



ZAMBIA CHINA RELATIONS - TRADE & INVESTMENT

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OUTLOOK OF THE OVERALL POLICY TOWARD FOREIGN DIRECT INVESTMENT

- There are no laws or practices that discriminate against foreign investors by prohibiting, limiting, or conditioning foreign investment in any sector of the economy. The country has affirmed its commitment to fostering private sector development and attracting foreign direct investment (FDI).
 - FDI continues to play an increasing role in Zambia's economy, contributing to increased capital inflows and overall investment. Zambia Development Agency (ZDA) that is responsible for fostering economic growth and development in Zambia through the promotion of trade and investment and an efficient, effective, and coordinated private sector-led economic development strategy.
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OUTLOOK OF THE OVERALL POLICY TOWARD FOREIGN DIRECT INVESTMENT CONT.

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- Zambia has undertaken institutional reforms aimed at improving the attractiveness of the country to investors specifically through the Private Sector Development Reform Program (PSDRP), which addresses the issues related to cost of doing business through legislation and institutional reforms. These reforms have led to an increase in the levels of FDI as indicated in the graph below.
 - Other interventions such as the Multi Facility Economic Zones (MFEZs) have resulted in expanded industrial infrastructure facilitating billions of dollars in foreign investment and the expansion of the country's productive capacities.
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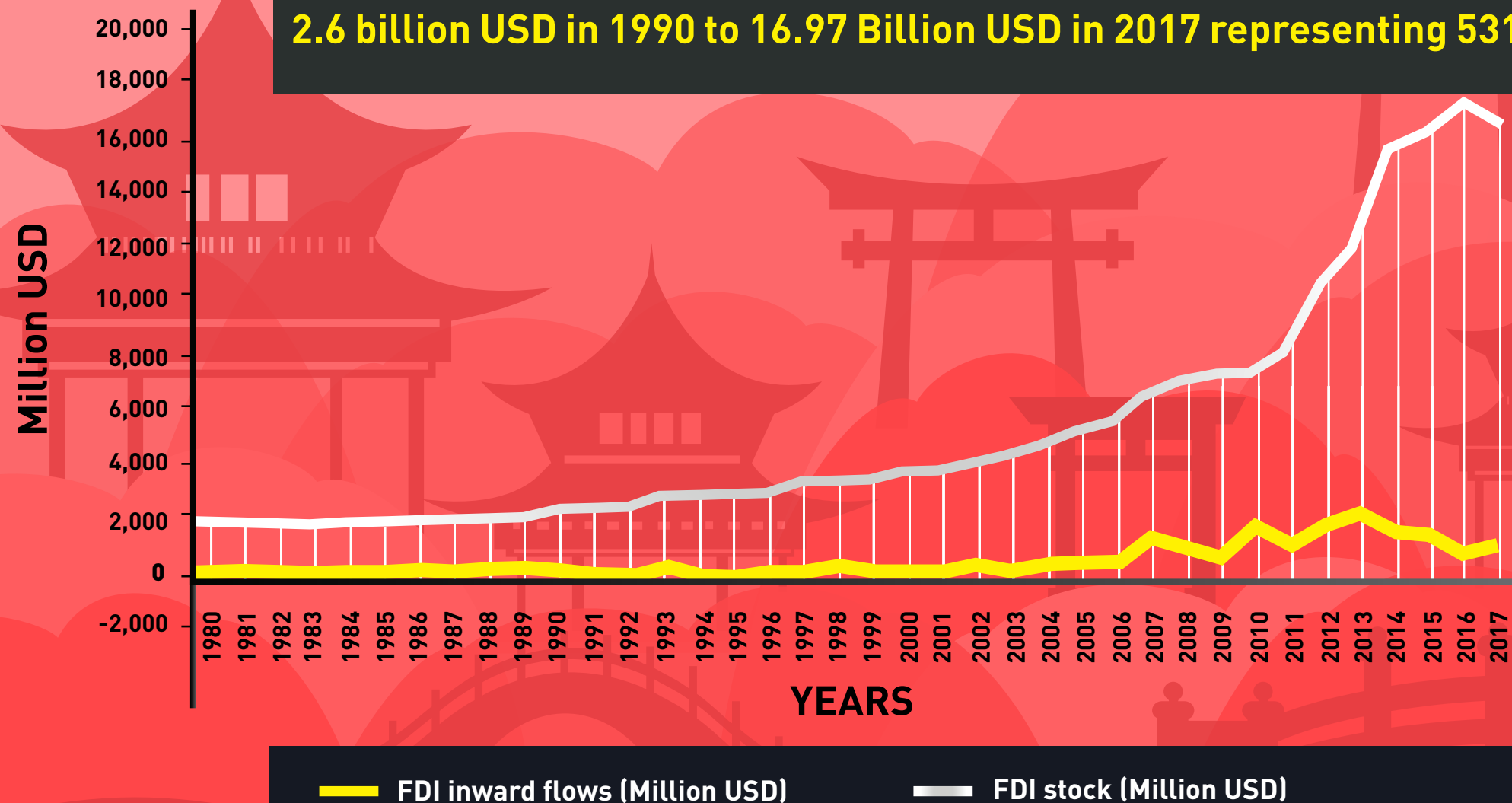
OUTLOOK OF THE OVERALL POLICY TOWARD FOREIGN DIRECT INVESTMENT CONT.

- The Government has also secured market access for Zambian products through deeper regional integration under the COMESA and SADC frameworks as well as preferential access to several large international markets on the African continent and beyond. These and many other interventions in various sectors have set the base for expanded value addition to local resources and the growth of the manufacturing sector.
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SEE GRAPH ON NEXT PAGE

FDI INWARD FLOWS AND STOCK FOR ZAMBIA

There has been an increase in FDI inward flow from the low of 34 million USD in 1991 to 1 billion USD in 2017. The FDI stock has also increased from the low of 2.6 billion USD in 1990 to 16.97 Billion USD in 2017 representing 531% increase.



CONCERNS WITH FDI

HOWEVER, THERE ARE CONCERNS WITH FDI AS REGARDS



JOB CREATION

- Foreign direct investment in the Mining Sector for example has not brought much benefit through job creation thus not adequately helping to reduce high poverty levels in Zambia (Kalima Nkonde). There are a number of factors that have contributed to this.
- FDI especially in the mines are capital intensive with latest 21st Century technology such that most of the tasks that were done by humans are now being done by machines reducing the need for workers in certain areas.

HOWEVER, THERE ARE CONCERNS WITH FDI AS REGARDS CONT..

JOB CREATION

- Foreign firms import millions worth spares parts and other supplies from outside. Mining companies for instance have not been interested in the growth of homegrown local firms to supply them with products and services for production but instead have opted to import these goods and services.
- To make matters worse, there have not been any forward linkages in terms of industries developed to add value to raw materials which could have created additional jobs.
- There is alleged widespread bribery in the issuing of work and resident permits as evidenced by some foreign workers who have permits and doing jobs that can be done by locals (Kalima Nkonde).

CONCERNS WITH FDI

HOWEVER, THERE ARE CONCERNS WITH FDI AS REGARDS

INADEQUATE TAX REVENUE



Foreign direct Investment in the Mining sector for **example accounts for about 62% of total FDI in Zambia** which has not benefited ordinary Zambians as far as revenue generation through taxation is concerned.

- In Namibia, mining revenue contribution to government revenue is about 25%,
- whereas Botswana mining contribution to government revenue is 45%.
- On the other hand, Zambia's mining contribution to Government revenue is estimated at a paltry 4% of GDP (Kalima Nkonde).

The mining sector has not been paying its fair share of taxes and have been involved in sophisticated tax avoidance schemes.

PMRC note with delight that provisions in the 2019 proposed budget were aimed at addressing Insufficient Tax revenue from multinationals.

INSUFFICIENT FOREIGN EXCHANGE EARNINGS



EXCHANGE

- In theory, **copper mining contributes 70% to Zambia's export earnings.** This figure is however misleading as very little comes back in the country. This is due to the lop-sided development agreements; whose renegotiation is long overdue. If sufficient export earnings were to come back in the country, the kwacha could have been stronger (Kalima Nkonde).

LACK OF FORWARD AND BACKWARD LINKAGES

- Zambia has not benefited from the FDI from the mines as the sector is not contributing to the development of backward and forward linkages through the mining supply chain.
- In 2016, the World Bank Mining Investment and Governance (MinGov) Study, observed the need for the mining industry to more effectively use local products and services. There is no national supplier development policy for the industry. Consequently, 95% of goods and services used by the mining industry are imported (Kalima Nkonde).
- On the other hand, there has also not been any forward linkages through the establishment of manufacturing and processing industries to add value to the raw material – copper- which could have resulted in not only creating jobs but to transfer various technologies to Zambia.

PMRC notes that in the 2019 budget, Government proposed to **reduce corporate tax from 35% to 15%** for **companies that adds value to copper cathodes.**

- China's diplomatic and economic presence in Africa has grown considerably in recent years. From the establishment of the Forum on China–Africa Cooperation (FOCAC) and efforts to strengthen diplomatic, cultural and economic relations with African nations, to the rapid growth in Chinese Foreign Direct Investment (FDI) and bilateral trade (German, Schoneveld, Wertz-Kanounnikoff, & Gumbo, 2011). This relationship is likely to continue to play a defining role in African economies.
- China built up diplomatic cooperation with Zambia on the 29th of October, 1964 (German et al., 2011). The earliest form of cooperation between China and Zambia date back in 1970 to 1975 when the governments of Tanzania, Zambia and China built the TAZARA Railway through the Chinese loan to eliminate landlocked Zambia's economic dependence on Rhodesia and South Africa.

CHINESE INVESTMENT IN ZAMBIA

As at 2017 the total stock of FDI in Zambia was 1.091 million USD.

Zambia's FDI Inward Flow, Stock and Chinese FDI

Foreign Direct Investment	2017
FDI Inward Flow (million USD)	1,091
FDI Stock (million USD)	16,972
Chinese FDI (million USD)	3,300
Chinese FDI/FDI Inward Flow	19%

Source: UNCTAD/Chinese Embassy

By the end of December 2017, Chinese FDI was 19 percent of the total FDI stock for Zambia. This demonstrates how important the Chinese FDI is to Zambia. Foreign direct investment is critical for Zambia just like any other developing and emerging market countries.

SPECIAL REPORT ON ZAMBIA-CHINA ECONOMIC & TRADE COOPERATION ZONE (ZCCZ) INVESTMENT



Zambia-China Economic & Trade Cooperation Zone (ZCCZ) is the first Multi-Facility Economic Zone (MFEZ) declared by the Government of Republic of Zambia according to ZDA Act.

- It is the **first Chinese Overseas economic & Trade Cooperation zone established in Africa.**
- Chambishi MFEZ

- **ZCCZ has invested over USD \$190 million in the Chambishi MFEZ** towards infrastructure development
- Has more than 51 enterprises, Chambishi MFEZ has attracted investments of \$USD 1.8 billion, and created about **7,300 job opportunities for the local community.** Lusaka East MFEZ
- **ZCCZ has invested approximately USD \$30 million** in the Lusaka East MFEZ towards infrastructure development
- Has **more than 10 enterprises** have invested with investments worth over **USD\$ 36,000,000 and created about 300 job opportunities for the local community.**

In 2018 during the FOCAC President Lungu also witnessed the signing of various agreements of **eleven (11) companies set for investments in Zambia**. Importantly, some of the companies had already started the process of bringing their investment by November 2018.

- Zambia and China also signed an **economic and technical cooperation agreement for China to provide RMB200 million (about US\$30 million) grant** for supplying electricity in the Lusaka East Multi-Facility Economic Zone on 1st September 2018.
- ZCCZ has also acquired the Sino-Zambia Friendship Hospital in Kitwe which attends to more than 200 patients daily from the members of the public as well as from Zonal Enterprises.

CHINESE QUALITY OF EMPLOYMENT CREATION

PROPORTION OF EMPLOYEES BELONGING TO A TRADE UNION



Union density in Zambia is very low, partly due to the high rate of informal employment and the provision of the Industrial and Labour Relations Act, which provides for an exemption in the formation of trade unions at establishments that employ less than 25 workers.

A study done by PMRC (2018) indicated that of the **thirty-seven (37) sampled Chinese firms eighty-two (82)** translating to about **thirty (30) firms had no presence of a union.**


Trade unions can pursue collective bargaining giving workers a greater influence in negotiating a fairer pay settlement.

AVERAGE SALARIES FOR SELECTED CATEGORIES OF EMPLOYEES IN CHINESE FIRMS



All Chinese firms sampled in the PMRC study (2018) were compliant with the minimum wage which usually applies to “**general workers**” category of employees. This is in sharp contrast with the widely held view that Chinese companies pay slave wages and abrogate the minimum wage regulations.

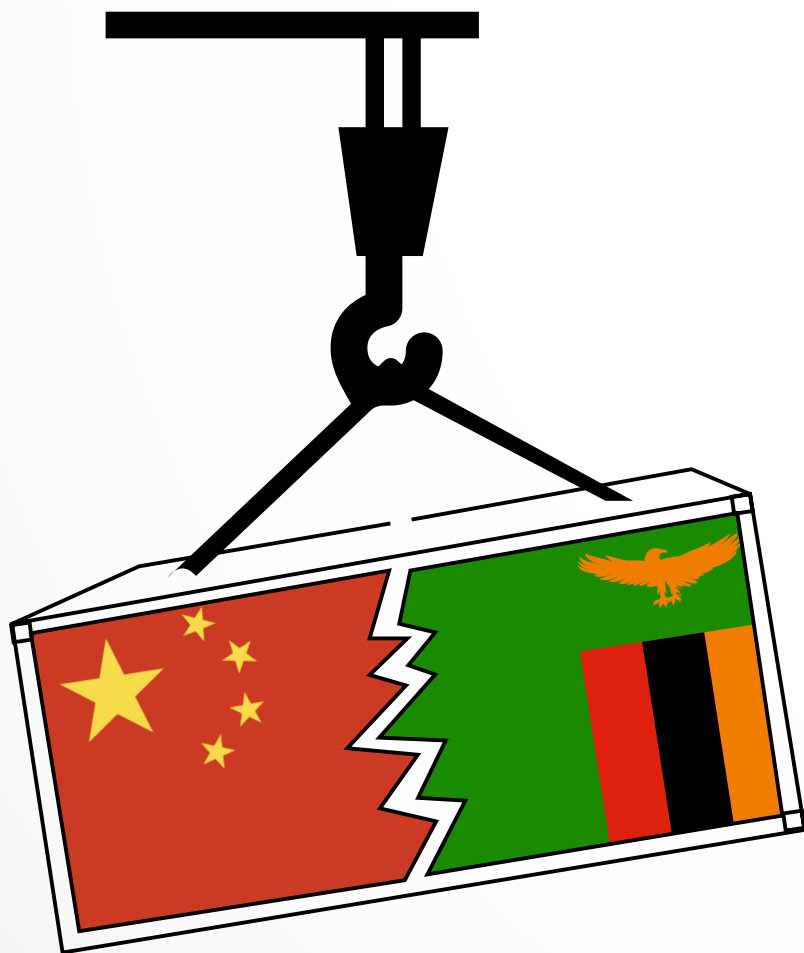
AVERAGE SALARIES FOR SELECTED CATEGORIES OF EMPLOYEES IN CHINESE FIRMS



The Government of Zambia had revised the minimum wage for domestic, shop and general workers in the country upwards with effect from September 10, 2018. **Domestic workers' gross salary increased to K993.60 from K522.40 while minimum wage for grade 1 shop workers and general workers had risen from K1,132 to K1,698.60.** All the thirty-seven Chinese companies sampled were compliant with the least being paid 1700 as indicated in the table above.

The PMRC study (2018) noticed the highest salary differential in the senior management category for the sampled firms. The low salaries can be explained by reduced bargaining power of the employees with only 18.82 percent of the sampled firms reporting that workers belonged to a trade union.

CHINA-ZAMBIA TRADE COOPERATION

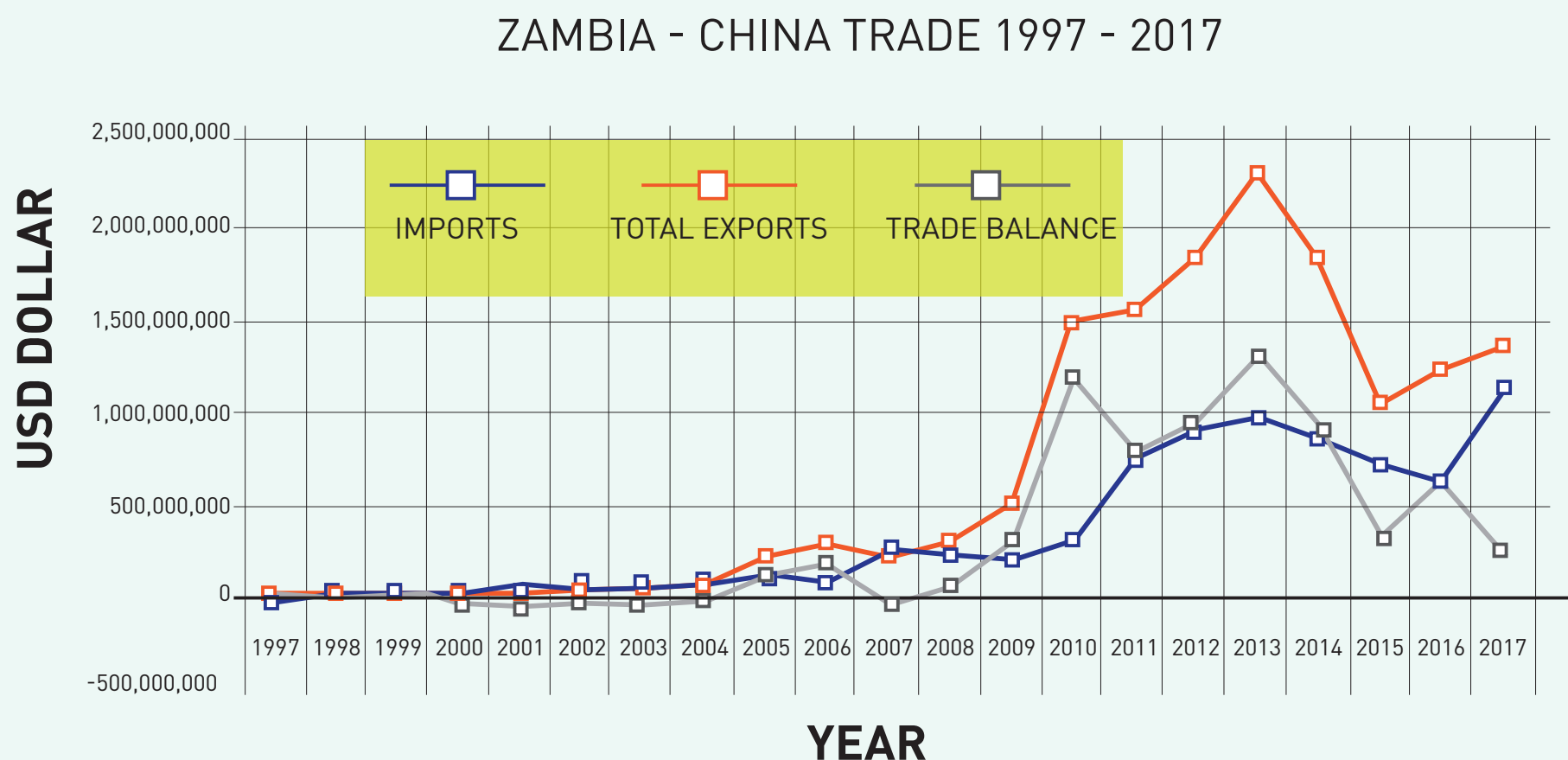


By the close of 2017 **China was the second preferred destination for Zambia's exports after Switzerland.**

From 2005 going forward (with an exception of 2007) **Zambia's trade with China had a trade surplus reaching the highest in 2013 with the value of USD 1,297,673,759.** The surplus can be explained by the increased base metal and food items exports to China (Bank of Zambia, 2010; 2013).

ZAMBIA- CHINA TRADE BALANCE

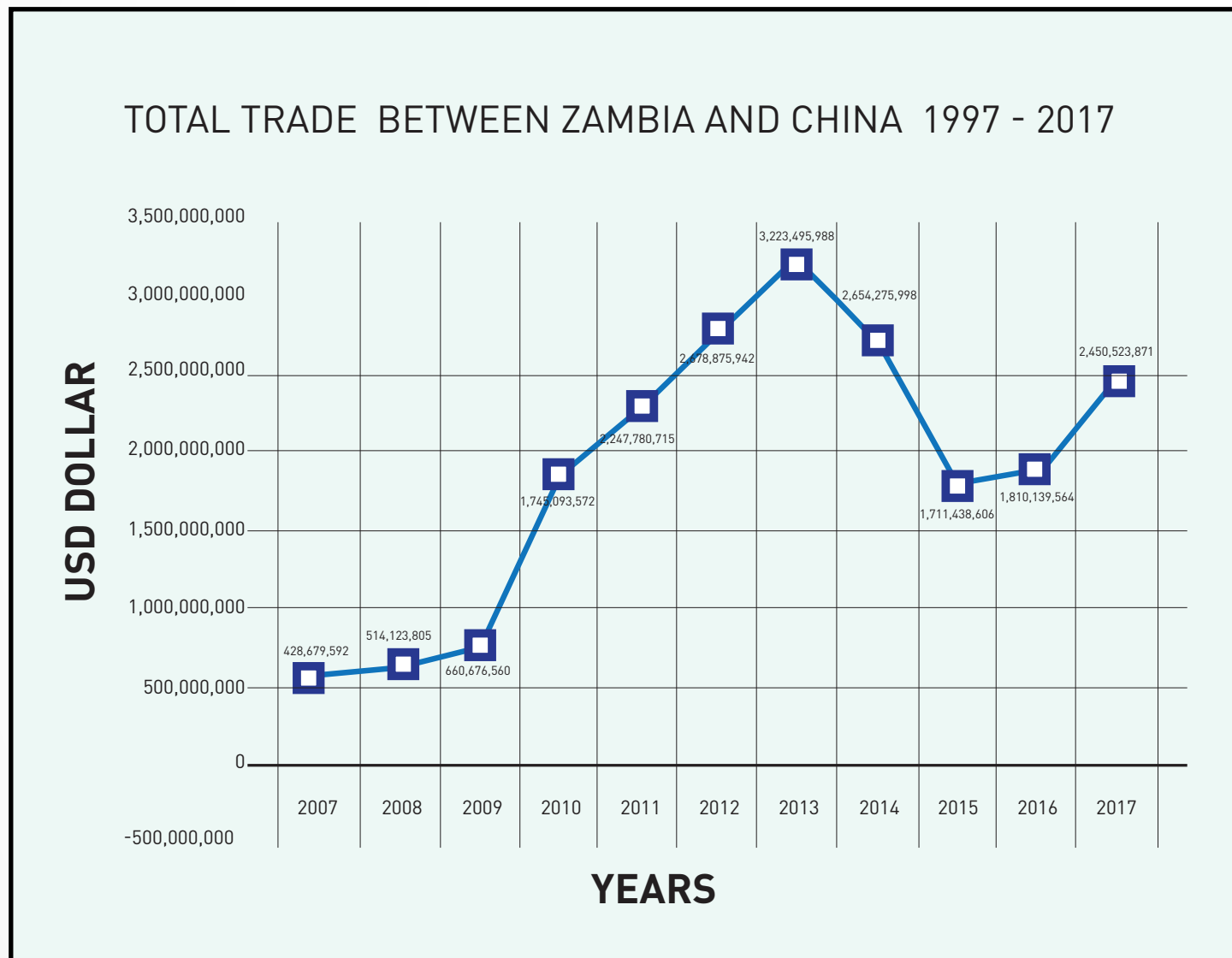
POLICY MONITORING AND RESEARCH CENTRE



Source: Authors compilation from CSO data

To encourage exports of non-traditional exports to China, the two countries signed an MOU during the 2018 Forum of China- African Countries (FOCAC) where Zambia and China had signed a protocol on export of Zambia's honey to China which is key to the diversification agenda. The export of honey was officially launched on 12th of October, 2018 (Phiri, 2018).

TOTAL TRADE



Source: Generated from CSO data

Total trade had hit the highest point in 2013 of US\$ 3,223,495,988 reducing by 24 percent to reach US\$2,450,523,871 in 2017 as shown in graph.

This reduction could be explained by declining copper prices and a severe electricity shortage during the period under consideration. Zambia's currency, the kwacha, had lost about 50 percent of its value against the U.S. dollar from 2014 to 2015, fueling higher prices on imported goods (York, 2015).

Electricity production had fallen from 14,050,395 Mega Watts per hour in 2014 to 11,618,531 Mega Watts per hour in 2016 representing a 17 percent decline (CSO,2018).

DECLINE IN TRADE BETWEEN 2013 AND 2015



The sharp reduction in the value of total trade between Zambia and China from 2013 to 2015, with trade falling by as much as 47 percent can also be attributed to the **slow economic growth in China from 7.8 % 7.4 % due to policies undertaken to reduce rapid credit expansion in 2014 resulting in lower investment and negatively affecting other economies.**

DECLINE IN TRADE BETWEEN 2013 AND 2015 CONT..

Key commodity prices generally declined in 2014. **Copper prices fell to USD 6,863.0 per metric tonne from USD 7,322.0 per metric tonne in 2013, reflecting sluggish global demand resulting in a 20.4% decline** in base metal exports to China (Bank of Zambia, 2014).

Growth in the Chinese economy slowed down to 6.9% in 2015 from 7.4 % in 2014, attributed to reduced investments and contraction in the manufacturing sector, waning investor confidence in the measures taken by the Chinese Government and the stock market turmoil.

Demand for commodities declined, leading to a drop in global commodity prices that affected most commodity exporters, including Zambia, (Bank of Zambia, 2015). In 2015 there was a decline in the exports to China due a decrease in earnings from exports of base metals to China. On average, the price of copper declined to US \$5,510.50 per metric tonne in 2015 from US \$6,883.40 per metric tonne (mt.) in 2014 (Bank of Zambia, 2015).

TRADE AFTER 2015



From 2015 to 2017 trade between the two countries grew by 43 percent on account of the rise in copper exports. Global economic growth was stronger in 2017, at 3.7%, up from 3.2% in 2016, reflecting improvements in aggregate demand, higher commodity prices, accommodative monetary conditions in advanced economies, and improved trade and manufacturing output in China and other Asia countries (Bank of Zambia 2017).

CHALLENGES OF THE CHINA - ZAMBIA COOPERATION

EXCHANGE RATE VOLATILITY



Chinese firms have indicated that the exchange rate volatility has negatively impacted both Chinese and Zambian businesses alike especially importers whose cost of doing business increased tremendously in times of the sharp depreciation of the Kwacha.

INCONSISTENT TAX REGIME



The Chinese business have firms also expressed concern on the cancellation of income tax holiday as announced in the 2018 National Budget. The Zambian Government discontinued the 5-year income tax holiday that was being facilitated through the Zambia Development Agency (ZDA).

Government however, did indicate that they would be granting accelerated depreciation for capital expenditures by qualifying investments in priority sectors to cushion the cancellation of tax holidays.

CULTURAL DIFFERENCES AND LANGUAGE BARRIER



Some Chinese firms expressed the need for deliberate efforts from both the Chinese and Zambian Government to facilitate integration of Chinese nationals into the Zambian society. This could be achieved through a strong institutional framework to help all Chinese nationals entering Zambia for long durations of stay with basic orientation on cultural values including work culture.

Language barrier has been a challenge as it makes communication between Chinese and Zambian difficult.

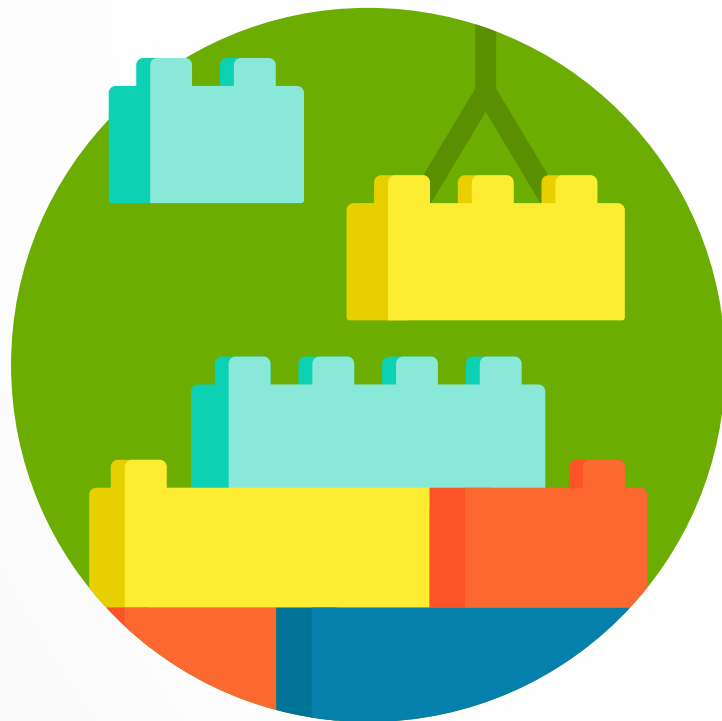
CORRUPTION



BREAK THE CORRUPTION CHAIN

Most Chinese firms' representative complained of corruption and a weak institutional framework particularly from state police and immigration authorities who they accused of selective biasness. Many other firms confirmed having encountered red tape and widespread bribery in all business operations.

LOCAL CONTRACTOR LACK CAPACITY TO EXECUTE 20% CONTRACTUAL REQUIREMENT



Chinese firms especially those in the construction sector have reported that most local contractors lacked capacity to execute projects when given the 20% contractual requirement as required by the Zambian Law.

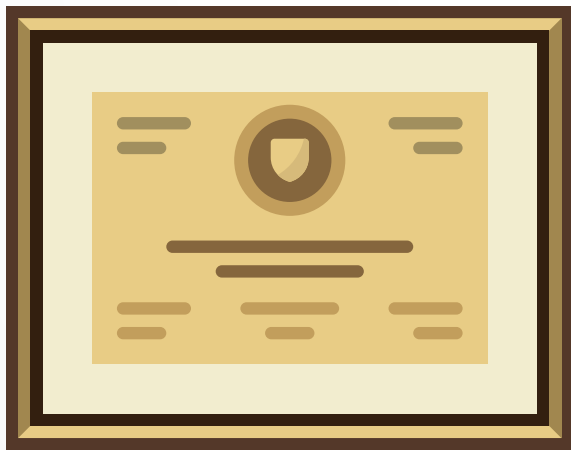
VAT REFUNDS



Chinese firms also complained about outstanding VAT refunds whose verifications and auditing were taking longer and thereby affected business operations.

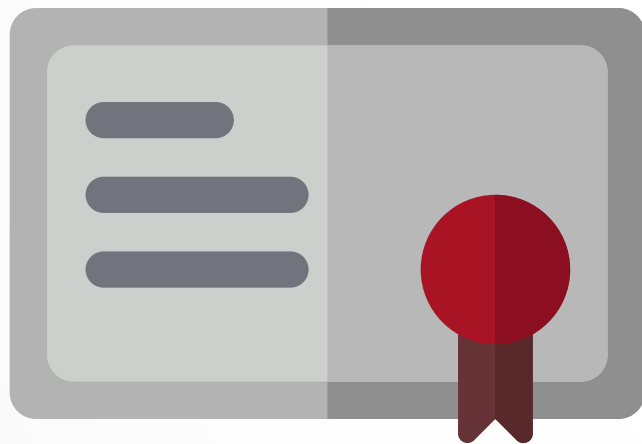
Government through ZRA had announced efforts aimed at establishing an office which would specifically deal with VAT refund verification to quicken audit and verification process and at the same protect government revenue.

HIGH COST AND EVER-INCREASING COST OF LICENSE FEES



Chinese firms have bemoaned the high cost of various licenses from both Central and Local Governments. The ever-increasing cost of obtaining different types of licenses had contributed to high cost of doing business in Zambia

WORK PERMIT PROCESSING DELAYS



Most Chinese firms expressed displeasure with the delays in work permits processing and renewals which put them in vulnerable position to bribery and corruption.

POOR STATE SECURITY



Theft has been one of the major challenges faced by Chinese companies in Zambia. It was reported that Chinese companies experienced thefts of equipment and other company valuable products such as truckloads of minerals. They stated that some theft case involved armed criminals and in some instances Zambia Police was of little help.

POOR BASIC INFRASTRUCTURE (ROADS, POWER, WATER SUPPLY IN REMOTE AREA WITH INVESTMENT POTENTIAL



Chinese firms expressed concern on the lack of basic infrastructures such as roads, power, water supply especially in remote parts of Zambia with investment potential. Provision of adequate infrastructure, along with macroeconomic stability and a long-term development strategy, is one of the necessary conditions for sustainable economic and social development.

DELAYED CONTRACT PAYMENTS BY THE ZAMBIA GOVERNMENT



Chinese firms especially those in the construction sector expressed concern on delayed payments especially by the Zambian Government. Delayed payment to contractors has a serious effect on early completion of projects in the construction industry.

CHINESE BUSINESS INVOLVED IN MICRO, SMALL & MEDIUM ENTERPRISES (MSME) RETAILING



One other challenge of the Zambia China cooperation which was also recognized by the Chinese community relates to issues of having Chinese involved in Micro, Small & Medium Enterprises (MSME) retailing which has created contestations with the locals.

The recommendation was that retailing should be reserved for local Zambians while Chinese investment needed to focus on high impact investments focusing on wealth and employment creation.

STRUCTURE OF CHINESE FOREIGN DIRECT INVESTMENT



- The 4Ms- money, material, men and machinery- involved in the projects, benefit the Chinese economy by and large with little multiplier effect in Zambia. Chinese investment in Zambia as at the end of 2017 stood at 3,300 million USD.
- The money from Chinese loans does not come to Zambia but remains in China to purchase materials and machinery.
- In addition, Chinese Contractors on infrastructure projects, in large measure, use their own skilled and sometimes unskilled labour.

AGGRESSIVE BIDS LEADING TO SUB-STANDARD WORK



- International rivals have complained of being undercut by aggressive bids that Chinese firms then find impossible to fulfil. Whenever work is delivered and its sub-standard, complaints are about 'the Chinese'. The solution lies with improving the quality of supervision of Chinese projects by the state and other quasi-government institutions.
- For instance, Engineering Institution of Zambia (EIZ), pronouncement of revoking licenses for all its members who have poorly supervised works on projects is a welcome move.

OPPORTUNITIES FOR THE CHINA -ZAMBIA COOPERATION

ENHANCEMENT OF CO-OPERATION BETWEEN CHINA AND ZAMBIA

Zambia needs to keep improving its foreign and domestic investment policies, to boost its upward trend in economic cooperation not only with China but many other countries.

Having recognized this, the Government has introduced a series of private sector reforms to strengthen its policy framework for investment and to enable private business to grow. Notable advances have been made in investment policy, where regulations have been harmonized, and Multi-Facility Economic Zones and industrial parks such as the China led Zambia- China Economic and Trade Cooperation (ZCCZ) MFEZ in Chambishi and Lusaka towns.

NEED FOR MODERNIZED INFRASTRUCTURE AND INDUSTRIALIZATION



In her quest to modernize infrastructure and industrialize, Zambia has a lot to learn from China. Until 2015, China was the world's fastest-growing major economy, with growth rates averaging 10% over 30 years.

NEED TO CRAFT IMMIGRATION POLICIES FRIENDLY TO FOREIGNERS

Chinese migration to Zambia (and Africa more broadly) is likely to continue increasing over the short-to-medium term. By 2012 the Chinese population in Zambia was estimated about 13,000 individuals (A. M. Taylor, S. Menon, 2015). Chinese population pressures and recent international business expansions are driving this trend.

The Chinese population in Zambia is still quite new. As Chinese FDI increases and further business opportunities are created, more migrants will likely follow. This entails the need to develop more friendlier immigration policies that will facilitate the integration of the growing Chinese population in Zambia.

INVESTMENT IN AGRO-PROCESSING, MANUFACTURING AND TOURISM



Chinese firms recognized the fact that immense opportunities existed to increase Chinese investment in Zambia in priority sectors such as in agriculture, manufacturing and tourism. The specific areas of concentration that were identified include **modern agriculture (breeding and farming), food processing, equipment manufacturing, bio-pharmaceuticals, information technology, energy saving and environmental protection, tourism and education as well as energy and new materials.**

RECOMMENDATIONS

POLICY MONITORING AND RESEARCH CENTRE

ON HOW TO BEST FOSTER THE CHINA-ZAMBIA COOPERATION



- In conjunction with the mining houses and other stakeholders, government should develop a local supply strategy. The need for such a strategy is supported by the World Bank Study, Mining Investment and Governance (Min Gov).
- In terms of promotion of forward linkages, government should also consider heading hunt for investors in besides giving incentives to valued addition.
- There is need to put in place deliberate policies and regulations that compel investors to partner with locals so that the country can fully harness the associated of FDI.

RECOMMENDATIONS

POLICY MONITORING AND RESEARCH CENTRE

ON HOW TO BEST FOSTER THE CHINA-ZAMBIA COOPERATION



- It has been realized that some Chinese business companies are engaged in Corporate Social Responsibility but don't do adequate public awareness. Public awareness will help to diffuse the negative sentiments about the role of Chinese investments in Zambia.
- There is need to put in place some institutional framework to facilitate the integration of Chinese nationals into the Zambian society. This can be achieved through culture orientation of Chinese to learn aspects of the Zambian.
- In as much as most Chinese firms are compliant with labor laws and minimum wages, most local employees indicated some level of dissatisfaction with their payments. This can be minimized by strong labor movements who can negotiate for better conditions of service

RECOMMENDATIONS

POLICY MONITORING AND RESEARCH CENTRE

ON HOW TO BEST FOSTER THE CHINA-ZAMBIA COOPERATION



- The Government of the Republic of Zambia needs to upscale sensitizations and consultations on latest policy development so that the Chinese community does not feel left out on most policy pronouncements.
- The Government needs to encourage partnership between the local and Chinese investors to create a sense of ownership in the Chinese investments.
- There is need to renegotiate electricity tariffs in the ZCCZ Economic Zones. With the current scenario where a flat rate tariff of mining firms charged (which is five times higher than other industrial rates) is not good for further investments in the ZCCZ zones.

CONCLUSION

Zambia-China trade has been expanding rapidly with increased Chinese FDI over the years. Some wilds suspicions concerning the quality of Chinese employment effects in Zambia are incorrect. Chinese firms seek at most to abide by the prevailing local laws and regulations regarding the conditions of service and work environment for its employees. There is however need to encourage unionism in the firms to ensure that workers are able to bargain for competitive conditions of service that are over and above the minimum government guaranteed conditions. China has made significant investments targeting the mining, manufacturing and construction sectors mainly through Greenfield project which create completely new jobs and contribute to new infrastructure development. Chinese firms not only directly create jobs for local people, but also bring indirect jobs through their forward and backward linkages.

Chinese firms generally have also put in place several types of trainings be it pre-job training, student internships or on-job trainings aimed at ensuring that there is enough skills transfer to the locals. In this regard Chinese investment is helpful in alleviating local unskilled and low-skilled labor employment pressure as envisioned in the 7NDP and Vision 2030.

Like any cooperation, Zambia-China has its own challenges which include among other issues of cultural clashes between Chinese and locals, language barriers, mistrust, delayed Government payments especially in the Construction sector, complaints of poor state security as well as the poor public image of the role of Chinese investment in Zambia.

However, there are considerable opportunities to grow Zambia-China cooperation through further investment in key sectors with huge growth potential such as agriculture, tourism and more investments in the manufacturing sectors. China has been instrumental in helping Zambia resolve to build transport infrastructure across the country in an effort to make Zambia land linked. Opportunities also lie in ensuring that the two countries commit themselves in reviewing the immigration regulations to make them more accommodative in order to reduce complaints against work permits and visa delays.

THANK YOU

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