

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

**Deborah Brautigam
and Tang Xiaoyang**

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Context for the Zones:

I. China: “Going Global”

- Chinese FDI overseas
- New markets
- Chinese MNC champions (“Dragon heads”)



Holley
Pharmaceutical's
Artemisinin
Factory,
Tanzania.

Enugu, Nigeria: Joint Venture Tire Factory (under construction)



II. China's Push for Industrial Restructuring at Home

- **Chinese Leader Cites Need for 'Industrial Restructuring' – WSJ June '09**
- ***China's drive to move up the value chain and away from low-end processing --***
- **China's Stimulus Package Boosts Industrial Restructuring – May '09**

Restructuring Policies in China

- Flat export tax on each garment: 2005
- Export licenses for 216 textile products
- End of export rebates for some products
- Higher minimum wages & benefits
- Appreciating currency
- Crackdown on emissions, energy use
- Financial crisis: slower, but not derailed

Nnewi, Nigeria





**Nnewi,
Nigeria:
Instant
Noodle
Factory (JV)**

Enugu, Nigeria



“China will build 50 overseas trade & economic cooperation zones”

- 2006 announcement
- Part of 11th Five Year Plan

Why 50 Overseas Zones?

1. Reduce trade frictions and barriers
2. Assist China's domestic restructuring
3. Increase demand for Chinese machinery, & boost local supply of construction materials
4. Economies of scale for overseas FDI
5. Allow SMEs to venture overseas "in groups"
6. Diplomacy: transfer China's success

“Our cooperation with Africa today, as well as aid, has shifted from direct financial assistance to the output of development experience.”

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

<http://www.cec.mofcom.gov.cn/ciweb/cec/info/Article.jsp?>

Process: Two Competitive Tenders

2006: 60 submissions of interest

30 companies invited to submit proposals

12 invited to Beijing => panel

8 selected (Zambia, Mauritius, Ogun)

2007: 50 submissions of interest

new requirement: minimum turnover of US\$2
bil

20 invited to submit proposals

11 selected (Algeria, Egypt, Ethiopia, Lekki)

Total = 19 Zones selected as experiments

Profiles of Chinese Cooperation Zones in Africa

Country	Total Investment	Size	Initiation	Status
Zambia Chambishi	US\$ 410m	11.58 km ² (7.98 km ²) startup 2km ²	2003	In Operation & Construction
Zambia Lusaka	(subzone)	5 km ²		Construction
Egypt Suez	US\$ 80 m	5.08 km ² , startup 1.07 km ²	1998	In Operation & Construction
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
Nigeria Ogun	RMB 1.5 b (US\$ 220 m) for startup, US\$ 500 m for whole 1 st phase	100 km ² , 1st phase 20 km ² , startup 2.5 km ²	early 2004	Construction
Mauritius Originally Tianli, renamed Jinfei	1 st phase RMB 1.5 b (US\$ 220 m) , Total US\$ 720 m	2.11 km ² Startup 0.75 km ²	2006-2007	Construction
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
Algeria Jiangling	RMB 3.8 b (US\$ 556 m)	5 km ² , 1st phase 1.2 km ²	2006-2007	Planning

Profiles of Chinese Cooperation Zones in Africa

Zambia-China Economic and Trade Cooperation Zone

Investors: China Nonferrous Mining Co. >95%

Zambia state-owned mining company < 5%

Chambishi zone:

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



Opening ceremony by Hu Jintao & Mwanawasa Feb. 2007

Profiles of Chinese Cooperation Zones in Africa

Zambia – Lusaka sub-zone:

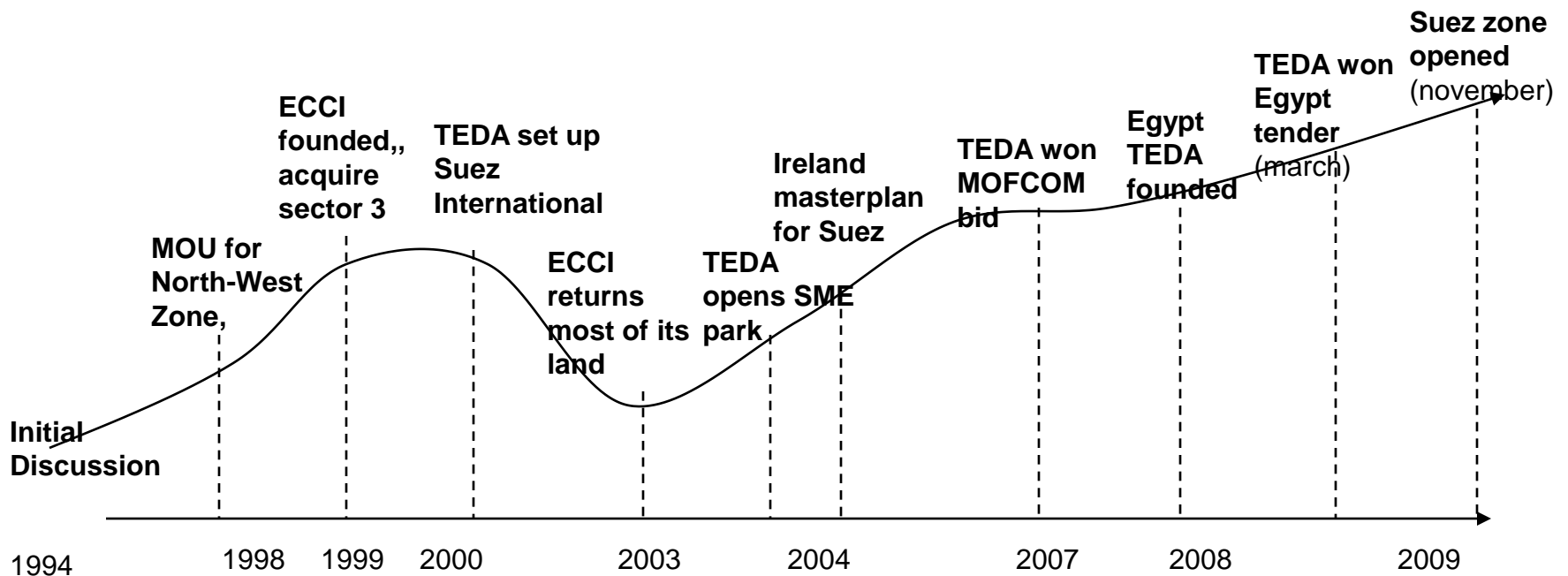
- Focuses on service and light industries,
- Launched (Symbolically) in Jan. 2009



Profiles of Chinese Cooperation Zones in Africa

Egypt Suez Economic and Trade Cooperation Zone

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



Profiles of Chinese Cooperation Zones in Africa

Egypt Suez

- Focuses on 1) textile & garments, 2) petroleum equipment, 3) assembly of automobiles and 4) electrical equipment.
- high-tech (electronics) and heavy industries to be added in the 2nd phase
- Status (Nov 2009): 16 companies, 1850 local jobs



Profiles of Chinese Cooperation Zones in Africa

Ethiopia Oriental Industrial Park

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

Profiles of Chinese Cooperation Zones in Africa

Mauritius JinFei Economic and Trade Cooperation Zone

- Investors: 100% Chinese owned, Tianli + two big SOEs, CADF may join.
- Delayed because of financial difficulty, started in Sept. 2009
- Manufacturing and service base for Sino- Africa business.
- 2nd phase (up to 2016):
multi-function hub
Solar energy,
Healthcare,
Real estate etc.



Profiles of Chinese Cooperation Zones in Africa

Nigeria Lekki Free Trade Zone

- Investors: Chinese 60%, four companies + CADF
Nigerian 40%, mainly Lagos State Gov.
- Focuses on automobile, textile & light industry, home appliances and others
- Construction behind schedule, companies to move in early 2010



Profiles of Chinese Cooperation Zones in Africa

Nigeria Ogun-Guangdong Free Trade Zone

- Investors:
 - Chinese Consortium based in Guangdong (82%)
 - Ogun State Government (18%)
- Focuses on light manufacturing, may be a high-tech agricultural demonstration park
- Originally sited in Imo State, relocated to Ogun State, because of high administration fees and insecurity
- Project delayed and construction began in the first half of 2009.

Profiles of Chinese Cooperation Zones in Africa

Algeria-China Jiangling Free Trade Zone

- Investors:
 - Jiangling Automobile Group
 - Zhongding International Group (Construction)
- Focuses on automobiles and construction materials.
- 2009 reform in Algeria's investment regime, requiring joint-ventures with Algerian partners as majority shareholders
- Negotiation still ongoing

Profiles of Chinese Cooperation Zones in Africa

Unofficial Chinese Overseas Zones

- Six zones in operation or under construction: Sierra Leone, Nigeria (2), Guinea, Botswana, South Africa
- Smaller; focus on textile, construction materials light industries; some mainly trade-oriented
- Other proposals: earlier stage or failed to begin

Chinese Developers are *Firms*

- Provincial & Municipal SOEs
 - Shanxi -- Guangdong -- Jiangxi
 - Tianjin -- Jiangsu
- *Minying* (“private” firms)
 - Qiyuan -- Beiya
- National SOEs
 - CCECC -- China Railways
 - CNMC

Transfer of Expertise from China's Zones: Three Models

- Initial Developer (Egypt)
Tianjin Economic-Technological Development Area (TEDA)
- Investment Partner (Nigeria-Lekki)
Nanjing Jiangning Development Zone
- Technical Partner (Ethiopia)
Zhangjiagang Free Trade Zone

Who Gets In?

- Agreements Vary
 - Zambia target of 40 Chinese, 10 non-Chinese (including locals) by 2011
 - Mauritius govt. refused to allow locals
- Other foreign firms welcome in theory ...
... but in practice? Egypt, Nigeria-Lekki
- Profit motive versus language, insularity

Design of Zones

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



Nigeria Lekki



Mauritius Jinfei

Chinese Developmental State's Benefits for Chinese Developers

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

Support from Provinces & Municipalities

- Ethiopia: Jiangsu & Suzhou
 - > 100 million RMB (\$ 14.6 million) grant
- Egypt: Tianjin
 - subsidized 5 % of investment cost
 - paid rent & utilities for service firms
 - paid FDI & overseas pers. accident insur. for 3 yrs
 - 10,000 RMB (\$1470) food subsidy for each Chinese employee, first year

Support from African Government: No Standard Package

Zambia: Multi-facility Economic Zones

Egypt: Northwest Special Economic Zone

Nigeria: Export Processing Zones of NEPZA

Mauritius: Free Port

Ethiopia: Sustainable Development and Poverty Reduction Program and per negotiation

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

Preliminary Assessment

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

Concerns from Chinese side

- Different Levels of enthusiasm and support from African government
- Poor infrastructure outside the zones



Meles and Hu Jintao



Outside of Egypt Suez Zone

Concerns from Chinese side

- “Bureaucracy” and unfulfilled promises
- Frequent change of economic policies
- Land acquisition
- Foreign exchange



Potential Issues from African side

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

Conclusion

- Risks:
 - History of failed zones in Africa
 - Enclaves
 - Labor standards
 - Global economic crisis
- Opportunities:
 - New policy frameworks
 - Some govt. commitment
 - Leverage Chinese know-how, *interest*