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The Zambia–China Cooperation Zone at a Crossroads: What Now?

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RECOMMENDATIONS

- Chinese investors should address their shortcomings more effectively. They should develop a more informed and flexible approach that takes into account all local stakeholders, and make a bigger effort to adapt to local conditions.
- Zambia should devise a regulating framework to link this zone efficiently with its domestic economy, by making provisions to ensure the participation of local entrepreneurs, the subcontracting of local services and technology and knowledge transfer. Zambia should also integrate this zone with a long-term and broad development strategy, which includes a clear industrial policy and the development of both its hard and soft infrastructure.
- Both parties should urgently find common ground on labour issues, particularly in light of both the Chambishi and Lusaka East ZCCZs targeting primarily Chinese investors and the labour-intensive nature of both zones.
- Both parties should be more transparent in how they conduct the ZCCZ process. Establishing consultation mechanisms could help to regulate this and to respond to local community and businesses expectations.

EXECUTIVE SUMMARY

The Zambia–China Cooperation Zone (ZCCZ) was the first Chinese economic and trade co-operation zone to be established in Africa. The project emerged from converging interests on both sides: China's interest in Zambia's copper reservoirs and Lusaka's desire to develop a manufacturing base around its mining sector. The policy briefing analyses how the zone came into being, its achievements and the current challenges it faces. It highlights a number of shortcomings at the implementation level that need to be addressed urgently, by both Chinese investors and Zambian authorities, if the ZCCZ is to move beyond low-skilled labour employment and resources supply.

INTRODUCTION

Lusaka is conceivably Beijing's most paradigmatic example of an 'all weather friendship' in Africa. Diplomatic ties stretch back to Zambia's independence in 1964 and encompass one of the richest historical records on China's co-operation with the continent. For decades China has provided support in vital sectors such as agriculture, healthcare, education and infrastructure. The construction of the Tazara railway in the early 1970s, linking Zambia's Copperbelt Province with the port of Dar es Salam on the Indian Ocean, remains one of the most iconic illustrations of China–Africa co-operation to this day.

However, it was only in the 2000s that the commercial dimension of the relationship finally gained momentum. Bilateral trade grew from $108 million in 2000 to $1.39 billion in 2009 and further to $2.85 billion in 2010,[2] greatly boosted by the dramatic swelling of China's copper imports in recent years. By the end of 2010, China was the second-largest destination for Zambian copper exports.

Likewise Chinese investment flows to Zambia have intensified significantly over the past decade. Although Chinese investments (private enterprises and state-owned enterprises or SOEs) cover a wide range of sectors (such as manufacturing, agriculture, infrastructure, technology, energy supply and telecommunications), the lion's share of these has gone to the mining sector, mostly channelled through SOEs. China is presently the third-largest investor in the country.[3] In 2010 China's investment stock in Zambia ($944 million – up from $148 million in 2004) was its third-largest on the continent, after South Africa and Nigeria.[4]

THE ESTABLISHMENT OF THE ZCCZ

The idea of establishing a special economic zone (SEZ) ostensibly surfaced in 2004, initiated by Non-Ferrous Metals Corporation Africa (NFCA). The NFCA is the Zambian subsidiary of China Non-Ferrous Metal Mining Group Company (CNMC, a mining SOE), which had been exploring Chambishi copper mine in Zambia's Copperbelt since 1998. The NFCA approached the Zambian government with a proposal to set up an industrial park for copper processing in Chambishi. Lusaka responded to the idea with great enthusiasm. However, an ongoing review of the legal framework in Zambia delayed the project's commencement.[5] The new Multi-Facility Economic Zones (MFEZ) regulations, envisaging the provision of a competitive environment for investors to process Zambia's natural resources within its borders, was issued finally in 2006 (the Zambia Development Agency Act No 11 of 2006). That same year, China announced its intention to establish three to five economic and trade co-operation zones (ETCZs) in Africa as an instrument to promote economic development within the framework of the Forum on China–Africa Cooperation.

In this context, the ZCCZ became both Zambia's first MFEZ and China's first ETCZ in Africa. Demonstrating the high importance of the project for both parties, President Hu Jintao and late President Levy Mwanawasa officially inaugurated the ZCCZ in February 2007. In January 2009, President Rupiah Banda and the Chinese Minister of Commerce, inaugurated a subsection of the ZCCZ (Lusaka East) near Lusaka International Airport.

The CNMC, the formal developer, administers the zone through ZCCZ Development Limited, a subsidiary created for that purpose and registered in Zambia. The ZCCZ has head offices in Kitwe and Lusaka, and is in charge of developing the zone (the Chambishi and Lusaka East subsections). Its responsibilities range from general planning and co-ordinating on-site construction to attracting investors. The ZCCZ is also responsible for liaising with and providing quarterly reports to the Zambia Development Agency, the government body responsible for co-ordinating all MFEZs.

The Chambishi ZCCZ occupies an area of 11.58 square kilometres within the mining concession of the NFCA (41 square kilometres) in Kalulushi Municipality in the Copperbelt Province. Set in a mining area, the zone aims to channel investment primarily into non-ferrous metals metallurgy (copper and cobalt) and to process by-products (including electrical wire and cable, mine equipment, construction equipment, chemical products, fertilisers, and pharmaceuticals) and provide supporting services such as storage, transportation and housing. Production is aimed at supplying the local and regional markets.[6]

The East Lusaka ZCCZ covers an area of 5.7 square kilometers adjacent to Lusaka's international airport. Taking advantage of its proximity to the airport facilities, this subsection was designed to work as an international commercial hub. It aims to create a light industry cluster (manufacturing, assembly and packaging of goods) that is connected to non-ferrous metals (household appliances) as well as other sectors (garment and food-processing), wholesale facilities, logistics and real estate.

AGREEMENT DETAILS AND PREFERENTIAL POLICIES

The ZCCZ agreement was negotiated between the CNMC (supported by the Chinese Ministry of Commerce, the Association of Chinese SEZ and the local embassy) on the Chinese side and the Zambia Development Agency (ZDA), the Ministry of Commerce,Trade andIndustry and the Ministry of Finance on the Zambian side, within the framework of the MFEZ Act.

According to the ZCCZ management, the land lease is for 76 years in Chambishi and 80 years in Lusaka East. Secrecy surrounding the negotiations has resulted in strong criticism of the agreement and a widespread belief that the land was given free of charge. Although both the ZDA and the ZCCA management have denied this,[7] the amount paid by the Chinese remains undisclosed and is believed to be very low.

The preferential policies to be implemented inside the zone have been far less controversial, as they follow closely the incentives stated in the MFEZ Act. Investment incentives in the Chambishi and East Lusaka ZCCZs are the same. These are exemption from tax on dividends for five years from the year of first declaration of dividends; 0% corporate tax for five years from the first year profits are made, with 50% of profit to be taxed in years six to eight, increasing to 75% in years nine to ten; 0% import duty rate on raw materials, capital goods and machinery for five years; and deferment of VAT on machinery and equipment imports.

The developer is responsible for providing the on-site infrastructure, including roads; telecommunications; electricity and water supply; and facilities for administration, commerce, exhibitions and training. Although designed to attract primarily Chinese private capital, the zone is open to other foreign investors as well as local entrepreneurs. There is, however, an investment threshold of $500,000. All foreign investors are required to register in Zambia.

THE CURRENT STATUS

The Chambishi ZCCZ is currently China's only ETCZ in operation in sub-Saharan Africa and, even then, only partially so. When driving inside the zone there is little more to see than the main gate, a smelter, the administration building, basic roads, a power supply station and a couple of buildings under construction. The on-site infrastructure (phase 1) is only now at the end of 2011, nearing completion. The master plan has been designed to accommodate 50 to 60 companies. As of July 2011, 14 investors (the majority of which are Chinese) had settled inside the zone with accumulated investment nearing $1 billion. Most of these can be traced back to the CNMC, as a significant number of the investors are subsidiaries of or companies affiliated with the CNMC. Most of the remaining companies are Chinese construction companies carrying out infrastructure projects in the zone. They have registered inside the zone to enjoy the incentives it provides. According to ZCCZ Development Limited, negotiations are underway with a few more investors, including local entrepreneurs. The biggest showpiece inside the zone is the copper smelter, recruiting nearly half of the 6 658 employees working inside the zone (934 of whom are Chinese).

Almost three years after its launching, the Lusaka East ZCCZ, where 13 300 jobs are expected to be created, is still at an early stage of infrastructure construction (both on site and off site). Nonetheless, there are already interested entrepreneurs and the subsection is expected to start receiving investors by April 2012.

THE CHALLENGES

Although five years have passed since its launching, the Chambishi ZCCZ is only partially operational and struggling to produce expected benefits for the domestic economy. Some sectors of civil society have criticised the slow pace of development of the Chambishi ZCCZ, which has been under construction for five years. They claim it has failed to stimulate Zambia's manufacturing sector and job creation, and have accused the CNMC of being mostly interested in minerals extraction.[8]

Although it is far too early to write off the ZCCZ as a failed venture, major challenges should be identified and tackled. Currently the existing obstacles seem to be related more to implementation than to policy and design.

The main implementation challenge seems to be the poor condition of infrastructure surrounding the ZCCZ, particularly in the remote area of the Copperbelt Province. Although there is a transportation network in place – in the form of a national road and railway – it needs to be rehabilitated and extended. The current state of the network seriously compromises not only supply to the zone but also product distribution to national and regional markets, a key factor for the success of any SEZ.

Another major obstacle is the lack of a cohesive absorbent regulating frame[9] to ensure the necessary domestic spillovers, such as transfer of expertise and technology and integration of the domestic private sector. Local entrepreneurs feel left out because the investment threshold has been set too high. Local suppliers also fear this will be a missed opportunity. The loose regulations on local content enable investors to choose their supply sources. Owing to language and culture barriers and the much cheaper options back home, Chinese investors tend to rely on their own supply chains. Despite several pleas by the Miners Suppliers Association to establish a framework to ensure their participation in the process, Lusaka has made no progress in this regard so far.[10]

A further important challenge is to make the ZCCZ process less secretive and elitist (with the presidency and Chinese government being the sole interlocutors to date) to better inform and integrate local stakeholders. Local entrepreneurs, civil society and communities seem to know little about the ZCCZ and its goals. The zone is therefore largely regarded as a Chinese enclave, resulting in misapprehension among the general public.

Although these challenges may apply to all Zambian MFEZs, there are also obstacles of a more abstract nature that are specific to the ZCCZ. These include fundamental differences in work ethics, business culture and the language barrier. These differences have been particularly problematic when it comes to labour issues. The stipulation of Zambian law that most labour be hired locally has placed a large pool of local workers under Chinese management. This has created serious misunderstandings,[11] mostly owing to a large gap between Chinese labour practices (including longer hours, lower salaries and lower safety standards) and local work ethics,[12] being shaped primarily by western standards.

Other challenges include the low returns for the host government in the early stages of the ZCCZ project and the difficulty being experienced in bringing new investors on board. Although the former may undermine Lusaka's interest in the zone, particularly in a context of political alternation, the latter may endanger the overall success of the zone, as the ZCCZ remains sparingly populated – well below its expected capacity.

ENDNOTES

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2 Figures for 2000 and 2009 according to the World Trade Atlas, 'Index for Chinese trade data', accessed through tralac; 2010 figure according to the Chinese Ambassador for Zambia in an interview for the *Times of Zambia*, 13 July 2011. Interview transcription courtesy of the Chinese Embassy in Lusaka.
3 Chinese Ambassador, *ibid*.
4 People's Republic of China, Ministry of Commerce, *2010 Statistical Bulletin of China's Outward Foreign Direct Investment*, http://hzs.mofcom.gov.cn/accessory/201109/1316069658609.pdf.
5 Interview, ZDA representative, Lusaka, 11 July 2011.
6 Information on this and the following paragraphs according to the ZCCZ official brochure, http://www.zccz.org.cn, and an interview with a ZCCZ investment promotion representative, Lusaka, Zambia, 13 July 2011.
7 Interview, ZDA representative, *op. cit*.; interview, ZCCZ investment promotion representative, *ibid*.
8 Interview, Zambian independent researcher, Lusaka, 11 July 2011; interview, former head of the Chamber of Commerce and Industry, Kitwe, 5 July 2011.
9 Interview, ministry of finance official, Johannesburg, 1 July 2011.
10 Interview, Miners Suppliers Association, Kitwe, 7 July 2011.
11 Interview, National Union of Miners and Allied Workers, Kitwe, 8 July 2011.

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