Chinese investments in Africa:
Catalyst, competitor, or capacity builder?

By
Peter Kragelund
Project Researcher
Danish Institute for International Studies, Copenhagen

1. Introduction

Chinese presence in African economies has regained its importance[1]. While the end of the cold war left large parts of Africa marginalised in the eyes of western governments and private investors, 'new players' took over. Within the last few years, Chinese economic and political interests in Africa have increased considerably. China's significant presence in Africa in areas such as resource extraction, development aid, and military support, as well as in business has triggered massive media interest. Nevertheless, hardly any academic analyses of the consequences for local development of this trend have been conducted. Rather, the current debate is characterised by the conflicting political interests of China and the United States.

Four main reasons for China's current interest in Africa have been singled out: its energy dependence; its desire to expand national representations abroad; its concern with western, especially American, hegemony; and its search for new markets and investment opportunities (Alden 2005). While the first three issues increasingly come to the fore also in academic publications (see e.g. (Jaffe and Lewis 2002; Taylor 2006), the last issue has only received scholarly attention very recently. A number of publications recognise that trade between China and Africa is increasing and attempt to examine the broader consequences of this trend (see e.g. (Kaplinsky, McCormick et al. 2006)), but although some publications mention that Chinese companies, assisted

[1] In this paper Africa denotes sub-Saharan Africa.

by the Chinese government, are investing in Africa, few have attempted to examine the consequences of this trend.

This paper contributes to an improved understanding of the effects of Chinese Foreign Direct Investments (FDI) on local producers in African economies. In order to achieve this, this paper uses Zambia as a critical case case: China has been present in Zambia since independence in 1964; Zambia is one of the three most important destinations of Chinese FDI in Africa (Lafargue 2005); Chinese companies currently invest in most sectors of the Zambian economy; more than 180 Chinese companies have invested in Zambia (Times of Zambia 2006); Chinses FDI flows comprised 12,5% of all flows in 2005 and accumulated Chinese FDI now comprises 10,5% of the total FDI stock in Zambia (UNCTAD 2006)(Xinhua 2006). These figures are likely to increase significantly in the near future as Hu Jintao, during his most recent visit to Lusaka (February 5th 2007), inaugurated the first of three to five African Economic and Trade Co-operation Zones. During the next three years this Zone will foster Chinese FDI of USD 800 million into Zambia (China Daily 2007).

This paper is structured as follows. Section 2 critically examines the role of FDI in Africa's future development. It firstly argues that FDI is only a source of external finance for very few African countries and secondly, it maintains that as a rule FDI is neither good nor bad: rather, it depends on the motive, time frame, local absorption capacities, and mode of entry of the investment. Based on these conclusions, section 3 discusses whether or not South-South FDI is any different. In theory, it is, but data from Africa cannot yet confirm this. Section 4 delves into a certain type of South-South FDI namely Chinese FDI in Africa. It scrutinises available data and concludes that even though Chinese FDI in Africa gets lots of publicity, in aggregate terms it is not different from other FDI: FDI to Africa by and large targets resource extraction activities and confirms the current economic position of Africa as commodity supplier. However, detailed studies of Chinese FDI in certain sectors display a different picture. Chinese FDI may act as a catalyst, a competitor or a capacity builder for African development, depending on the characteristics of the FDI as well as on the characteristics of the sector. Section 5 delves with this in a Zambian context. Conclusions are offered in section 6.

2. Investments for development in Africa

The majority of African economies are dominated by external finance such as development aid, remittances and FDI, while internal forms of finance such as taxes and tariffs only play a significant role in a few African economies. Until recently, donors perceived development aid as the most important source of external finance in Africa, but even though development aid to Africa is currently increasing, Africa still needs to fill an annual resource gap of USD 64 billion in order to meet the millennium development goals (Asiedu 2004). Hence, Africa must seek capital from other sources to fill the gap. FDI is often seen as superior to other forms of capital as it is perceived to be substantially more stable and to bring along issues of utmost importance for development such as technology transfer, access to international markets, employment creation etc. This section will briefly discuss these issues.

Table 1: FDI flow 1970-2005 (million USD)

	Average								
	70-79	80-89	90-99	2000	2001	2002	2003	2004	2005
Total	24124	93887	401028	1387953	817574	678751	560115	710755	916277
Developing countries	6109	21356	121769	252459	219721	157612	172033	275032	334285
Africa	906	1273	4323	6202	14700	8862	10599	11294	17934
Africa (÷South Africa)	813	1259	3472	5314	7911	8105	9836	10495	11600
Africa in % of total FDI	3,8	1,4	1,1	0,4	1,8	1,3	1,9	1,6	1,9
Africa in % of dev. Country FDI	14,8	6,0	3,5	2,5	6,7	5,6	6,2	4,1	5,3

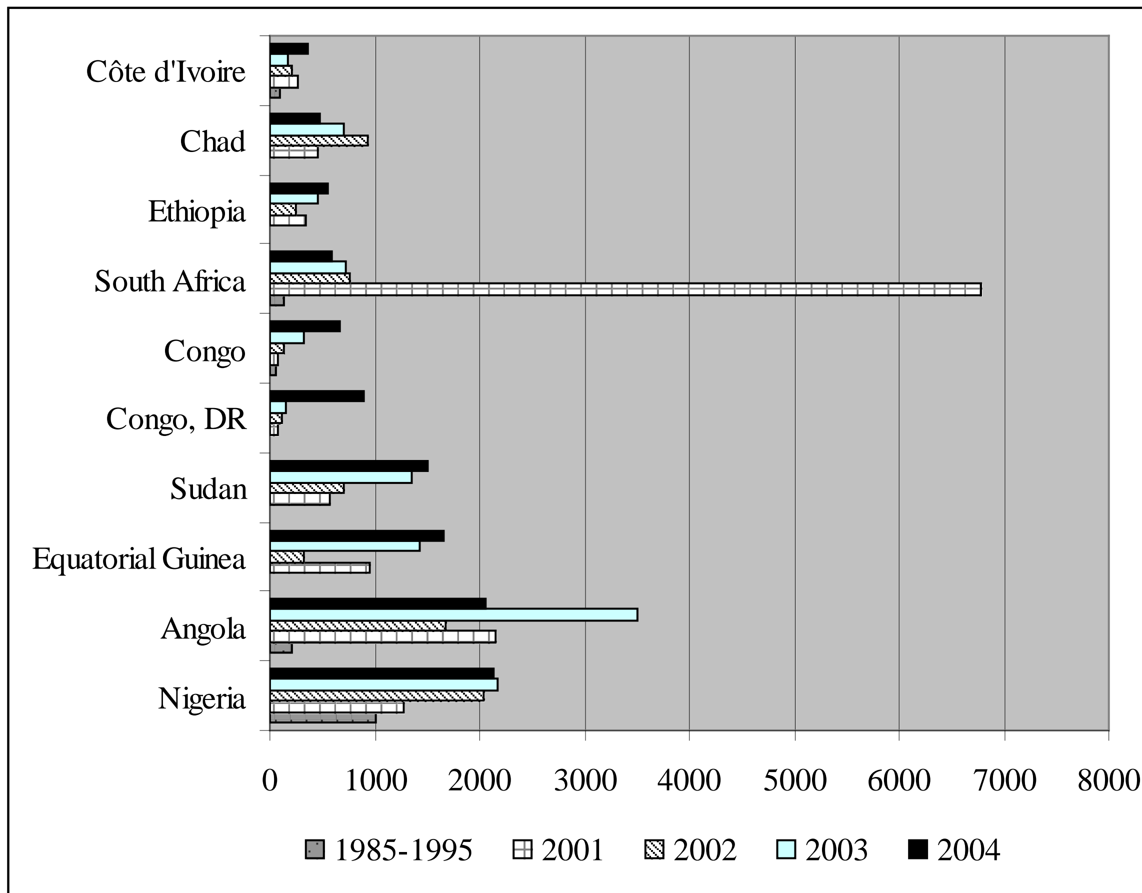
Source: (UNCTAD 2005: table 1; UNCTAD 2006: Annex Table B1)

Seen both in a long- and short-term perspective, FDI to Africa has increased substantially (table 1): FDI to Africa reached a historical height in 2005, almost touching US$ 18 billion – approx. 60 percent higher than the previous year. Table 1, however, also reveals that most FDI to Africa targets South Africa and that compared to total FDI as well as to FDI to developing countries in general, Africa has lost significant ground compared to the 1970s. Furthermore, FDI to Africa is very unevenly distributed among African countries. In 2004, ten African countries received three quarters of the total FDI flow to Africa (see figure 1). Apart from Côte d'Ivoire and to some degree also Congo and South Africa[2] FDI flows to Africa are concentrated in the oil industry: the greater

[2] More than ¾ of FDI flow to South Africa in 2004 involve the Tullow Oil Plc (UK) acquisition of Energy Africa Ltd (RSA) and thus, is directly related to the oil industry.

part of the remaining FDI flows are concentrated in natural resource extraction activities (Mlambo 2005). UNCTAD (2006: 41) even goes as far as to state that the most recent increase in FDI to Africa primarily is a consequence of the boom in the global commodity prices caused by especially China's rising demand[3]. Taken together, however, FDI figures for Africa first inform us that even though FDI to Africa grows in absolute terms, relatively Africa is lacking behind. Moreover, FDI is not yet an option for external finance for the majority of African countries: only a few oil-rich countries receive the bulk of FDI, while the remaining nations receive only very little. Nevertheless, FDI may turn out indeed very important as for these countries. Notwithstanding their small absolute size, FDI to small African countries are significant when accounted for as a proportion of annual investments (Sumner 2005).

Figure 1: FDI flow – ten most important economies in 2004 (million US$)



Source: Calculated from www.unctad.org/fdistatistics

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[3] See also Chen, Goldstein, Pinaud, & Reisen Chen, M.-X., A. Goldstein, et al. (2005). China and India: What's in it for Africa?, OECD Development Centre.
for a discussion of the consequences for Africa of China's demand for commodities.

Even though FDI is often portrayed as being stable, it is not. In fact, it seems that FDI to Africa is highly unstable. Thus, single investments, often in the form of mergers and acquisitions (M&A) may radically change the FDI flow in small African economies from one year to the other. Figure 1 depicts the highly uneven annual flow of FDI to Africa. The crucial role of single M&As is illustrated by the large inflow of FDI to South Africa in 2001, which by and large is made up of Anglo-American's acquisition of De Beers (Mlambo 2005: note 1)[4]. Less illustrative but equally important are two other M&As, namely Anglogolds with Ashanti Goldfields in Ghana, and Norimet with Gold Fields in South Africa in 2004. These two M&As alone comprised 21.3 percent of all FDI to Africa in 2004. African governments, therefore, cannot base their policies on FDI flows.

Proponents of FDI point to other positive aspects of FDI than capital formation. FDI is said to create employment, facilitate technology transfer and improve competitiveness. This perception of the developmental effects of FDI is widespread among donor organizations as well as among developing country governments, and it has led to liberal investment policies. African governments are no different. They seek to attract FDI via tax advantages, tariff exemptions, and environmental exceptions. However, empirical studies of the developmental effects of FDI are ambiguous.

Broadly speaking, these studies either aggregate the effects of FDI on a whole industry or dig deep into the effects of M&A for a single case, generally the acquired company. The former type shows that the effects of FDI firstly vary from sector to sector and from one country to the other and secondly, depend on local technological capabilities as well as on the motive for the investment. Lastly, this type of study points to relatively few positive horizontal spillovers of FDI, i.e. spillovers in the same sector and hardly anyone in a developing country context (Blomstrom and Kokko 1998; Gorg and Strobl 2001). However, it is important to keep in mind that positive horizontal spillovers may take time to materialise as negative effects tend to dominate immediately after the investment (Meyer 2004). Moreover, these aggregate studies tend to set off positive and negative effects. The latter type, that is, case studies of FDI effects, in contrast, have demonstrated positive effects of M&As via technology transfer such as product and process upgrading and productivity improvement. Nonetheless, these studies also point to negative consequences of M&As. According to Portelli & Narulas (2006), the result of these case studies largely depends on the motive for the investment.

[4] Data for 2005 displays the same tendency: South Africa again places first on the list of receivers of FDI. This time it is the result of Barclays Bank's acquisition of Amalgamated Bank of South Africa.

Motive, time, and technological capabilities, however, are not the only parameters that determine the outcome of the FDI. Of importance, especially as regards employment creation and technology transfer, is the mode of entry: while greenfield investments by definition create employment as a new company is established via the investment, M&As may cause loss of employment as M&As often involve reorganisations that necessitate job closings. In contrast, linkages to local suppliers and retailers and, thereby the possibility of transferring technology, may be retained in M&As, while greenfield investments by definition have to establish new linkages in order to transfer technology.

Range and type of effects of FDI thus depend on a whole range of variables, such as the absorptive capacity of the local economy, the orientation of the investment, as backward linkages to local suppliers tend to be stronger and more numerous if the multinational corporation[5] (MC) targets a local market compared to an export market; and the 'nationality' of the MC. Furthermore, the FDI-literature also points to different *direct* mechanisms that may generate effects. Among these are the cooperation between MCs and local firms; demonstration effects; the flow of workers away from the TNC towards domestic companies; establishment of training programmes with local institutions; and regular human interaction between employees performing similar jobs for different companies. Spillovers may occur *indirectly* via standards of quality, reliability and speed delivery that are forced upon suppliers as well as from competition between MCs and local companies (Blomstrom and Kokko 1998; Alfaro and Rodríguez-Clare 2004).

The FDI literature distinguishes between two different roles vis-à-vis the domestic private sector, namely crowding in or crowding out. Crowding in here denotes the development and upgrading of private firms to benefit from linkages with MCs. Crowding out, in contrast, denotes the distortion of growth of the domestic private sector either directly via competition on the market or indirectly via limiting access to finance and skills (Kumar 2003). This distinction between *capacity builder* on the one hand and *competitor* on the other, however, does not take the *catalysing* role of FDI into account: FDI may catalyse domestic private sector development directly through investments in dormant sectors of the economy or improvement of infrastructure and indirectly via, for instance, increased attention to the domestic market.

[5] FDI is the main proxy for multinational corporations' activities

3. New investment tendencies in Africa

South-South collaboration, especially in the form of third world multinationals (TWM), has regained its scholarly importance (Aykut and Ratha 2004; UNCTAD 2006). TWMs now invest all over the world, but South-South investments have increased very rapidly during the past decade. FDI from TWMs has been characterized by geographical closeness to the home economy, which is perceived to minimize economic risks due to ethnic and cultural affiliations. It seems, however, that this tendency of closeness may be changing. Ever more TWMs are now investing far away from their national base: in Africa, South African TWMs no longer limit their investments to Southern Africa but invest all over the continent, as well as in other continents; Malaysian, Chinese, and Indian companies invest all over Africa; and Brazilian companies now also invest in some African countries.

FDI from TWMs are often singled out as an alternative development path. TWMs are often portrayed as being superior to MCs in challenging business environments due to their familiarity with lack of transparency**;** and they make appropriate products using appropriate technologies (Battat and Aykut 2005). Moreover, TWMs are said to be a major reason why Africa has experienced an absolute increase in FDI (see also table 1).

In Africa four countries dominate the new South-South investment picture: China, India, Malaysia and Taiwan. As will be apparent in the next section, Chinese companies invest in all sectors of the host economies, but concentrate investments in resource extraction. Indian companies have until recently focused their investments in service and manufacturing, mostly in East Africa, but have recently begun to collaborate with Chinese companies in resource extraction activities. Current investment trends indicate that in the future Indian firms will pay even more attention to the primary sector. Malaysian firms invest in the oil, telecommunication and service industry and Taiwanese firms have used Africa's preferential access to the European and American markets to invest in the textile and garment sectors (Offei-Ansah 1999; Hart 2002; Chen, Goldstein et al. 2005; Lijun 2006). Thus, with the exception of Taiwanese companies, the investment pattern of TWMs in Africa tend to resemble that of MCs, i.e. using Africa as a commodity supplier (UNCTAD 2005).

4. Chinese investments in Africa

Many publications uncritically state the importance of Africa for Chinese FDI (see e.g. (Chen, Goldstein et al. 2005: 53). But while there is hardly any doubt that Chinese outward FDI is increasing, the importance of Africa sometimes appears exaggerated. Wong and Chan (2003: figure 2), for instance, report that while only 4% of Chinese outward investments went to Africa in 1991, this figure increased to 16% in 2001. This trend contrasts to other, more recent figures. Official data for Chinese outward FDI indicates three synchronous trends. First a significant decline in China's relative interest in Africa since the 1960s and 1970s compared to other areas; second, a very recent rapid growth of FDI to Africa (outnumbering all other regions in 2003-2004); and thirdly, a significant reorientation of interest within Africa towards resource extraction activities (Liu, Buck et al. 2005; Broadman 2007).

Table 2: Approved Chinese FDI flow to the African continent (USD million)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
FDI	1.5	7.7	14.5	28	17.7	NA	NA	NA	42.3	85	24.5	30.1	60.8

Source: (UNCTAD 2006: Box table II.1.1)

Even though the importance of Africa for Chinese FDI may seem exaggerated, Chinese FDI is indeed very important in some sectors in some countries in Africa. Taking the deficiency of data into consideration[6], Chinese FDI in Africa is nevertheless increasing. Whether one examines the approved Chinese investments by national investment centres on the African continent, which is displayed in table 2, or news and other unofficial sources, displayed in table 3, the trend is the same: Chinese investments are becoming ever more important in Africa. These tables, however, also tell a different story. They inform us that Chinese FDI no longer only consists of large state-owned Chinese companies pursuing strategic aims in Africa, such as acquiring oil and minerals for the rapidly growing demand in China. A growing number of smaller (partly) privately owned Chinese companies also invest in Africa. Based on figures from approved investments in Ghana as well as from the World Bank's recent survey of 450 companies in four African countries, it seems that

[6] In general, FDI data does not distinguish between overseas Chinese, state-led Chinese FDI and private investments. Moreover, determining Chinese firm ownership is not clear-cut: official firm registration in China may differ from control over ownership. Taking the latter view a broad array of companies exist from purely privately owned over a variety of mixed ownership structures to fully state (or publicly) owned companies OECD (2005). China. Paris, Organisation for Economic Co-operation and Development.

these companies concentrate their activities in the manufacturing, construction and service sectors (GIPC 2005; Broadman 2007).

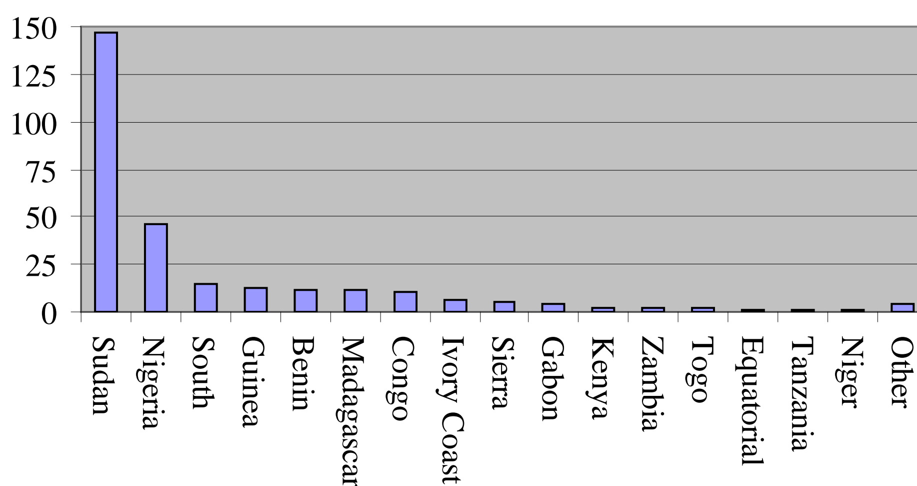
Table 3: Chinese companies on the African continent 2000-2006

	2000	2002	2003	2004	2006
Number of companies	499	585	600+	674	900
FDI stock (million US$)	990	NA	NA	NA	1.250

Source: (Africa Res Bull Econ 2004; Hilsum 2005; Africa Res Bull Econ 2006; Taylor 2006; Wenping 2006; Broadman 2007)

Nevertheless, in dollar terms resource extraction still dominates the picture of Chinese FDI in Africa. Figure 2 displays Chinese FDI flows to Africa in 2004 based on China's official statistics. It clearly demonstrates the importance of natural resources, especially oil, in China's approach to Africa. Unfortunately, no readily available cumulative figures exist for the China's FDI to Africa. Undoubtedly, however, these figures would include also Senegal and Mali, which alongside Zambia, South Africa and Tanzania all figure on the top-30 list of Chinese outward FDI 1999-2002 (UNCTAD 2004: Annex table A.I.12).

Figure 2: Chinese FDI flow to Africa, 2004 (million USD)



Source: (Broadman 2007: 10)

In 2001, South Africa received by far the largest number of Chinese investment projects in Africa (Wong and Chan 2003), and it is still perceived as the largest 'non-oil' recipient of Chinese FDI. Compared to the size of the national economy, however, Chinese investments in Zambia are of greater interest. According to the Chinese Embassy in Zambia, the stock of Chinese FDI in Zambia

reached USD 316 million in 2005, and FDI flows reached USD 41 million in 2005 (FOCAC 2006). The commitments from investors compiled by the Zambia Investment Centre (ZIC) also point in this direction. According to these figures, Chinese investment commitments[7] comprised 12% of all commitments in Zambia in 2004.

5. Chinese investments in Zambia

Chinese investments in Zambia cover a wide array of sectors including mining, textile, construction, banking, agriculture and health. These investments provide Chinese companies access to the local Zambian market as well as the global export markets. In order to further our understanding of the effects of Chinese FDI, it is therefore of utmost importance to determine what characterises the Chinese FDI and how Chinese FDI is linked to Zambian companies.

In order to analyse these characteristics three sectors within the Zambian economy have been chosen, namely the mining sector, which is important in economic and political terms for both China and Zambia, where investments are of a long term nature, but which is characterised by foreign ownership and few backward linkages; the textile sector, which has considerable spin-off effects on the rest of the economy; and the construction sector that is characterized by a mix of local and foreign ownership and by a close link between Chinese investments and Chinese aid. These sectors also illustrate the potentially different roles that Chinese FDI may occupy vis-à-vis the local private sector (see also table 4).

Table 4: Chinese FDI in Zambia: catalyst, capacity builder, or competitor?

Impact / Type	Direct	Indirect	Case
Catalyst	FDI to dormant sectors Low-cost infrastructure	Influences world market prices Appreciation of kwacha	Mining
Capacity builder	Technology transfer Employment	Preferential access to North markets Demonstration effect	Textile
Competitor	Displacement of local producers Access to low-cost capital	Increased productivity	Construction

[7] Data from ZIC shows neither actual FDI stocks nor FDI flows, but only investment commitments from investors who obtain investment licenses at ZIC. Nevertheless, according to the US Dept. of State U.S. Department of State. (2006). "Zambia. 2005 Investment Climate Statement." Retrieved June 11th, 2006, from http://www.state.gov/e/eb/ifd/2005/42202.htm.
, it is the only FDI data available in Zambia.

The mining sector is of great economic and political importance in both Zambia and China: 99.8% of Zambia's exports in 2003 comprised non-fuel minerals and the copper mines in Zambia produce almost 60% of Africa's copper (Hilson and Haselip 2004: 29, 31). The growing Chinese demand for copper, a key component of electrical wire and cables, is driven up by China's economic growth. The great importance of copper mining for Zambia has not been unproblematic. Since the peak in the 1970s Zambian copper output fell year by year for almost three decades and, while the economic crisis intensified, the government's debt increased steadily. Only very recently production resurrected. The copper mines again remain at the heart of the Zambian economy.

Driven by the International Financial Institutions, privatisation of the Zambian mining sector was set in motion in the beginning of the 1990s. Not before the late 1990s, however, the privatisation process really took off. Among the mines that were advertised for privatisation during this process was the relatively small Chambishi mine, which was privatised in June 1998. NFC Africa, a subsidiary of the state-led Chinese group, Non-Ferrous Metals Industry Corporation of China, bought a 85% share of the almost dormant mine for $20 million (the largely state-owned Zambia Consolidated Copper Mines (ZCCM) retains a 15% share in the mine). Chambishi Mine is China's first and largest overseas nonferrous metal mine and, since the acquisition of the shares, the Chinese group has invested more than $150 million in the mine, which now employs approximately 2000 people and produces 50,000 tonnes of copper concentrates. According to Carroll (2006), the NFC Africa is planning to build a leaching plant so that the mine can refine its own ores. Even though the Chinese group has since bid for other mines in Zambia, such as the small Nchanga and Nkana mines, it has not been able to buy majority share in other copper mines (Africa Confidential 1998; Africa Confidential 1999; Craig 2001; EIU 2005; UNCTAD 2005). To date, however, six other Chinese companies have invested in the Zambian mining sector; among them Chiman, which is currently investing in the mining and processing of manganese in Kabwe, and Collum Coal Mining that began production of coal in 2003 (Taylor 2006; Times of Zambia 2006).

No doubt, "Chinese investments in Zambia's copper industry … rejuvenated an industry that had been dead on its feet in the 1990s" (Taylor 2006: 179). Moreover, the copper mines earn Zambia much needed hard currency and investments in the Chambesi mines have reportedly created almost 2000 jobs. On the contrary, the mining sector is characterised by only very few forward and backward linkages. Hence, direct capacity building effects of Chinese FDI are probably limited. In addition, while increased Chinese demand for copper drives up prices, and thereby leads to

increasing copper production, this may also lead to an appreciation of the kwacha and thus uncompetitive industrial development (Economist 2005; EIU 2005: 31, 39; Taylor 2006).

In contrast to the mining sector, the textile sector has considerable spin-offs to other sectors of the society. Like the mining sector, the Zambian textile sector is of major economic importance. Its total contribution (for the full cotton - textile - apparel value chain) to GDP is estimated between 16 and 20%, and it is important for employment generation as cotton is the main cash crop for Zambian small farmers. It is grown by an estimated 140,000 contracted small scale farmers every year for the local industry as well as for the export market (RATES 2003).

The textile industry was also privatised in the 1990s. The result was the establishment of six large companies of which one is on majority Chinese hands: in 1997, a Chinese state-led company, Qingdao Textile Corporation, bought 66 percent of the shares in the former state-owned textile mill, Mulingushi. The Mulingushi mill was built in 1983, financed by Chinese aid and inaugurated with an interest-free loan from Beijing. When Qingdao offered to buy shares in the Mulungushi mill in the mid-1990s, it had been shut down for a while due to operational problems. Since then, **USD** 24 million has been invested in the Mulungushi Zambia-China Joint Venture Company (ZCMT), based in Kabwe, which now is Zambia's largest textile company. The company, which employs approximately 2000 employees, has now become the largest producer of African-print cloth in Zambia.

In addition to the textile mill, ZCMT has two ginneries and, according to People's Daily (2003), it contracts 5,000 farmers controlling 10,000 hectares of cotton farms. Recently, it began employing extension staff to manage the contracted farmers (RATES 2003). These contracts, however, were not originally part of Qingdao's investment plans but were introduced when sourcing of Zambian cotton via Zambian companies were too costly (Taylor 2006). ZCMT is the only company in Zambia that, apart from growing seed cotton, ginning and spinning also weaves yarn into cloth and produces garments. ZCMT thus controls the whole chain from seed cotton, over cotton lint, cotton yarn, woven fabric, to garments. Downstream, the ZCMT moreover controls the marketing network: in 2003, it had 18 stores across Zambia and two subsidiary companies in Tanzania and Namibia.

Like elsewhere in Africa, the Zambian textile sector is changing rapidly. The Multi-Fibre Arrangement (MFA) ended in January 2005 and the African Growth and Opportunity Act (AGOA),

which offers increased preferential access for African exports to the US market, may not make up for the preferences provided by the MFA (Gibbon 2003; Morris 2006). Nevertheless, both ZCMT and the Zambian State seem eager to take advantage of the opportunities offered by AGOA: ZCMT has thus recently reached an agreement with Wyler Team International Corporation (a Wal-Mart agent) to finance the expansion of its capacity to take advantage of AGOA, and the Zambian State encourages farmers to plant more cotton to provide raw material for textiles producers to benefit from AGOA.

Exactly in relation to AGOA, the capacity building role of Chinese investments may turn out most important, as these investments entail that Zambia can continue to take advantage of AGOA indefinitely whereas other African countries, dependent on imports of fabric, yarn and thread will lose preferences after 2007. As depicted, the Sino-Zambian textile mill experience is largely positive. Indeed, it is perceived as so encouraging that "*…whenever Sino-Zambian ties are mentioned in the Zambian or Chinese media, as well as by either Chinese or Zambian politicians, the ZCMT is held up as the example of success and co-operation…*" (Taylor 2006: 178). Nevertheless, the ending of the MFA may have turned out too challenging even for the Chinese investors: news reports now state that ZCMT is temporarily shut down due to problems paying the workers' wages.

While the construction sector also contributes significantly to Zambia's GDP, in many ways it differs from the two other sectors. The Zambian construction sector is dominated by locally-owned companies – only a tiny share of the total of almost 1300 registered construction companies in Zambia are foreign owned – among these approx. 20 are Chinese; all of which have been established during the past ten years. Half of these are privately owned (Centre for Chinese Studies 2006: 55ff). Moreover, the construction sector is very labour-intensive.

The Zambian liberalisation and privatisation programmes of the 1990s markedly affected the construction sector. The construction sector is directly linked to infrastructure. Due to Zambia's land-lockedness, transport costs in Zambia are above African-average[8]. Moreover, the construction sector has a large potential for employment creation (NCCZ 2004). Therefore, the Zambian government wanted to attract investments in Zambian construction sector.

[8] EIU EIU (2005). Country Profile 2005. Zambia. London, The Economist Intelligence Unit.
estimates that transport costs account for as much as 60-70% of productions costs for many Zambian goods.

Large-scale construction projects in Zambia are by and large donor-financed. Competition for large-scale construction projects first and foremost takes place among foreign companies in Zambia – not with domestic companies. Lately Chinese companies have won the bulk of the large-scale tenders. Among the most well-known construction projects in Zambia currently executed by Chinese contractors are: the Government Complex, including a museum, a banquet hall and a conference centre; the Football House, a new headquarter for the Football Association of Zambia; Lumwana Power Project, a power supply for the Lumwana copper mine; Lafarge Cement Plant outside Lusaka; the Lundazi-Chama road; and the hydroelectric plant at Kafue Gorge in southern Zambia (Economist 2004; NCCZ 2004; Centre for Chinese Studies 2006).

Domestic small-scale construction companies, in contrast, are concerned with the delivery and maintenance of buildings and infrastructure. In many cases they also supply the Chinese (and other foreign) companies with timber, river sand, bricks, concrete and occasionally also steel products. Lately, however, several Chinese supply companies have been established in Zambia. This may alter the situation for the local companies.

6. Conclusions

China's presence in Africa is often portrayed as either a huge concern or a potential way forward: seen from Washington, China's trade, aid, military support and investments undermine human rights, transparency and good governance. In contrast, Beijing keeps its past rhetoric and portrays Sino-African relations in a solemn vocabulary. In Africa, attitudes towards the Chinese also differ: while the African elite welcomes the Chinese presence as it enlarges its room for manoeuvre as well as offers a development path without strings attached; the trade unions fear that Chinese trade and investments will drive the local private sector out of business and complain that Chinese business practices do not comply with international regulations.

The effects of the growing Chinese presence in Africa, however, do not resemble these dichotomous attitudes. By analysing Chinese FDI in three sectors of the Zambian economy, this paper points to the complexity of the local consequences. Chinese FDI in Zambia is neither good nor bad. Besides the magnitude and rationale of the FDI, the effects on local producers depend on

the structure of the sector in the host economy as well as on the composition of resources and capacities of local and other firms. Moreover, these effects can be both direct and indirect.

Three roles of Chinese FDI were singled out: that of the catalyst, the capacity builder and the competitor. The role of Chinese FDI in the mining sector mainly is that of catalyst, as it provides FDI to a dormant sector. Due to China's huge demand for natural resources these activities also influence the value of the local currency and thereby act as competitor for other sectors. Chinese FDI to the Zambian textile sector, in contrast, is primarily that of the capacity builder. Due to the extensive linkages to the local private sector, these investments can trigger an upgrading process that eventually may be decisive for Zambia's possibility to make the most of preferential trade arrangements. Even though the competitive role of Chinese FDI may come to fore in the analysis of the mining and textile sectors, e.g. in the form of subsidised credits, this role is likely to be more significant in the Zambian construction sector, where Chinese construction companies' relation to Chinese aid may displace competitors. On the contrary, Chinese FDI in the construction sector endows Zambia with low-cost infrastructure that may catalyse further industrial development. In order to pursue these effects further, more research is needed to gather additional insights into the effects of Chinese FDI.

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