of the infrastructure (port, highway, water supply) in the zone areas. In Africa, most of the development responsibilities inside the zones are carried out by the Chinese developers, with African governments responsible for providing infrastructure outside the zones, but there are exceptions (*see below*). In all cases, the masterplans and development strategies for the zones are provided by the Chinese partner. The Tianli Group hired a Shanghai firm to work on the concept for the zone in Mauritius, CCECC-Beiya hired Shenzhen Institute of Planning and Design (Shenzhen Guihua Sheji Yuan) to plan the Lekki Zone in Nigeria, and in Zambia, CNMC brought in the China Association of Development Zones. Consortium partner Jiangning also held an evaluation meeting in China, bringing in experts and consultants from Nanjing University, Southeast University, and Nanjing Planning and Design Institute to advise and comment on the security, transportation, layout, and other aspects of the initial zone design. Construction responsibilities are in some cases shared between the Chinese and African partners. Examples are outlined below:

- *Mauritius*: The host government and the Jin Fei consortium shared some of the costs for infrastructure investments. Originally, Tianli was expected to contribute US$ 3.3m for external infrastructure, while the government of Mauritius invested US$ 16m to enlarge a reservoir and extend water lines to the Jinfei zone, and US$ 5.6 m to build a new link road and bring wastewater, electricity, and telecoms to the project site.[25]
- *Egypt*: The host government has provided power lines and other infrastructure up to the border of the zone.
- *Nigeria (Lekki)*: The joint venture consortium is responsible for building a gas-fired power plant, water, and wastewater treatment plants, as well as communication switching stations. The Lagos State government is responsible for building the roads.
- *Zambia*: Zambia's government announced that it had budgeted US$ 4.2 m for its share of infrastructure required for the Lusaka sub-zone, in 2010.[26]

<u>Marketing</u>: Often the Chinese developers market the zone to Chinese companies (although their websites are usually bilingual English/Chinese) and their African counterparts, particularly state investment agencies, market it to local firms and other international firms. Examples are below:

- *Nigeria (Lekki)*: Lekki Worldwide Investments Ltd. has a website and is actively marketing the Lekki Free Trade Zone, while the Chinese consortium has a separate website and has held a number of marketing events in China.
- *Egypt:* Tianjin municipality formed a leadership panel for the Egyptian Suez ETCZ. Coordinated by this panel, the Tianjin municipal State-owned Assets Supervision and Administration Commission (SASAC) promotes state-owned enterprises to invest in the zone, the Science and Technology Committee encourages technology enterprises, while the Agriculture Committee and the Construction Committee are promoting investment by agricultural enterprises and construction materials firms. TEDA has also formed the China-Egypt Commercial Association in Suez, organizing market information seminars, participation in large-scale trade fairs, etc. TEDA has produced promotional materials both in Chinese and bilingual Chinese/English. At the same time, Egypt's government agency, General Authority for Free Zones and Investment (GAFI), does some marketing of the zone through its general promotional materials for investment in Egypt, while the General Authority for the Economic Zone North-West Gulf of Suez also markets the SEZ.
- *Ethiopia:* Marketing for the Ethiopia zone appears to rest solely with the Chinese developers.
- *Mauritius:* The Mauritius Board of Investment partnered with Tianli to market the zone

Management: Direct management is usually done by Chinese companies, but administration takes place in several layers. Examples are below:

- *Egypt*: Management has a layered structure, with an informal joint China-Egypt Task Force for the Suez Economic Zone addressing problems at a high level, an Egyptian SEZ Authority for the zone, which operates under the Prime Minister and which has its own board of directors; a licensed joint-venture Main Development Company (MDC) with authority to develop the zone; and a development company (Egypt TEDA) that executes what has been licensed to the MDC.[27]
- *Ethiopia*: Management is structured in three levels: 1) a bilateral coordination committee between the Chinese and Ethiopian governments; 2) the Ethiopian management and service agency of the industrial park which will regulate the zone; and 3) the 100% Chinese-owned Oriental Industrial Park Ltd. Co. which will invest in and operate the park.
- *Nigeria (Lekki)*: There is a Board that brings the Chinese and Nigerian sides together, but which meets infrequently. The deputy director of the joint venture is, however, Nigerian.

3. Rules for Investment: Chinese, Local, other Foreign Investors.

The Chinese developers appear to be open to investment from other foreign firms as well as local firms, although most are aiming for a majority of Chinese investors. The first zone established through MOFCOM, in Pakistan, specified that Chinese, Pakistanis and "investors from other countries" could establish projects or joint ventures "in accordance with Pakistan's investment policy."[28] As zone developers make money when the sites are rented or leased, they have an incentive to encourage investment from all comers.

Within the African zones, the approaches vary. In most cases, there is a clear expectation (from both parties) that the Chinese partners will bring in a substantial Chinese investment. MOFCOM insists that because of the subsidies coming from China, the subsidized cooperation zones must primarily serve Chinese enterprises. Although there is no explicit limit, MOFCOM hopes that Chinese companies can make up 70-80% of the enterprises in the cooperation zones. However, in some zones they have also set specific, non-Chinese foreign investment targets. Below are some examples of the approach to investment and marketing in the various zones:

- *Egypt*: In the Suez zone, which is most developed among the zones in Africa, investors in Section 3 operated by TEDA appear as of now to be exclusively Chinese, except for some service companies (a bank branch, a customs clearance agency) that were invited by TEDA and offered free rent in order to offer their services to TEDA's firms. Although in theory the TEDA zone in Egypt is open to enterprises from every country, the management will offer special incentives to Chinese companies such as discounts on their rents. TEDA's marketing materials, although bi-lingual, emphasize Chinese companies.
- *Nigeria (Lekki):* By early 2008, 42 companies had signed letters of intent to invest, among which were only six Chinese companies. However, according the Lekki management, the initial set of companies coming into the zone in 2010 is expected to be all Chinese.
- *Zambia:* Zambia's MFEZ regulations, which apply to the Chambishi Zone, require a minimum investment of US$ 500,000 to be able to take advantage of government incentives, but there is no prohibition on Zambian firms or other foreign investors at Chambishi. Zone developers aim to have 40 Chinese companies and at least 10 from other countries by 2011, and have developed bilingual promotional materials. According to Felix Mutati, Zambian Minister of Commerce, Trade and Industry, the Zambian government initially wished for the zone to be solely Chinese, but the Chinese wanted the zone to remain open to other investors. That said, at present only Chinese investors have committed to open factories in the zone.

- *Mauritius:* Local investors are not allowed in the zone, at least in the first phase. This requirement, the only one of its type among the Chinese zones, was set by the Mauritian government, not the Chinese.[29] Non-Chinese foreign investors are specifically welcome, however.
- *Ethiopia*: According to the developers, the zone will be open to local and foreign companies – no targets appear to have been set.

Finally, responding to concerns about Chinese incentives being limited to Chinese companies, the Chinese government announced in November 2009 that it would establish two new programs. First, as part of the Action Plan for 2010-2012, the Chinese would assist African SMEs to invest in the zones. Second, a fund of US$ 1 billion, will be set up for African SMEs. As these announcements were made as this note was being written, it is not yet clear how they will be carried out.

F. Investment Incentives Offered by African Governments

Globally, the structure of investment incentives varies enormously. Some have been ad hoc, developed specifically to attract Chinese companies. In Pakistan, for example, the China-Pakistan Economic Zone was selected for official Chinese support before the hard work of negotiating the incentive package with the host government was concluded. A new package of incentives was developed for the zone, including a five-year income tax holiday, duty-free import of machinery and accessories, and a 100% initial depreciation allowance.

In Africa, incentives have also taken no standard form, and are dependent on individual negotiations and existing laws in each country. In most cases the negotiation does not appear to be around tax and other fiscal incentives, but more around land values and pricing[30], and the host partner's commitment to infrastructure provision. For the most part, the projects are governed by existing SEZ legislation in the host country and thus conform to the standard set of incentives offered through these regimes. Two exceptions to this principle are outlined below:

- *Mauritius (Jinfei):* Special incentives were negotiated to attract the Tianli investment, but at the request of Tianli, the agreement remains a secret (this is a bone of contention in democratic Mauritius). Several incentives have come to light: the Mauritian government agreed to supply land at a very favorable rent, with a 99 year lease; investors meeting certain requirements could obtain Mauritian passports, whereas usually the policy is to allow only for permanent residence; investors were also apparently allowed licenses to carry out banking and lottery businesses; and, although Mauritius has long used laborers from China (and elsewhere in Asia), the Jinfei Zone has apparently been given very flexible permission to employ a high percentage of Chinese workers.
- *Ethiopia:* Ethiopia has provided some special incentives for the Oriental Park following negotiation. These have not been published, but apparently, there will be a corporate tax holiday for 6 years (the general law permits 2 to 7 years of exemption depending on investment types).

G. Chinese Labor

The zones vary with regard to the regime for Chinese labor during construction and operating phases. Most of the zones for which information exists state that local laws on use of expatriate labor apply in the zones. As only two of the zones have begun to operate (Egypt and Zambia) it is not possible to determine the degree to which this is actually the case. In these two zones, the workforce of the companies operating in the zones is primarily local; however, it does appear that there is a relatively large percentage of Chinese employment during the construction and start-up phases in most of the projects. Examples from the two operating projects are below:

- *Egypt*: Egypt has a clear regime for foreign labor: one foreign employee is allowed for every nine Egyptians employed. The first stage of the TEDA zone has more than 1,800 local workers and (an informal estimate) about 80 Chinese staff, putting the share of Chinese workers at below 5%. The general contractor for the zone is an Egyptian company and some of the construction work was subcontracted to local Egyptian companies.
- *Zambia:* In the MFEZ, the about 400 Chinese and 500 Zambians during the early phase of construction, machinery installation, and training, putting the Chinese share of employment at 45%. At present, with the installation and commissioning of specialized machinery at many of the factories, the percentage of Chinese employees is in flux. In the Chambishi Zone as a whole (including the mines), in late 2009, there were approximately 700 Chinese, and 3,300 Zambians.[31] CNMC's already-commissioned factories have an average of two Chinese to every eight Zambians (20% Chinese workforce).

Information on the use of local and Chinese labor in other zones is patchy, and involves only the construction phase:

- *Nigeria (Lekki):* According to Chinese sources, the first phase of construction of the Lekki zone initially employed over 50 engineers from China and 100 Nigerian workers. Chinese partners state that the project currently has a ratio of 20 Chinese to 80 Nigerians.[32] Nigerian officials confirm that informal agreements have increased the number of Nigerians employed, particularly from the project-affected community[33].
- *Ethiopia:* Only two expatriate residential permits are granted for registered enterprises (additional permits can be approved by the Department of Labour, but this is normally a difficult process). During fieldwork for this note, early in the construction phase, the Ethiopia Oriental Industrial Park had about 30 Chinese staff with shifting numbers of local workers.
- *Mauritius:* The construction phase of this project began only in September 2009, so it is early to assess the situation. Overall, Mauritius has the most open approach to Chinese workers among the six countries. During the first phase of construction, 60-65% of the workers have reportedly been Chinese.[34] The zone was at first expected to use 8,000 Chinese contract workers at full development, while creating 5,000 local jobs (and another 2,500 indirect jobs). Later revisions of the plan predicted the creation of 34,000 jobs, with "more than half" expected to be local, although the actual expected numbers have been much debated in the media. Foreign workers have long been a staple of the island's manufacturing and construction industries. However, concerns have been raised in Mauritius about the sheer number of Chinese expected as a result of this project.

4. BENEFITS AND DRAWBACKS

As all of the zones are at an early stage and few have enterprises actually operating, the benefits and drawbacks are somewhat hypothetical and are discussed here on the basis of plans and preliminary steps.

A. Summary of Expected Benefits

Benefits for African economies should include those associated with foreign investment more generally: employment, transfer of more advanced technologies, spin-offs to local firms as well as foreign exchange earnings from exports. The more African firms invest in the zones, the greater will be the opportunity for technology transfers and spin-offs, although technical skills can also be taught on the job to African employees of Chinese firms. Further, the zones should contribute to the government revenue, at least moderately. For Chinese enterprises, benefits include the reduction in transport costs from being closer to African or European markets, lower labor costs in some cases, cluster economies, as well as the incentives mentioned above. Chinese zone developers expect to profit from the increased value of the land, fees, and rents. Some (Lekki, Mauritius) have planned extensive residential, commercial, and entertainment areas, making the zones multi-use.

B. Assessment of the Results to Date in Ongoing Zones

Chinese officials experienced with special economic zones caution that it may take *ten to twenty years* before a zone reaches maturity or "takes off". Although six out of seven MOFCOM zones approved in 2006 and 2007 have already begun construction, the degrees of implementation vary. None of the zones has proceeded completely smoothly, although Zambia comes closest. Ironically, the relatively smooth implementation of the Zambian MFEZ contrasts with the fractious labor relations in the mines operated by the zone's developer, CNMC. CNMC initially resisted unionization in its mines and was criticized by Zambians for its low wages and labor standards. In 2005, poor safety procedures precipitated an explosion in CNMC's onsite dynamite factory that led to the deaths of more than 50 Zambian factory workers. The issue of Chinese investment in Zambia became politicized during the 2006 presidential election in Zambia and although social responsibility has improved at the mines, opinion remains divided.

Following is a brief summary of the results to date in the zones which have progressed furthest:

- *Zambia:* The Chambishi project advanced more quickly than the other zone projects. Because CNMC had already been allocated the land a decade ago, and because they built the entire infrastructure themselves, there were fewer reasons for delay. Chambishi now has 11 companies operating. However, most of these are subsidiaries of the CNMC developer and were already present in 2006. In this sense, the zone is not very far ahead of the other zones. Five new companies are scheduled to set up operations in the zone in 2010. Total employment is presently around 4,000. However, only 600 of this is in the MFEZ itself, with around 3,000 in the mines and another 200 at CNMC subsidiaries Sino-Metals, Sino-Acid, and the Chambishi Foundry.[35]
- *Egypt:* After a rocky earlier period, the TEDA zone in Egypt now appears to be doing relatively well, with sixteen enterprises operating, mainly industries. Banking, catering and customs clearing facilities are also active in the zone. Approximately 1,850 local jobs have been created.[36]
- *Nigeria:* The two zones in Nigeria have encountered some difficulties. As noted above, the developers of the Ogun Zone moved from Imo State to Ogun, due to a poor investment climate in the former. The Lekki Zone has also been delayed. Reports from Nigerian officials suggest some concerns over the quality of the infrastructure.[37] Negotiations over the nature of the Chinese contribution (in finance, versus in kind), and efforts to ensure that policies promised in the Nigerian free-zone regulations are actually implemented, have also slowed the project.[38] In Lekki, local people protested the construction of electricity and gas lines through their communities, and negotiations over compensation, which were handled by the Lagos State government, also took time. Finally, the need to do unexpected landfill at the Lekki site delayed the project. Construction is well underway at the zone now, however, and initial investors are expected to be in place in early 2010. The first phase is scheduled to be completed by 2014.

The Chinese government at both the national and provincial levels has played an important role in fostering the implementation of the overseas zones. For example, after Chinese president Hu Jintao's visit to Mauritius, the Chinese government set up a special committee to push the zone forward, and arranged for two new investors to join Tianli. More frequently and directly, the support comes from provincial governments. Except for CNMC in Zambia, the developers of all the other zones are based in a particular province. Provincial governments coordinate financing, monitor development and organize promotion activities. The Chinese embassy in every host country also assigns a specific person to handle issues related to the cooperation zones. Zones outside the MOFCOM program do not receive such attention.

All the zones have attracted interest from a number of (mainly Chinese) enterprises. Chinese companies, especially those new to Africa, appreciate the "feels-like-home" environment, convenient services, information network and officially proven credibility. The expectation is that enterprises within a value chain will like to cluster together in a planned zone and increase their competitiveness. Further, these zones are widely publicized and promoted in China. Embassies and provincial governments recommend the zones to companies planning to invest in Africa. Tax incentives and facilities are an extra bonus.

Yet, despite many expressions of interest, most of the zones have been somewhat slow to fill up with companies. It is still early in a process that may take ten years or more, but several factors may explain it. One is the global economic crisis and, perhaps more broadly, challenges of obtaining financing. The developers of the zones in Ethiopia and Mauritius encountered serious problems at home, related to the financial crisis. This required substantial modification of their plans. However, both have begun construction. Likewise, the main company developing the Ogun Zone, Xinguang International, has run into financial constraints at home, slowing progress on the zone.

The (in)experience of some of the developers has also been one of the causes of uneven progress. The Zambia Chambishi zone already had a copper mine, copper smelters, sulfuric acid plant, and foundry before 2006. In Egypt, TEDA has been developing an experimental zone for nearly ten years and knew the market and environment. For both, the inclusion into the MOFCOM program simply facilitated their expansion. On the contrary, developers for the Ethiopia and Algeria zones had no experience investing in those countries, and their plans were possibly less realistic. In Ethiopia at least, tested by the economic crisis, revised plans now account for more factors such as the exchange rate, the need to plan for foreign exchange shortages and, relatedly, risk diversification. Whereas the zone initially was going to focus in part on construction materials and the production of steel, the developers may add non-ferrous metal mining in order to generate foreign exchange and diversify risks.

Another problem in some zones has been the failure to deliver a world-class investment environment. For example, in Egypt during the first years of the TEDA participation, there was a gap between the promised services, facilities, and other benefits and the reality. Over time, the Egyptian government was able to fulfill most of its promises, but enterprises, understandably, do not want their investments to rest on promises. Egypt still has not been able to assure a permanent supply of adequate water to the Suez zone, for example. The greater Lekki peninsula is supposed to get a new airport and port, the latter at least is critical to the competitive offering of the Lekki Free Zone, but progress has been slow.

Finally, several zones are located at some distance from a large city. Enterprises in the zones sometimes find it difficult to employ qualified workers and arrange their daily commute. Chinese promotional activities so far mainly target Chinese companies, often companies in their own province, which limits the sources of possible investment and can hamper the benefits clustering provides for transfer of technology between firms (local personnel can still be a vehicle for transfer, however, if hired at a high enough skill level – another challenge).

C. Contribution to the Local Economy

1. <u>Job creation</u>: All the zones highlight plans to create of tens of thousands of local jobs. So far, the two operating zones (Egypt and Zambia) have created several thousand, labor-intensive manufacturing (or in the case of Zambia, mostly mining) jobs. The zones should also create substantial indirect employment, including raw material supply, sub-contracting, services, and domestic sales. Local workers will take most of these positions. Salaries for African workers are usually not higher than for Chinese workers for the entry level positions, while bringing in Chinese labor would require extra transportation and housing costs. The

zones under construction have also created short-term jobs in construction. Here, local workers appear to make up the majority of the work force (Mauritius may be an exception), although Chinese workers still account for a large share of construction employment, considering average skill levels of these positions. Chinese are generally employed in management, technical departments and office administration, areas where language skills are critical. Typically, the longer a Chinese company has been in country, the more likely it is to hire managers and technical staff locally – the speed and depth of this migration process is obviously critical to ensuring that African companies maximize their potential benefits from these zones.

2. <u>Knowledge sharing and technology transfer to local firms</u>: Several manufacturing joint-ventures in these zones share knowledge and technology with local partners, but most Chinese companies are not willing to form joint-ventures unless they are very familiar with an African partner. Training is therefore the major form of technology transfer, but as most zones are at an early stage, there is as yet little training. The Chinese consortium developing the Lekki Zone did send five employees to China for management training, and the developers of the Zambian zone also sent employees to China for training.[39]

3. <u>Knowledge sharing with African SEZ developers /operators</u>: The Chinese government has invited officials from countries hosting overseas SEZs to attend 20 day workshops in China on Chinese policy, management, and experience of SEZs. So far around 60 officials from Zambia, Nigeria and Ethiopia, including ministers, parliament members, local administrators and high-ranking officials in customs, tax, finance, port authority and inspection departments have attended these workshops.[40] Knowledge sharing also takes place at the policy level, where frequently task forces are established to coordinate efforts on the zones. At the level of implementation, Chinese developers work together with African authorities to develop strategic plans, however, they prefer to be free to make operational decisions (marketing, sales, property management, etc.) independently, which might hamper direct knowledge sharing.

D. Main Concerns to Date from the Chinese Perspective

1. <u>Different levels of enthusiasm and support from African governments</u>: Chinese developers, based on their experience at home, expect host governments to support zones development more actively, for example by providing subsidies commensurate with what Chinese developers see as a long-term, high-risk investment with public benefits. Some African governments allocate land to developers and do little else, as in Ethiopia. Chinese companies there tried to obtain tax concessions, but when this was ruled out, they sought to negotiate equivalent benefits such as a direct subsidy or privileged access to a mining concession or restricted export[41].

2. I<u>nfrastructure</u>: Support first means providing necessary relevant facilities. Although the developers take care of the infrastructure construction inside the zone, they need guaranteed supply of electricity, water, gas etc. as well as roads connecting the zones to the outside. They are often frustrated by the lack of progress, or the poor facilities provided by the local government. This was particularly the case in Egypt, although in Zambia, the Chinese company was apparently able to expand its own existing infrastructure to cover the new investments and did not rely on new infrastructure from the Zambian side. In the Lekki zone, it is not clear where the partners will source the gas for their gas-fired power plant, and (as mentioned previously) the development of the port remains uncertain.

3. <u>Policy uncertainty</u>: Although the political situation in the countries hosting zones is generally stable, economic policies change frequently. Even when policies are good on paper, they may not be implemented. Chinese companies have found that promises of one-stop service can fail to materialize – in Ethiopia, for example. Even when express registration of investments has been set up, as in Egypt, obtaining housing permits and operating licenses can still be a lengthy process. Work permits in Nigeria, Zambia, and other countries have also been subject to uncertainty and delays.

4. Land acquisition: There were difficulties in some countries in acquiring land, but these have been resolved now in six out of seven MOFCOM-approved zones (Algeria remains uncertain). Zones without government support tend to encounter more challenges in land acquisition due to strict control and unclear property rights. The costs of land (rents or purchase) for the zones vary and can be high. African governments do not always give reductions to the developers since the zones are considered a real estate development. Local communities needed to be resettled and/or compensated (a host government responsibility).

5. Foreign exchange: Since the zones will handle large amounts of imports during the development stage, and exports later, the stability of the exchange rate and the availability of foreign exchange has been a central concern in at least one country, Ethiopia, where foreign exchange is strictly controlled and availability was exacerbated by the economic crisis.

E. Main Concerns to Date from the African Perspective

1. Lack of transparency and poor communication: Although governments are privy to the contracts signed for these zones, in most cases, they have not been published and civil societies have expressed concerns. In addition, the intentions of Chinese partners are not always clear even to their counterparts in government, and in some instances there is a clear lack of trust. The entrance of CADF as a Chinese shareholder, and the consequent restructuring of shares on the Chinese side, was sometimes done without informing or involving African partners, which caused misunderstandings about Chinese intentions. Other misunderstandings arose. In Nigeria, local joint venture partners expected their Chinese partners to deliver their share of the investment as finance, whereas the Chinese assumed that they would deliver it in kind, as infrastructure.

Some of these problems relate to language. At one of the zones, African officials report that relations improved when their Chinese partners brought in a couple of high level officials who were fluent in English.

2. Trans-shipments: Some African officials worry that Chinese companies may use the zones not (only) for manufacturing, but to bring in Chinese goods for re-export with African labels into areas where African exports receive special incentives, as well as to enter local markets without paying duties. In some cases (e.g. Sierra Leone) this has been a recognized problem.

3. Local versus Chinese employment and materials: With most of the zones still at an early stage, these concerns are more theoretical than actual. Mauritian building supply companies complained that the Chinese construction company (Oriental Group) was given permission to bring in, and also to produce locally, its own construction materials (sand, tile, concrete, etc.). They argued that local capacity to supply the venture existed, and they worried that Oriental Group was setting up material production facilities locally that might compete with existing companies.

4. Changing demands: Some officials state that, in their experience, signing an agreement with Chinese developers marks the start of negotiations, not the end. This could be a reflection of the economic crisis and the need to rethink earlier commitments based on changed circumstances.

5. Environmental and quality standards: This issue was raised in Mauritius when the new consortium of zone developers included large coal and steel concerns. The Mauritian government reiterated that the developers would have to conform to Mauritius's strict environmental regulations. In Nigeria, local officials had concerns about the quality of the infrastructure being constructed by the Chinese companies. Independent Nigerian consultants were brought in to provide third party oversight.

6. Labor and wage rates: The relatively low wages in Chinese companies have caused tensions between employers and local employees in some countries where zones are operational, as in Egypt. Many workers tend to leave after they become skilled, creating problems for workforce stability. Chinese nations tend to take most of the management and technical positions, at least in the initial project stages. This also affects the companies' integration into local communities. At the construction stage, labor standards are low for

Chinese companies, and some governments have complained that Chinese employees are treated as "first class citizens" while local workers are treated as "second class".

7. Enclave development: Some are concerned that the zones could be Chinese enclaves, unconnected with the rest of the domestic economy. This would limit opportunities for knowledge transfer. All of the zones except Mauritius allow local investment, but host governments do not appear to have put in place programs to ensure transfer of knowledge.

5. RECOMMENDATIONS FOR MAXIMIZING BENEFITS

For these investments to have maximum benefits, several things would be helpful:

1. High level commitment and active engagement from host government: As noted earlier, China itself learned many aspects of SEZ management through building zones with overseas partners, particularly Singapore. These lessons were widely applied throughout China's industrial zones and have become common practice today. African governments have been less strategic at managing the projects as learning experiences. Few participate actively in the management of the projects or have set up specific programs aimed at developing SEZ expertise over the long term, although both Egypt and Zambia have involved high level delegations in planning and training exercises with the Chinese partners and MOFCOM, and the Nigeria has ensured the position of deputy managing director of the project is a local. Assigning specific individuals, preferably Mandarin-speaking, to work with Chinese development teams can help, as can high-level participation on boards.
2. Phasing in Local Control: China's experience with Singapore followed a phased model where Singapore interests held control for the first decade or so, and then Chinese interests took over. In the African zones, Chinese companies have been granted concessions of 50 to 99 years, and there appears to be no clear plan for local control to be phased in once local management has mastered the zone skills. It is sometimes a difficult balance, as too much local involvement can hinder the operational processes in the early stages before skills, trust, and understanding have developed between the partners. Putting in place a systematic plan to gradually increase local management and local shareholders can help ensure ongoing learning, while maintaining operational efficiency.
3. Increase BOT and PPP in offsite infrastructure: Worldwide, getting zones off the ground has proven difficult in part because of infrastructure inadequacies (power, roads, water, sanitation). Private-public partnerships or other models such as independent power producers (IPP) can accelerate this development, bringing employment and other benefits online earlier.
4. Communicating and enforcing standards: Local job creation, environmental sustainability, and labor standards all depend on African governments enforcing existing standards and regulations. It may help to have these translated into Mandarin, as Mozambique has done for labor regulations.
5. Implementing programs to promote domestic market linkages: African countries will not profit from the dynamic benefits of SEZs without ensuring closer links between the (mostly Chinese) foreign investors in the zones and the domestic private sector. Supplier development programs and initiatives to facilitate local companies to set up inside the zones can play an important role in creating these linkages. The recently announced funding from the Chinese government to support African SMEs and plans to assist these SMEs to invest in the zones could provide a foundation for improving linkages.
6. Transparency and Community Relations. When contracts and agreements for these important zones are not made public, suspicion can fester. For the zones to be sustainable, they need to have buy-in from local communities who need to have an understanding of the nature of the agreements. The agreement in the Lekki project, where 5 percent of the shares of the Nigerian consortium were transferred to local communities, may be one way of addressing some of these concerns.

APPENDIX 1: CHINA'S OFFICIAL OVERSEAS ECONOMIC AND TRADE COOPERATION ZONES

Country	Zone
2006 Tender	
1. Pakistan	Haier-Ruba Home Appliance Industrial Zone
2. Zambia	Chambishi Nonferrous Metal Mining Group Industrial Park
3. Thailand	Luoyong Industrial Zone
4. Cambodia	Taihu International Economic Cooperation Zone, Sihanouk Harbour
5. Nigeria	Guangdong Ogun Economic and Trade Cooperation Zone
6. Mauritius	Tianli (now JinFei) Economic and Trade Cooperation Zone
7. Russia	St. Peterburg Baltic Economic and Trade Cooperation Zone
8. Russia	Ussuriysk Economic and Trade Cooperation Zone
2007 Tender	
9. Venezuela	Lacua Tech and Industrial Trade Zone
10. Nigeria	Lekki Free Trade Zone
11. Vietnam	Chinese (Shenzhen) Economic and Trade Cooperation Zone
12. Vietnam	Longjiang Economic and Trade Cooperation Zone
13. Mexico	Ningbo Geely Industrial Economic and Trade Cooperation Zone
14. Ethiopia	Eastern/Orient Industrial Park, Jiangsu Qiyaan Investment Group
15. Egypt	Tianjin TEDA Suez Economic and Trade Cooperation Zone
16. Algeria	Chinese Jiangling Economic and Trade Cooperation Zone
17. S. Korea	Chinese Industrial Zone
18. Indonesia	Chinese Guangxi Economic and Trade Cooperation Zone
19. Russia	Tomsk Siberia Industrial and Trade Cooperation Zone

Source: Brautigam, *The Dragon's Gift*, pp. 315-316.

APPENDIX 2: OVERVIEW OF CHINESE MOFCOM-APPROVED TRADE AND ECONOMIC ZONES COOPERATION ZONES IN AFRICA

Country	Total Investment	Size	Beginning of planning	Status	Chinese Developers	Industry focus
Zambia Chambishi	US$ 410m	11.58 km^2 (7.98 km^2) startup 2km^2	2003	In Operation & Construction	China Nonferrous Mining Group (CNMC group)	copper and cobalt mining related industries
Zambia Lusaka	(subzone)	5 km^2		Construction	China NonFerrous Metals Corporation (CNMC) Group	garment, food, appliances, tobacco, electronics
Egypt Suez	US$ 80 m	5.08 km^2 , startup 1.07 km^2	1998	In Operation & Construction	Tianjin TEDA	textile & garments, petroleum equipment, automobile, electronics
Nigeria Lekki	US$ 264 m for 2-3 years, RMB 2.52b (US$ 369 m) in total	30 km^2, Phase I 10 km^2. Start up 3.5 km^2	2003	Under construction	China Civil Engineering Construction, Jiangning Development Corp., Nanjing Beyond, China Railway	Transportation equipments, textile & light industries, home appliances & Telecommunication
Nigeria Ogun	RMB 1.5 b (US$ 220 m) for startup, US$ 500 m for whole 1st phase	100 km^2, 1st phase 20 km^2, startup 2.5 km^2	early 2004	Construction	Guangdong Xinguang, South China Developing Group	Construction materials & ceramics, ironware, furniture, wood processing, medicine, computer, lighting
Mauritius Originally Tianli, renamed Jinfei	1st phase RMB 1.5 b (US$ 220 m) , Total US$ 720 m	2.11 km^2 Startup 0.75 km^2	2006-2007	Construction	Shanxi-Tianli Group, Shanxi Coking Coal Group, Taiyuan Iron & Steel Company	Manufacturing (textile, garment, machinery, hi-tech), trade, living & service (tourism, finance)
Ethiopia Oriental (Eastern)	RMB 690 m (US$ 101 m)	2 km^2, startup 1 km^2 with 10 km^2 reservation area	2006-2007	Construction	Yonggang (quit), Qiyuan Group, Jianglian Int'l trade, Yangyang Asset management and Zhangjiagang Free Trade Zone (not shareholder)	electric machinery, steel & metallurgy and construction materials
Algeria Jiangling	RMB 3.8 b (US$ 556 m)	5 km^2, 1st phase 1.2 km^2	2006-2007	Planning	Jiangling Automobile, Zhongding International	Automobile, construction materials

ENDNOTES

[1] Note that China amended introduced a new tax regime in 2008 which essentially did away with the tax holidays that were previously offered in the SEZs, and harmonized the tax structures between SEZ and domestic firms. This new regime is in compliance with WTO.
[2] As China prepared to join the WTO, policy-makers sought ways to assist Chinese firms to face the increased competition and inevitable restructuring that trade liberalization would bring. Helping mature "sunset" industries to move offshore, where they could be closer to their markets and/or raw materials, would reduce costs and increase competitiveness. For example, Chinese companies with high energy consumption and high labor intensity are especially encouraged to invest in the Egypt zone. http://suez.tjcoc.gov.cn/news_display.asp?id=54&iid=%BA%CF%D7%F7%C7%F8%B6%AF%CC%AC
[3] "Jiangxi Province plans to invest RMB 3.8 billion in Algeria," China Knowledge, May 5, 2008.
[4] Interview, vice director of the Suez Teda Zone, June 9, 2009, Suez City, Egypt. The difference between the 19 zones chosen by tender, and the public goal of ten, allows for a comfortable margin. The Chinese government would prefer to overshoot its goals, rather than come up short. In Africa, for example, the official goal was announced in November 2006 as "three to five" zones by 2009. Seven were actually approved, and six were announced as underway in November 2009 at the FOCAC meeting in Egypt.
[5] Interviews, Oriental Industrial Park Management, June 15, 2009, Addis Ababa, Ethiopia.
[6] Foreign Trade Information & Survey Newsletter, No. 38, Suzhon Municipality Foreign Trade Administration, July 21 2009.
[7] Interview, Beijing Representative of CCECC-Beiya, November 27 2009, Beijing, China.
[8] Fidelis Soriwei, 'How Imo lost free trade zone to Ogun' January 7, 2008**,** http://www.stocknewsline.com/regions/africa/how-imo-lost-free-trade-zone-to-ogun/ [accessed December 13, 2009]
[9] "Aerjiliya Xincuoshi jiang dui Woqiye Chukou he Touzi Chansheng Yingxiang" ["Algeria New Measures in Trade and Investment will affect Export and Investment of Chinese Enterprises"], March 17, 2009, Commercial Office of Chinese Embassy in Algeria, http://dz.mofcom.gov.cn/aarticle/jmxw/200903/20090306105852.html [accessed November 3, 2009]; see also "Jiangxi Nizai Aerjiliya jianli Hezuoqu" ["Jiangxi Plans to Establish Cooperation Zone in Algeria"], September 4, 2007, International Online, http://gb.cri.cn/14714/2007/09/04/2925@1745553.htm [accessed November 3, 2009].
[10] Interview, Ministry of Commerce, November 25, 2009, Beijing, China.
[11] For further information on this, see Deborah Brautigam, *The Dragon's Gift: The Real Story of China in Africa* (Oxford University Press, 2009).
[12] "Shiye Gongsi yu Zhongfei Jijin Qianyue Chenggong" [Industrial Company Signed Contract with CADF"], June 16, 2009, Henan Guoji Groupo, http://www.guoji.com.cn/news/?id=297 [accessed April 20, 2009].
[13] Chinese sources state that the zone was hosting at least 17 factories as of April 2008. An improvement in the local supply of electricity might have made a difference.
[14] "Linyi Muye Qiye Zouxiang Feizhou – Linyi Feizhou Gongyeyuan" ["Linyi Woodworks Enterprises Going Africa – Linyi Africa Industrial Park"], November 14, 2006, Zhongguo Jiancai Net, http://news.jc001.cn/detail/283474.html [accessed December 14, 2009].
[15] Long Guoqiang, Simon Zadek, and Joshua Wickerham, "Advancing Sustainable Development of China's Transnational Corporations," Appendix, AccountAbility, London, 2009.
[16] This is discussed further in Deborah Brautigam, *The Dragon's Gift: The Real Story of China in Africa* (Oxford University Press, 2009).
[17] Interviews, Dar es Salaam, January 2008; Beijing, November 2009.
[18] Interview, Ministry of Commerce officials, Beijing, November 25, 2009.
[19] "Dongfang Gongyeyuan, Kaipi Feizhou Taojinlu" [Oriental Industrial Park, Paving Gold Path in Africa"], February 25, 2008, Zhangjianggang Daily, [accessed December 14, 2009]. http://www.zjgxw.cn/html/tebieguanzhu/20080225/63110.html;"Suyishi Jingwai Jingmao Hezuoqu 10 yue

Jiepai" ["Suez Overseas Econ & Trade Cooperation Zone Opening in October"], February 23, 2008, Jingji Cankao Daily http://invest.people.com.cn/GB/75571/105500/8852019.html [accessed December 14, 2009].

[20] "China-Pakistan Economic Zone in the doldrums," Business Recorder, July 27, 2009; "China's Khyber Pass," Forbes Asia, July 13, 2009.

[21] Interview, Vice director of zone, Egypt, June 9, 2009.

[22] CCECC-Beiya (Beyond) was an entity formed by four Chinese companies: China Railway Construction Corp with 35% share, Nanjing Beyond Investment Ltd with 35%, Nanjing Jiangning Economic & Technical Development Co. with 15% and China Civil Engineering Construction Corp (CCECC) with 15%. In 2009, when the China-Africa Development Fund joined the project, the ratios in the consortium shifted to China Railway Construction Corporation Limited (35%), China-Africa Development Fund Co., Ltd. 20 %, China Civil Engineering Construction Corporation 15%, Nanjing Jiangning Economic and Technological Development Corporation 15%, and Nanjing North Asia Investment Co., Ltd. 15% ("Beyond/Beiya"). 40% of Lekki Worldwide Investments is owned by LSDPC, the Lagos State Government Development Corporation, while 40% is owned by Ibile Holdings, the investment company of Lagos State http://www.nbfet.gov.cn/index.php/default/view/id/14385/sub/1 [accessed November 12, 2009]. The proportions were confirmed in a telephone interview with the Lekki Chinese consortium office in Beijing, December 14, 2009.

[23] Telephone interview, Lekki Worldwide Investments, Lagos, December 14 and 16, 2009.

[24] Gregory Mthembu-Salter, "Elephants, Ants and Superpowers: Nigeria's Relations with China," South Africa Institute of International Affairs, China in Africa Project, Occasional Paper No. 42, p. 22.

[25] "JinFei Project – Infrastructure Works, Terms & Conditions of Agreement," Republic of Mauritius, Parliamentary Debates No. 25 of 2009, October 20, 2009.

[26] "Government allocates K 20 billion for Lusaka South Multi Facility Economic Zone," Lusaka Times, October 10, 2009.

[27]Government of Egypt, "Law of Economic Zones of a Special Nature, 2002, Chapter 2, p. 2. See also http://suez.tjcoc.gov.cn/news_display.asp?id=106&iid=%BA%CF%D7%F7%C7%F8%B6%AF%CC%AC; see also http://www.cceccbeyond.com.cn/news-show.asp?ID=279

[28] "ECC Approves Package for Chinese Economic Zone," Business Recorder, February 28, 2007

[29] The government wanted the special incentives for the zone to be used to attract additional new investors from overseas, and not investors already present in Mauritius. Interview, Minister of Finance, Port Louis, Mauritius, July 2008.

[30] Telephone interview, officials at Lekki Worldwide Investments, Lagos, Nigeria, December 14, 2009.

[31] Email communication, Dan Haglund, University of Bath, December 10, 2009.

[32] Interview, Lekki Zone Representative, Beijing, November 27, 2009; see also "Weida de Kaituo – Laiji Zimaoqu Jianshe Jishi" ["Great Exploration – Reporting the construction of Lekki Free Trade Zone"], September 12, 2008, Lekki Free Trade Zone Website http://lekki.jndz.gov.cn/Lekki_News_Show_55.html, 2008.9.12

[33] Nigerians reported that they had asked the Chinese to send some of their construction workforce of about 200 back to China, and hire Nigerians. One researcher reported that an agreement negotiated between the two sides calls for at least 40 percent of the workforce to be Nigerian. However, Nigerians officials we spoke with denied that this was the case. Gregory Mthembu-Salter, "Chinese Investment in African Free Trade Zones: Nigeria," SAIIA Policy Briefing 10, p. 3.Telephone interview, Lekki Worldwide Investment officials, Lagos, December 14, 2009 and December 16, 2009;

[34] According to the Minister of Finance, as quoted in "Zone Économique Jinfei: Ce Que Vous Devez Savoir," L'Express Dimanche, September 20, 2009, p. 8.

[35] Personal email communication, Dan Haglund, December 10, 2009.

[36] "Aiji Suyishi Jingmao Hezuoqu Quanmian Qidong Yishi Zai Suyishi Juxing" ["The ceremony of fully launching Egypt Suez Economic and Trade Cooperation was held in Suez], MOFCOM, March 18, 2009. http://finance.sina.com.cn/roll/20090318/17302736688.shtml [accessed October 25, 2009].

[37] According to one report, Nigerian officials contend these were based on some disarray within the Chinese consortium, ultimately solved by a unilateral intervention from the Chinese government. Mthembu-Salter, p. 22. It is not clear whether or not this was actually the case, however.

[38] Telephone interview, Lekki Worldwide Investment, Lagos, December 14, 2009.

[39] Interview, Zambia Zone Beijing representative, November 26, 2009.

[40] At least three Chinese aid-financed training sessions have been conducted. Thirty Nigerian officials attended a 20 day program held in Guangdong in September 2008, including five staff from the Lekki Zone. In July 2009, another training seminar was held in Jiangsu, for Nigerian, Ethiopian, and Cambodian officials (all three countries have MOFCOM-supported zones). One of the speakers at this seminar was from the Lekki Zone, Balogun Adegboyega, the general counsel. The July 2009 session was specifically organized for countries hosting overseas zones, to accelerate their development, and to help improve their operating environment. In June 2009, a 20 day training session solely for 22 Zambian officials was also organized by MOFCOM's international training center in Beijing, followed by trips to zones in Tianjin, Shanghai, Suzhou and Shenzhen. "Xinguang Shenban de Shoujie Niriliya Ziyoumaoyiqu Guanli Yanxiuban Qude Chenggong" [The 1st Nigeria Free Trade Zone Management Seminar Hosted by Xinguang International Achieved Success"], October 24, 2008, Guangdong Provincial Government website, http://www.gdgz.gov.cn/ssqydt/news.do?keyId=402882851c7b3a89011d23a9a6570112 [accessed December 14, 2009]; "Zhongguo Kaifaqu Zhengce Yantaoban Shunli Jiesu" ["China Development Zone Policy Seminar Successfully Ended"], July 7, 2009, Department of Commerce of Jiangsu Province, http://www.jsdoftec.gov.cn/NewsDetail.asp?NewsID=23671 [accessed December 14, 2009].

[41] Negotiations on this were still ongoing as of the time of our fieldwork, June 2009.