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China-Zambia and China-Africa Trade, Investment and Development Cooperation Relations: Lessons for the Forum on China Africa Cooperation

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Discussion Paper

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1. Introduction

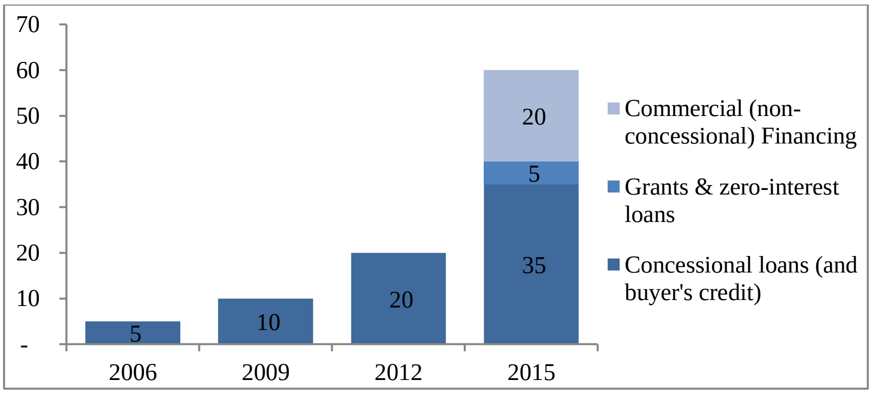
China and Zambia – like China and Africa – have shared ties of development cooperation for a long time. The origins of the cooperation can be traced back to the 1950s and 1960s when Africa, Zambia included, was fighting against colonialism for its independence and China was pushing back against the Western world's drive to push capitalism on to all economies around the world (and in particular, to drive out communism). China and Africa become close allies.

Despite very similar initial economic conditions in the 1950s and 1960s when the early cooperation started, China and Africa have achieved significantly divergent trade, investment and development results. China became a global economic powerhouse while to date, Africa lags significantly far behind. Clearly the two blocs followed strikingly different developmental paths.

To assist Africa improve its record of development, in 1999, Jiang Zemin (Former General Secretary of the Communist Party of China) proposed to the Organization of Africa Unity and other African heads of State the creation of a China–Africa cooperation forum, now known as the Forum on China–Africa Cooperation (FOCAC). FOCAC established a new model of China–Africa Cooperation in Economics and Social Development. Since 2000, FOCAC has met a total of five more times, creating a deepening geopolitical and diplomatic relationship between China and Africa.

Breaking from the previous trend of financial support, in December 2015 at the Johannesburg Summit and 6th Ministerial Conference of the FOCAC, Chinese President Xi Jinping announced that China would offer US$60 billion in support to Africa (Figure 1.1). This would include US$35 billion in concessional loads and buyer's credits, US$5 billion as free aid and interest-free loans and US$20 billion in commercial financing (of which US$10 billion would be initial capital to a Special Loan for the Development of African SMEs, and US$10 billion would be for a China-Africa production capacity cooperation fund). The 2018 pledge was a huge (200%) increase in financing commitment compared to the (100%) increases in 2006, 2009 and 2012.

Figure 1.1: China's funding commitments under FOCAC, 2006-2015



Source: constructed from FOCAC data and information (http://www.focac.org/eng/)

The ambitions were remarkable. The support was designated to focus on helping African countries to break three key development bottlenecks, namely: *backward infrastructure*; *talent shortage*; and *inadequate funding to accelerate industrialization and agricultural modernization*. For instance, President Xi's 10-point plan includes attention to the shortages in skilled personnel on the African continent. As such, China is to establish a number of regional vocational education centers and several capacity-building colleges for Africa, train 200,000 technicians for African countries, and provide the continent with 40,000 training opportunities in China. Furthermore, it was to offer African students 2,000 education opportunities with degrees or diplomas and 30,000 government scholarships. And in each year from 2015 to 2017, China planned to invite 200 African scholars to visit China, 500 African youths to study in China and 1,000 media professionals from Africa to be trained in China.

The year 2017 marked the end of FOCAC 2015-2017. Naturally, everyone is keen to understand the impacts of the ambitious pronouncements that were launched at the Johannesburg Summit. How did the scaled up FOCAC fair in starting to break the chains of backward infrastructure; talent shortage; and inadequate funding to accelerate industrialization and agricultural modernization? What are some of the emerging issues worth thinking about towards understanding the impact of FOCAC 2015-2017? This discussion paper points to a few issues that should be followed up with deeper research.

2. Key Emerging Issues

Some international observers have coined a phrase that: “There is China and then there is China,… and then there is China”. This simply goes to say that the actors from China’s public sector and especially those from its private sector cannot and should not be treated as a homogeneous group. They are a collection of diverse stakeholder sub-groups with varying (and sometime divergent or even clashing) interests.

On the other hand, the heterogeneity of Africa – a continent of 54 independent states with vastly different social, cultural economic, demographic, geographic, political and legal characteristics – has been well-known for decades.

The diversity on both sides is important for understanding the issue highlighted below and how they may have supported or hindered the achievement of the FOCAC 2015-2017 agenda. We look at some of the issues in turn below. However we do not provide concrete assertions or policy suggestions on most of them, pending comprehensive empirical studies.

Reconciling a donor-driven agenda with Africa’s own agenda: A potential challenge or risk of the heavy financing that comes with the ambitious FOCAC (2015-2017) plan – much as the financing is greatly appreciated across the African continent – relates to the fact that the new Chinese financing opportunities may have been perceived in Africa as being accessible on a first come first serve basis. Considering that Africa is made up of not one but 54 sovereign States, the risk that each African country overly focused on scrambling for “pole position” in a bid to capture the maximum share of the resources cannot be overlooked. Thus, two key questions:

- To what extent did FOCAC 2015-2017 cause unintended adverse or divisive competition in Africa, resulting in an unequal distribution of FOCAC resources and opportunities?
- To what extent did the FOCAC 2015-2017 reinforce or undermine Africans own vision for continental development, the Agenda 2063?

Pollution and Dirty Investment: China is the world’s second largest emitter of carbon (greenhouse) gases that cause global warming. Some sub-groups in China believe that in order to fast-track industrialization and development, Africa must be willing to accept some level of dirty FDI (FDI that does not pay significant attention to environmental and climate change considerations). The Chinese proverb: “You do not discuss with a tiger concerning the stripes of its skin when you want a tiger-skin coat” (by unknown) is often cited. On the other hand, other elements in China have learned about the adverse effects of pollution and have initiated monumental reforms such as the driver towards electric vehicles. In 2016, ZIPAR suggested that: “In order to cope with and mitigate the effects population growth, urbanization pressures, industrialization and pollution effects, particularly the pressures on environmental sustainability in China and Africa, the blocs should formulate a common, standardized monitoring and evaluation system for measuring the “greenness” [“labour intensity”] of FDI funded activities and various China- and Africa-sponsored developmental projects”. To the best of the authors’ knowledge, such a mechanisms does not yet exist. In its absence, some important empirical questions for FOCAC going forward are:

- How much was investment in Zambia (and Africa) towards modernizing the infrastructure, accelerate industrialization and modernizing agricultural?
- What was the nature of these investments (domestic and external debt loan financing (Government paper), project loan financing or equity financing through mergers and acquisitions or Greenfield projects)?
- How much “clean” FDI and how much “dirty” FDI did FOCAC deliver over 2015-2017?
- What are impacts are the investments having in the short-term?

Talent Disparities between Africa and China: Between 1998 and 2004, China recognized its demographic challenge of an aging population and begun to deliberately and calculatedly change its global strategy. China’s Talent Search/Discovery emerged (2004) to move the economy from “made in China” to “invented in China”. The Science, Technology, Talent and Education Reform and Development Plan (2006–2020) ensured that 50% of secondary school goers are “forced” into technical and vocational training. By 2015, China’s workforce included 154 million talented STEM workers (about 10 times the total Zambia population) who will naturally be “hungry” for natural resources to work with. China is therefore promoting the Chinese language and cultural globally, including in Africa. Zambia and Africa at large are lagging significantly behind on talent, hence the FOCAC objective to break the talent shortage. Failure to do this will results in disparate employment profiles between Chinese and African working in Africa, with Chinese workers getting all the high-end jobs. It is in this respect that in 2016, ZIPAR suggest that African countries should prioritize “deep-rooted reforms in education, skills development and talent discovery, with the first step towards this being the undertaking of comprehensive, systematic and time-bound reviews of their education, skills development and talent development sub-sectors and systems, benchmarked against leading world economies (like China)”.

- How much of the talent shortage in Zambia has FOCAC 2015-2017 resolved? What are the notable challenges and constraints?

Transactional Benefits Captured by China: In the 2016 ZIPAR study, the Chinese Embassy in Zambia provided data for 2015 concerning China's state-owned enterprises (SOEs). It reported that in 2015, the volume of China's SOEs contracts in Zambia was US$ 4.43 billion, a year-on-year increase of 79.2%, ranking Zambia as sixth in Africa and second in South-Eastern Africa; the accomplished turnover in these projects totaled an impressive US$ 1.79 billion in 2015. In 2017, a conference by the Ministry of National Development Planning (MNDP) revealed that over 80% of transactions on Chinese financed projects in Zambia were implemented by Chinese contractors and nearly 100% of the transaction funding was handled through Chinese financial intermediaries, implying that the bulk of the transactions benefits were captured by China with little left over for the Zambian economy. For FOCAC, the question is:

- How equitable and sustainable are the transactional arrangements for moneys committed under FOCAC 2-15-2017?
- What are the possible tensions created by the design of transactional arrangements under FOCAC?

Binding and Onerous Infrastructure Development Loans: The number and monetary value of Chinese loans contracted by the Government jumped markedly in 2016, partly as a result of FOCAC: whereas the total number of Government contracted loans increased by 117 percent from 12 in 2015 to 26 in 2016, Chinese loans rose by 350 percent from two in 2015 to nine in 2016; and similarly, as the total value of new Government loans rose by 39 percent (from US$2.2 billion in 2015 to US$3.1 billion in 2016) in nominal terms, new loans from China increased by a staggering 259 percent (from US$484 million in 2015 to US$1.7 billion in 2016). By the end 2016, Chinese loans stood at 35 percent of total contracted loans in that year compared to 17 percent in 2015. A real world example from Sri Lanka, taken verbatim from Braham Chellaney's Facebook post, warns about the side effects of heavy exposure to Chinese debt: "Debt-Trap Diplomacy: In a reminder of how Chinese loans are collaterized by strategically important physical assets, Sri Lanka today formally handed over the Hambantota port to China on a 99-year lease because it is simply not in a position to repay its onerous debt to Beijing". In Zambia, the 320km road between Lusaka and Ndola will be converted into an ultra-modern dual carriage highway with various add-ons like hotels, fuel stations, etc. along the way. It will cost an estimated $1.2 billion and will be bankrolled on a term financing basis by a consortium of Chinese private sector investors. Reportedly, the consortium will operate the infrastructure for up to 35 years to recover the loan financing, which is only fair. However, the per-unit cost of this project is said to be grossly inflated, placing an unfair and onerous debt burden on Zambia. Many other such infrastructure installations are being China financed, including the two largest national airports, in Lusaka and Ndola. Therefore:

- What are the long-term implications of Chinese term financing on the ownership, operations and control of key physical assets or infrastructure in Zambia? i.e., how fair are the terms on which Zambia allows China to operate its key loan-financed infrastructure and what does FOCAC 2015-2017 mean for Zambian beneficiation?

3. Policy Suggestions from 2016 Worth Following Up

The 2016 ZIPAR study offered a number of policy suggestions for Zambia, Africa and China. Those not integrated into the narrative in Section 2 above are repeated here:

- The current approach of FOCAC exchange initiative, which focused Africa-to-China learning should be reviewed as it will does little to help Chinese people to get familiar and comfortable to operate in African social, economic, political and legal spaces and systems. Given the near parity of the total populations in China and African, the exchanges could be on set at a 1:1 ratio. China-to-Africa learning will also help to resolve some of the challenges emanating from the cultural differences between China and Africa.
- In order to address language and communication barriers between China and Africa, Chinese and African social and linguistic research centers as well as information and communication technology (ICT) centers should be identified as part of a specific FOCAC programme, and commissioned to conduct public sector R&D.
- China and Africa should establish a common platform such as a Sino-Africa stock exchange through which investment vehicles, companies and project operators can be listed, and equity options offered.
- In order to prevent a potentially divisive scramble for Chinese financial resources among African countries, FOCAC should establish pro-rata quota-based and performance-based mechanisms for determining the allocations (of at least some portion) of FOCAC financial resource to African countries.

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