CHINESE INVESTMENTS IN ZAMBIA

By

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China’s resurgent interest in Africa in general and specifically in Zambia has spawned a bewildering variety of commentaries in the country. Several of the commentators analyze China’s investments in Zambia as neocolonialist and exploitative. This approach embodies the growing world wide hysteria fueled by Western countries concerning China’s emergence as a major player on the international stage in the post-cold war era. Unfortunately, many Zambians appear to have embraced this hysterical approach uncritically and without a deep analysis of the facts. The long heralded South/South cooperation has made an about face and has suddenly become a bad idea. It seems apparent that most Zambians prefer to deal with the West rather than the South. Mr. Sata, in particular, has unwittingly acted as a poster boy for Western interests on this issue and has made Chinese bashing his Party’s major, and probably only, economic policy and strategy for fighting poverty and ignorance in Zambia. I am bewildered as to how a national leader can believe in the unfounded idea that Zambia’s economic problems are caused by Chinese investments and can therefore be solved by banishing the Chinese from Zambia. Is this a case of a man trying to grapple with complex issues with which he has but a nodding acquaintance? Or is he lacking the basic knowledge needed to understand the underlying issues so intrinsic for development? Bear in mind the removal of Indians from Uganda in the 1970s and the resulting
destruction of the Ugandan economy. Or perhaps it is the case of what US President George Bush senior, in another context, called voodoo economics at play? Zambia’s underdevelopment is not the result of too much foreign investment but a lack of foreign investment. Zambia needs huge investments to develop and provide employment for its people.

Judging by the letters in the media a number of Zambians are unwittingly willing to fight western wars against the Chinese without a deep understanding of the economic and political issues at play. The question that should be asked no is why suddenly is the West so concerned about Chinese investors in Africa when the West has not only failed to invest in Africa, but has exploited the African continent for centuries. It is the West that has been singularly responsible for the worst exploitation ever visited on a people-slavery and colonialism. It is condescending and patronizing in the extreme to suggest that Africans cannot deal with the Chinese as equals and on their own terms, and that somehow Africans need the ‘wisdom’ of the West for protection against the Chinese dragon? In the meantime the West benefits from Asian investment. The Chinese have literally lent over a trillion dollars to the United States through purchasing treasury bills. Recently Indian investor Mittal Steel bought for $25.3 billion the Luxembourg steel maker Arcelor.

This author’s view is that Chinese investment in Africa is a positive and welcome development. Most assuredly, like with any investment, there are bound to be problems but that is the reason countries have governments; to ensure that the interests of the citizenry are protected from any investor irrespective of their origin. There are many reasons why Chinese investment is important for Zambia.

A recent World Bank report (2007) authored by Tanzanian economist Benno Ndulu observed that Africa has been losing the battle against poverty in comparison to the rest of the world. With the region hosting 10% of the world’s population but a staggering 30% of the
world’s poor, the challenges facing the region are enormous but not insurmountable according to the Report. It further observed that African countries missed out on two decades of global growth and that while other countries have made strides in addressing poverty, the reverse has occurred in Africa. In addition, the Report explained that Asian countries’ growth has not only been meteoric but steady. In contrast, each country in Africa has had spurts of rapid growth (in 1960s and 70s) and then between 1975 and 1975 many of them have decelerated. The percentage of the population classified as living in extreme poverty was 36% in 1970 but reached 50% by the end of the century. These sobering statistics should propel us into urgent action to reverse the situation.

One of the factors affecting development in Zambia as elsewhere in Africa is the availability of capital. Economic development is achieved through the productive employment of labor and the full utilization of natural resources. The productive employment of labor presupposes an increase of the general level of education and the acquisition of technical skills, and, the formation of a body of capable administrators and entrepreneurs. For the utilization of natural resources, on the other hand, a number of basic facilities are needed, such as roads, railways, harnessing of electric power and other forms of energy. For example Africa is facing serious power shortages partly because it beging to develop which increases the demand for electricity. A recent New York Times article observed that the gravity of sub-Saharan power shortage is all the more apparent considering how little electricity sub-Saharan Africa has to begin with. Excluding South Africa, whose economy and power consumption dwarf other nations, the regions remaining 700 million citizens have access to roughly as much electricity as do 38 million citizens of Poland. In the past, especially in the 19th century foreign capital contributed greatly to the economic development of several countries including the United States. Foreign capital continues to play a significant role in countries, including China, that have made tremedous achievements in economic development.
Capital is very scarce in Zambia. This observation is valid with regard to domestic as well as foreign capital. Zambia attracts less foreign investments that the majority of the SADC countries including: Botswana, Tanzania, Namibia, and Angola. A conglomeration of particular factors affects both the volume and the direction of available savings and capital. The high level of consumption is a direct consequence of the low incomes of the majority of the population. Among international investors Africa has always been an area of minimal interest but Africa became even more marginalized in the 1980s. For example, an UCTADs report(204) on Foreign Investment by Region in Developing Countries Inflows and Outflows shows that Africa by far attracted the least investment in the world. The figures for 2004 are: Asia 59%; Latin America 29% and Africa 8%. Contrast this to outlays by foreign direct investors to acquire and establish business enterprises in the United States, directly or through existing U.S. affiliates, which increased 80 percent in 1994, to $47.2 billion (Survey of Current Business, May 95). Foreign direct investment (FDI) poured into China at record levels in 2004, totaling more than $153 billion in new agreements. The five countries leading the investment were Hong Kong, followed by the British Virgin Islands, South Korea, Japan, and the US (US investment in China ranked fifth, at nearly $4 billion). (US-China Business Council -USCBC). Why should Chinese investment be beneficial for other areas and countries of the world but not Africa?

In order for Zambia to overcome poverty and continue on its way to development several steps have to be taken. Zambia must: (a) improve the investment climate, which is essential to reducing the capital deficit; (b) invest heavily in infrastructure with particular emphasis on transportation and energy; and, (c) improve competitiveness of Zambia goods and add value to raw materials produced in Zambia. A key to increase competitiveness in a global knowledge based economy is innovations through the applications of and advances in science and technology and investment in higher education. The attraction of Chinese investment is its potential to address key constraints on development in Zambia. Inflows of Chinese investment bring in the
much needed capital. Zambians must remember that investment will only come to a country which provides an economic and political climate that is conducive to profit and in which it is relatively easy to conduct business. To create such a climate means addressing questions of efficiency in the economy.

In acknowledging the importance of foreign investment to economic development one is not underplaying the role of domestic capital and local entrepreneurs. I too would very much prefer prefer local investors to foreign investors where local investors are available. As far as I know the Zambian government does not prefer foreign capital to local capital. It should do more to create local capacity through provision of loans and training. But the government finds itself in a chicken and egg situation. The Government’s ability to create local capacity is handicapped by its limited revenue base. This means that it must do both, improve the capacity of local entrepreneurs and attract foreign investment. The reality is that there is a shortage of local capital in Zambia and in Africa. Unfortunately, experience has shown that the majority of our local capitalist are individuals of very limited means and often the money they possess is acquired through primitive accumulation from the state. One has only to read the recent London High Court judgment in Zambia vs. Donegal Limited case to realize that our capitalists, except for a few, are individuals who actually engage in stealing the meagre resources available to the Zambia government thereby undermining the government’s ability to build capacity for local entrepreneurs. Zambia needs capital which is able to develop energy resources and basic infrastructure so that the living standards of Zambians can be elevated. Zambia also needs investment which will increase the tax base of the government so that it can make the much needed social investments in hospitals and education for our people and improve their quality of life...
As I acknowledged at the beginning of my essay, there are problems associated with foreign investment both Chinese and Western. They include exploitation of workers through the payment of low wages; unsatisfactory working conditions such as those relating to the health and safety of workers; damage to the environment; and, investment in sectors that do not add value to the raw materials obtained in the country. These are problems that arise regardless of the race or origins of the investor. What is needed is to strengthen the legislative framework and the government institutions such as the Environmental Council, Labor Department and Factory Safety to enable them to deal with these problems effectively and proactively. People everywhere in the world elect governments to do that. There must be a realization and an awareness that investors are not philanthropists driven by a moral code. They are typically large organizations each with its own set of goals and objectives, motivated by profit, strategic interests, both national and corporate. . .

Permit me to congratulate President Levy Mwanawasa, Minister Mangande and the Zambian government for taking the most enlightened approach on Chinese investments in Zambia. Foreign investment should be encouraged in Zambia. Zambians must realize that the final criterion for an investment climate depends primarily on the political and legal security of the country. Investors are not reasonably certain of the future of investments in view of conflicting statements with respect to the role of private investment in the economy. This situation is worsened by the naïve but frequent pronouncements by populist politicians equating any form of foreign investment solely with profit and exploitation. There is need to convince investors that there is little or no possibility of the creation of an unfavorable legal situation at a later date which will be harmful to their investments. In general, the special responsibility of the Government in this area is to create a favorable political climate and to perpetuate an atmosphere of trust between itself and investors. It can only do this by committing itself to the future, to promise with reasonable credibility that arbitrary measures are not going to be taken once an
investor has established his or her operations. Also, that existing measures and agreements will continue to be respected or that should changes be desired, investors will be compensated for any loss due to such changes. In short, investors have to be assured that they will receive, today and in future, legally defined and controlled treatment specified in relevant legal instruments.

In conclusion I would like to say that rather than championing the fight of others, Zambia should leverage and strategically structure itself to benefit from the emerging Sino-Africa relations/collaborations. China and a number of other Asian countries have accumulated huge reserves which we can tap for investments (China-$1.3 trillion; Hong Kong-$136.3 billion; India-211.7 billion). It is prudent to note here that even the much heralded high copper prices are a result of increased demand from China. China has now surpassed the United States as the world’s leading importer of copper. This symbiotic relationship is beneficial for both China and Zambia. Part of the problem with our politics is that they are governed by a reaction to the previous condition. The result is that people are overlay nationalistic to the detriment of rational decision making. Issues are often analyzed in the context of colonial rule and racism. Lessons learnt and strength gained are abandoned and people seek explanation for everything in colonial rule and conspiracies – the proverbial civil servant hiding under a desk in Washington DC pulling strings-much like puppet strings- to manipulate African countries. We give far too much credit to the United States ability to control the world and the idea that the US government is always thinks as one. The United States cannot always have their way.

To end, it is appropriate to quote Iya (1999): “it has to be realized that nothing would be sufficient to rehabilitate Africa unless Africans first acknowledges its problems, develops a sufficient understanding of the problems, and express a desire and unwavering will to solve them.” China is source of the much needed capital which in partnership with African states might very well turn the tables of development in Africa. Chinese own development is phenomenal. It is the only country that has reduced poverty by the largest of margins in recent times. To
countries in the West worried about Chinese intrusion into what was once primarily ‘theirs’, I would say, it is now too late. Africa has discovered the best kept secret in the world and is poised to take full advantage of that discovery.