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China's Special Economic Zones: A Bright Future for Africa?

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Contents

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Editorial

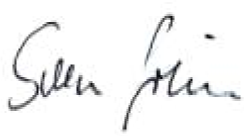
Dear Reader,

In September, African eyes were focused on Zambia with its Presidential election – and the subsequent victory of Michael Sata. The country is seen as a sort of hotbed for China-Africa relations, as there is a longstanding partnership between the two countries, dating back to the 1960s, and there is substantial Chinese investment in Zambia at various levels. Sata is generally seen as a China-critic. Consequently, Michael Sata hit the headlines, and it is worth looking into his rhetoric and often populist claims with caution; a CCS commentary on our website explores if Sata will be a problem to China in the future and how China should react.

Zambia is, however, also the illustration of a more structural issue in China-Africa relations. A special interest of researchers is in the Zambian Copper belt and Lusaka, locations of a so-called Chinese Special Economic Zone (SEZs). SEZ is an acronym to capture dreams in Africa. Particularly the city of Shenzhen in China stands as synonymous with a successful special economic zone. Rapid growth over the last 30 years has made Shenzhen a glitzy, modern city with 9 million inhabitants and an international trade hub, where there previously was little but agricultural areas. We are privileged to have a piece by our colleagues in Shenzhen's *China Centre for Special Economic Zone Research* in this China Monitor, which explores the pathway and takes an account of current challenges for Shenzhen. The breath-taking boom in Shenzhen, they argue, has to do with a strategic location near Hong Kong and Guangzhou, and with structural reforms, some of which hard decisions and demanding much of the population and the environment. From this exciting insight, SEZs seem much less as a ready-made toolbox model to export. Much rather, we see work in progress and continuous adjustments to current stages of development and to new challenges.

Our second piece by Philip Giannecchini is exploring the current state of Chinese-led SEZs in Africa, looking into the current state of affairs in Chambishi (Zambia), Lekki (Nigeria) and Ethiopia. While there is much attention from official China and an apparent will to make the SEZs a success, the author warns of too high expectations and outlines some of the obstacles that will have to be addressed on the way if success is to come. SEZs might not be the silver bullet to Africa's development challenges, but they might work as a magnifying lens for policy makers. In the interest of Africa to make these zones a success.

Yours sincerely,



Dr. Sven Grimm

Director, Centre for Chinese Studies

Policy Watch

The Development of the Shenzhen Special Economic Zone in China

By YUAN Yiming et al[1]

China Centre for Special Economic Zone Research, Shenzhen University, China

This is an edited summary of a longer paper. The full version can be obtained by contacting the author.

Foreword

Shenzhen is located on the frontier of the Pearl River Delta and forms a link and bridge between Hong Kong and mainland China. Shenzhen's SEZ has been serving as China's "window" and "trial field" ever since the nation's opening up to the world. The Shenzhen Special Economic Zone (SEZ) was the first such zone to be founded during the earliest period of modern China's reform. On 6 August 1980, the National People's Congress Standing Committee authorized an area of 327.5 square kilometers to be designated as an experimental economic zone. The consequent promulgation of "The Economic Zone Ordinance in Guangdong Province" marked the formal foundation of the Shenzhen SEZ.

It has been the great passion, creativity, initiative, and diligence of Shenzhen's people that has enabled the city to take the lead in the implementation of land-use rights sales, stock-exchange system reform, personnel system reform, and minimizing administrative approval procedures. In 2007, the comprehensive municipal competitiveness of Shenzhen ranked first among the mainland cities of China.[1]

Shenzhen's GDP reached 780.65 billion Yuan in 2008, a 12.1% increase over the previous year. The city's total economic output is equivalent to a medium-sized province in China and ranks fourth among the major cities nationwide. Shenzhen has become one of China's most productive cities, rising from a GDP per capita of 606 Yuan in 1979 to rank first by 2008 with 89,814 Yuan per capita. In terms of international trade value, Shenzhen has topped all China's cities for the last 16 consecutive years and has ranked fourth globally for 11 consecutive years as an international container port.

Shenzhen has developed into an important transport hub for the coast of Southern China and occupies an important economic position with respect to high-tech industries, financial services, exports, and maritime transport services. In the coming years, the city will still play an experimental and modeling role in a number of aspects of China's in-depth systemic reform and ever wider opening up to world trade.

"Shenzhen's SEZ has been serving as China's 'window' and 'trial field' ever since the nation's opening up to the world."

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Development Achievements

After 29 years of construction and development, Shenzhen has developed into one of China's most important high-tech R&D and manufacturing bases. It is now the world's fourth largest container port, has the fourth largest airport, and enjoys the fourth largest tourism numbers among China's cities.

At the end of 2008, Shenzhen's GDP reached USD780.65 billion, with an annual growth rate of 12.1%. Total imports and exports in 2007 amounted to USD287.5 billion and were growing at a rate of 21.1% per annum. Exports comprised USD168.5 billion and were increasing 23.8% each year. And, even when faced with the impact of the global financial crisis of 2008, Shenzhen's total imports and exports still amounted to USD299.95 billion and continued growing by 4.3% each year. The exports then totaled USD179.7 billion. With its total economic output ranking fourth in the whole nation, Shenzhen has become one of the most productive cities on the mainland. Its population reached 8.5 million in 2008 and its per capita income had become the highest in China.

Development Stages

From the perspective of economic system reform, the 30 years of Shenzhen SEZ can be divided into the following 4 stages:

1. **The Monomial Breakthrough stage**

This stage lasted about 5 years, from 1980 to 1985, and featured partial reform and breakthrough in limited areas. In this stage, the Shenzhen municipal government focused mainly on the reform in the infrastructure construction management system and the pricing system, the two areas that were heavily influenced by the planned economy system and seriously restricted the development of SEZ.

2. **Comprehensive reform stage**

Between 1986 and 1991, Shenzhen SEZ adjusted her policies for investment and industrial technology. Shenzhen carried out a series of measures in such fields as establishing market system, enterprise contract system, shareholding system, property rights transfer, bankruptcy, financing, banking, taxation, international trade, foreign exchange, state-owned assets management, land use system and housing system.

3. **The Stage of Establishing Market System Framework**

During the five-year period from 1992 to 1997, Shenzhen municipal government put forward a series of institutional reforms:

- Project Bidding
- The New Policies for Foreign-funded Enterprises
- The Innovation of Labor, Wage and Endowment System
- The establishment of modern public utility management system
- Reform on State-owned Enterprises

4. **Thorough Reform Stage**

Ever since 1997, the country's reform and opening up has entered a new historical period. The remarkable economic growth in China has significantly improved per capita income. Shenzhen continued to deepen its ongoing institutional restructuring.

"The Shenzhen SEZ came into being at a critical moment of China's reform and opening up to the world."

Roles of the Government

The Shenzhen SEZ came into being at a critical moment of China's reform and opening up to the world. As would be expected, the Central Government played a leading role in authorizing such SEZs and the associated power decentralization. The Guangdong Provincial Government was also prominent in putting forward the demand for such a SEZ, taking the initiative in its planning, and playing an assisting role in its establishment. Moreover, the Shenzhen Municipal Government has had a key part in the reform by emancipating the minds of officials and showing great courage in leading the creation of numerous "firsts" in the reform process of the whole nation.

Difficulties and Recommendations

1. **The diminishing effect of institutional reform**

The Shenzhen SEZ is the result of China's pursuit of change that involves moving away from a planned economic system towards one dominated by market forces. It is the product of the required systemic adjustments and an integral part of China's step-by-step reform strategy. In the beginning, under the circumstances of the traditional planned system, the newly established market economy increased the economic incentive of the people significantly. For a certain period of time, Shenzhen enjoyed the positive effects of the institutional reform that brought with it the impact of the "sudden" acceleration of inspiration and incentive that flowed from the new market system. However, as the market economy used by the firms in the SEZ gradually became entrenched, this "sudden" impact took on a decreasing trend. In the process, the attraction of investment and talent, the tempo of trading, and other aspects of economic activity have been negatively affected.

2. **Increasing resources constraints**

Resources availability is an important factor in economic development. In any economic planning, resource scarcity is a basic assumption. With the development of the SEZs and the associated increase of urban populations, this scarcity of resources has become increasingly noticeable. Ever more pressure is placed on the natural environment as a consequence and this threatens the sustainable development of the economy. Although scientific and technological progress can improve the level of effectiveness in the utilization of natural resources, the problem of resource constraints remains largely unsolved. Moreover, environmental awareness and other pertinent environmental concerns have gradually expanded and deepened in the public's mind. The shortages that are manifested in the gap between supply and demand in relation to land, water, electricity, and other resources have become increasingly apparent. Resources shortage effects have, as a consequence, already become a handicap for the further development of the SEZs.

3. **Unsustainable development patterns**

In the early 1980s, China put forward the idea that the mode of its economic development should be transformed from extensive to intensive. In 2005, the shift from an extensive economy to an intensive economy was again listed as the most severe challenge and the most urgent task for the economic development projections specified in the 11th Five Year Plan. In Shenzhen, the rapid development of the economy in its early stages mainly depended on the driving force of small and medium-sized capital investments. Later, the city's capacity to accumulate funds entered a period of decreasing trend that posed a direct threat to

"The establishment of the SEZs and their mission have followed the trend as new problems emerge in the process of China's economic development."

its capital growth and economic development. After the 1990s, its average capital accumulation growth rate was only 36% and thus lower than the 38% of Guangdong Province and also significantly lower than the rates in Beijing, Tianjin, and Shanghai that had reached almost 50%. The extensive use of resources and the slowing down of the capital growth rate in Shenzhen were effectively calls for a shift to an intensive growth mode.

The Future of the SEZs

During China's three decades of reform and its opening up to the world, the nation's economy has successfully maintained its astonishing growth rate. Today, the basic framework of the market economy has been established across the whole country. However, because of China's special conditions, problems such as imbalances in the pace of reform, information asymmetries, and immature reform procedures still exist. This has left the market economy system far from perfection and signals that the mission of the SEZs as "experimental fields" for economic reform has not yet been fully accomplished.

The establishment of the SEZs and their mission has followed the trend as new problems emerge in the process of China's economic development. The Pudong New Area was established in Shanghai to serve as the engine and major driving force of development in the relevant regions, including the Yangtze River Delta, and even across the whole country. Similarly, the Tianjin Binhai New Area was launched under the new conditions of China's integration into the process of economic globalization. This demanded a new development strategy that involved integrated planning for land use, the effective designing of global logistics, and the establishment of the required human resources and information flows. China established the Chongqing, Wuhan, Changsha, Zhuzhou, and Xiangtan triangle areas as experimental areas for national urban and rural coordination and the associated comprehensive reform. This now serves as the major strategy for China's promotion of the development of the central and western parts of the country. Such areas are also regarded as the test fields for building an harmonious society by applying a scientific development concept. In the processes of modernization, China may encounter ever more problems. As the most important experimental field of economic development, the larger the role the Shenzhen SEZ is able to play, the more opportunities the city will enjoy.

China's reform began with changes to its economic institutions. A market economy requires a well-functioning legal system, with the market's invisible hand being efficient because of assurances of fair competition and balanced interest incentives. This kind of economic system also calls for a suitable political environment and it is for this reason that reform of the political system plays such a vital role in promoting China's economic development. the SEZs are surely serving as the most appropriate test fields for such reform. This new task for Shenzhen and other SEZs grants them new development opportunities at the same time.

Recommendations

1. **Creating new reform incentives for local government**

Institutional reform is the key factor that has led to the success of the Shenzhen SEZ. Local government has been an important player in the required institutional reform for such success. As a consequence, it is apparent that the incentives provided to the government have served as the original generating forces of the reform program and have later become the driving forces for economic development. This is the major reason why the Shenzhen SEZ has become the most successful

"Institutional reform is the key factor that has led to the success of the Shenzhen SEZ."

SEZ in China. In the future, this logic of success will continue to hold. The major condition for the Shenzhen SEZ continuing to take the lead in social and economic development and for its capacity to perfect its functions in the next 10 or 15 years during this crucial period of China's modernization remains ever the same, namely institutional reform. Only if Shenzhen carries on with its in-depth reform and opening up further to the world in the process of building up a well functioning market mechanism can the city maintain its established front-runner role in China. One precondition for this is to create more incentives for the government.

2. Adjusting the reform focus in experimentation

At this stage, it is also of great importance to launch the required administrative reform in order to ensure the formation of a highly efficient and flexible system of administration that is consistent with the demands of economic development and the burgeoning market economic system.

At present, the administrative bodies of the SEZs are relatively large. The coordination of different departments has become ever more difficult and this has resulted in lower efficiency. It is evident, therefore, that the change of government functions has not yet been effectively implemented and there is still much unnecessary administrative intervention in economic activities. These problems have impeded the effective implementation of preferential policies. Reforming the government management system by learning from international experiences so as to ensure that the economy develops sustainably, rapidly, and healthily has become an urgent mission.

3. Changing the objective from growth to development

In the past 30 years, China's economic growth has always been the top priority. As the major target, this has been well accomplished by means of introducing foreign capital, advanced management techniques, and high-level technology. In recent years, industries relying on domestic investment have experienced rapid development. However, as their comparative advantages have slowly faded away and factor supplies have decreased, the conflicts between social development and economic development, between income generation and environmental degradation, and between economic growth and unequal income distribution outcomes are becoming more severe than ever. There is no doubt that in the coming years of the development process, these aspects should be taken into account, which indicates that the main objective has to be shifted from solely pursuing economic growth to a wider one that encompasses concerns for social development. If this transformation is successfully achieved, then a new development path consistent with given constraints can surely be worked out. Thus, this new route for China's further development in the new era will need to be adhered to by Shenzhen.

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Commentary

Chinese Special Economic Zones in Africa

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In 2006, at the Forum on China-Africa Cooperation (FOCAC) meeting in Beijing, the *Programme for China-Africa Cooperation in Economic and Social Development* was launched, in which China agreed to share with African countries its experience in the field of investment promotion relating to the establishment and management of special economic zones (SEZs). Soon after, numerous Chinese private enterprises vied to win the approval of China's Ministry of Commerce (MOFCOM) to develop zones in parts of Africa where they had identified unrealised economic potential. Following two rounds of tenders in 2006 and 2007, MOFCOM approved proposals for the development of seven SEZs in six African countries: one each in Algeria, Egypt, Ethiopia, Mauritius and Zambia (located in the Copperbelt region with a sub-section in the capital, Lusaka), and two in Nigeria (one near Lagos and the other in the Ogun region).[1] Since then however, development of the zone in Algeria has been suspended due to changes in the country's foreign investment laws.

The remaining six zones differ in size, structure and objectives with some proposed sites as big as small cities, whilst others are just a few square kilometres. Equally, some are to be developed through joint Chinese-African ventures, while others are 100% Chinese owned. Both Beijing and the various African host governments have marketed the zones as a "model" for future collaboration between China and the continent. Their success or otherwise, and the processes engendered by the various projects within the SEZ ambit are thus of crucial importance. Not only will the outcome of these endeavours greatly influence future Chinese commercial diplomacy, but it will also influence the activities of other actors, especially the United States and the European Union, which also have a stake in African economics, resources and security issues.

Characteristics of SEZs

The term "Special Economic Zone" is a blanket nomenclature used to describe a variety of economic structures including, but not limited to, Free Trade Zones (FTZs), Export Processing Zones (EPZs), Industrial Zones and Freeports. These are best understood as spatially-defined geographic areas designed and created to attract foreign investment by providing favourable (i.e. more free-market orientated) economic and commercial policies along with quality infrastructure intended to lower transaction costs for investors and facilitate streamlined operations. In short, SEZs are "special" because of the business environment which they are supposed to provide.[2] Usually taking over a decade to mature, and with objectives and priorities changing as they develop, SEZs are long-term orientated projects and are evolutionary by nature. The usual evolution is characterised by a shift in focus from

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attracting foreign direct investment (FDI) to technology upgrading and increased domestic private investment. The methods employed to achieve these objectives – including, but not limited to, incentives and special policies – are adjusted where necessary to meet the changing demands of the investors, the hosts, and the global economic climate. Utilised effectively, successes are popularised and up-scaled whilst failures are discarded and lessons are learned. SEZs represent a kind of testing ground; an incubator of ideas and policies designed and implemented to tap into comparative advantages in host economies. At least this is the ideal. Very often however, particularly in Africa, SEZs have failed to reach maturity or to have the desired catalytic impact on economic development, instead stagnating and becoming financial burdens. The Dakar Free Zone in Senegal, along with several SEZ projects in Namibia and Liberia are just a few examples.

What's new about these Chinese zones?

With the exception of a handful of cases (Mauritius being the most notable exception) SEZs have not succeeded in Africa. This begs the question: do SEZs work in the African context? According to a recent study by Thomas Farole of the World Bank, '[c]ountry context is likely to be critical in the outcomes of any SEZ program, so it may be implementation rather than policy and design that is the most critical factor in determining the success of an SEZ program[me].'[3] In China, unlike in most African countries, the SEZ model was implemented within a very specific political and economic context where the state was able to "direct" development and the political will existed which was necessary to see SEZ initiatives to successful fruition. Unfortunately, poor infrastructure inside and outside the zones, limited political support and significant planning shortfalls have rendered many SEZ endeavours in Africa ineffective. However, apparent in the framework of the MOFCOM approved zones are certain elements, most notably the prominence of private enterprises, which may see these zones succeed where others have failed.

The zones are all private initiatives designed and developed based on business feasibility and shrewd profit calculations, in which private enterprises, not government bodies, are at the helm. The Chinese government (mainly through its embassies in the various host countries) provide guidance and support but they do not get involved in the business side of the projects – this is left to the developers. Likewise, the local and central governments in the host African countries act as facilitators and regulators, but leave the zone operations to the companies developing and managing the zones. While consensus does not exist in the public versus private debate regarding SEZ initiatives, African governments hosting the MOFCOM approved zones believe that having private enterprises in charge of the planning, implementation and operation of the zones has advantages that public-led initiatives are unable to realise. One senior official at the Ethio-Chinese Bilateral Commission in Addis Ababa summed up the expectations of the African hosts: 'the [Ethiopian] government hopes that the zone developers and those investing in the zone will be less vulnerable than our companies, and that they will be in a better position to access global markets and capital. They will also have the know-how which we simply don't have.'[4] Indeed, capitalising on the strengths of private enterprises developing and investing in the zones – experience and knowledge of the global markets, quality operating procedures and modern technology – may position the MOFCOM approved zones to succeed where many public-led SEZ programmes in Africa have fallen short.

"The zones are all private initiatives designed and developed based on business feasibility and shrewd profit calculations, in which private enterprises, not government bodies, are at the helm."

Potential benefits

The planning, resolution and execution of the SEZ initiatives groups a number of agents and stake-holders, such as central governments in Africa and China, local

governments in the host countries, national investment promotion agencies, private businesses, interest groups and local communities, each with their own agendas and expectations. Aside from potential tax revenue, host African governments hope the SEZs will attract significant private investment, particularly foreign direct investment (FDI), and open up new investment opportunities by providing lower transaction costs and better infrastructure – two factors currently impeding investment on the continent as a whole. SEZs are also expected to contribute to other key policy areas in the long-term, including the development of a stronger domestic business community, international competitiveness, wider regional economic integration, and industrialisation.

Initiatives such as the African SEZs also fit into Beijing's long-term orientated strategy on the continent, which includes securing access to markets, acquiring resources and cultivating political influence. Indeed, the fact that President Hu Jintao attended the opening ceremony of the Zambia-China Economic and Trade Cooperation Zone in Chambishi, and that MOFCOM sent a delegation to audit the accounts of the Lekki Free Trade Zone Company (the joint Chinese-Nigerian venture set up to develop, operate and manage the Lekki Free Trade Zone) is evidence of the importance that officials in Beijing attach to the SEZ programmes.

The Chinese enterprises developing the zones seek to gain competitive advantages in their trading networks (access to new markets and specialised national or regional inputs) and establish a foothold in areas outside of China, where growing a business is fraught with difficulties and fierce competition. They also hope to make money from renting out work space and facilities to companies setting up inside their zones. In return, the investors will get access to quality value-added services, allowing them to focus on operations rather than time consuming and difficult behind-the-scenes issues, and also use of high-quality infrastructure, reducing operational costs and increasing productivity.[5] These attractions, coupled with rising land and labour costs in China, make destinations in African SEZs attractive to Chinese private enterprises. Moreover, companies looking to mitigate the risk of investing in Africa will likely regard the SEZs, with ready to use high class infrastructure, a healthier investment climate and under Chinese management, to be a safer investment destination than areas outside the zones.

So how will the local population benefit from the zones? During interviews with people living in, or close to, the areas where zones are being constructed in Ethiopia, Zambia and Nigeria (Lekki) the following two concerns were common: will this investment translate into employment opportunities and how will they contribute to a better quality of life? At the moment employment generation is the main tangible benefit for local communities, with improvements in physical infrastructure more apparent as the zones develop.[6] However, not everyone in the local workforce is able or willing to make a smooth transition from their current employment to the jobs which are (and will be) available in the different zones. For example, in Nigeria where a proposed 30 square kilometre zone is being constructed in the Lekki peninsula, a significant number of the local community who are being forced to relocate from their land, live a life orientated around fishing, which includes the worship of river deities. Not only do they feel that they have been poorly treated and under-compensated, but they also see little opportunity for them to access the jobs created by the zone, as they are lacking in the necessary skills required by prospective employers. Consequently, those forced to re-locate feel that rather than improving their quality of life, the SEZ has made it far worse. Similarly, in Zambia and Ethiopia, issues concerning the obstacles impeding domestic investment in the zones have led some to voice concern that rather than being initiatives targeted at

The Chinese enterprises developing the zones seek to gain competitive advantages in their trading networks.”

assisting African development, the SEZs are designed to rather facilitate the expansion of Chinese private enterprises into Africa.[7] Whilst investment in the zones is not restricted to only Chinese or foreign companies, high minimum investment criteria in the Zambian and Ethiopian zones impedes any meaningful involvement of the local business communities. Consequently, in Zambia, only foreign companies are currently investing in the zone, and in Ethiopia all the companies presently setting up operations within the gates of the zone are Chinese.

For the local community to garner the dynamic, long-term benefits which SEZs generate – such as the transfer of technology and knowledge – relies on their involvement beyond low-level employment. The FOCAC action plan released after the 2009 meeting in Sharm el-Sheik included a pledge by African governments and the Chinese government to 'provide facilitation to African small and medium-sized enterprises (SMEs) to develop their business in the zones'.[8] Yet despite this, and the US$1 billion earmarked by Beijing to support African SMEs, the prospects of increased domestic involvement in the zones beyond lower skilled employment and the supply of raw materials remain, for the time being at least, quite low. After all, SEZs rely on enterprises investing that have the capacity and experience to foster innovation and competition whilst at the same time withstand market shocks and financial slumps. Most domestic companies in the host African countries which might benefit from investing in the zones do not yet fall into this category. Therefore, rather than investing in the zones directly, locally-owned business communities located where the zones are being developed should be encouraged to establish and maintain supply links with the companies investing directly in the zones.[9] Unfortunately, as a recent article by Deborah Brautigam and Tang Xiaoyang points out, 'there is no evidence that any of the host governments have made efforts to develop supplier programmes and other close links between the domestic private sector and the zones.'[10] Thus, opportunities for technology and knowledge transfer remain low.

Obstacles

Critical obstacles are still to be overcome by a number of the MOFCOM approved SEZs in Africa; most notably the absence of a strong investment climate. Levels of investment risk and the cost of doing business (determined by the quality of soft and hard infrastructure) in Africa remain amongst the highest in the world. In addition to a favourable political climate, which includes a capable and efficient government, the outcome of any SEZ project is determined by the investment and business climate both inside *and* outside the gates of the zone. A strong business environment within the gates of the zone is undermined if the broader national and regional business environment surrounding the zone is weak. The MOFCOM approved zones may go some way to addressing the *de facto* shortfalls on the ground, but the effect will be limited if the overall investment climate in the host countries and regions remains weak, and zone development will likely be impeded by issues of weak governance and poor infrastructure.

"Critical obstacles are still to be overcome by a number of the MOFCOM approved SEZs in Africa; most notably the absence of a strong investment climate."

Conclusion

As well as designing and implementing SEZ programmes appropriate to the host country context, to have the desired catalytic effect on development, SEZs must be made part of a broader and more dynamic national economic development strategy. The zones should not be expected to address all of a country's development needs. Yet used effectively they *may* serve as a testing ground, helping to determine future policy direction, enabling host governments to identify the most efficient way to boost productivity, GDP growth and international competitiveness. In terms of national development, it is the duty of the host African governments to set clear goals

regarding the SEZs and to ensure that those tasked with monitoring and regulating the zones have the capacity to do so effectively and without constraints on finances or personnel. Additionally, to ensure that the benefits of the zones are maximised, host governments must endeavour to identify and implement policies designed to improve the overall national investment climate, and to support increased domestic involvement in the zones.

As the zones develop future analysis should focus on the extent to which these initiatives provide opportunities for the domestic business community and the local population, whether these opportunities are easily accessed, and the extent to which the African business community has the capacity and entrepreneurial skill base to take full advantage of the dynamic benefits stemming from the zones. Doing so will allow identification of the extent to which the SEZ framework is contributing in any meaningful way to poverty reduction and a better quality of life in Africa, and whether or not host countries are best utilising the dynamic potential of SEZs to help generate long-term sustainable development.

End Notes

[1] There are other zones being developed in Africa by Chinese private enterprises outside the *Programme for China-Africa Cooperation in Economic and Social Development* ambit (for example, in Sierra Leone and South Africa), some of which were initiated before MOFCOM held its first round of tenders in 2006.

[2] Thomas Farole (2011), *Special Economic Zones in Africa: Comparing Performance and Learning from Global Experience* (Washington DC: The World Bank).

[3] Ibid, p. 127.

[4] Interview Addis Ababa, February 2011.

[5] Farole, p.218.

[6] In several of the initial feasibility studies conducted by the various Chinese developers some expressed an interest in building health clinics and schools for local communities, but so far they have not started to do this. Moreover, they are not obliged to do so.

[7] Interview Chambishi, September 2010; Interview Addis Ababa, January 2011.

[8] Forum on China-Africa Cooperation (FOCAC) (2009), 'Forum on China-Africa Cooperation Sharm El Sheikh Action Plan (2010–2012)', available at: http://www.focac.org/eng/dsjbzjhy/hywj/t626387.htm

[9] Farole, p. 6.

[10] Deborah Brautigam and Tang Xiaoyang (2011), 'African Shenzhen: China's special economic zones in Africa' in *Journal of Modern African Studies*, Vol. 49 (No. 1), p. 47.

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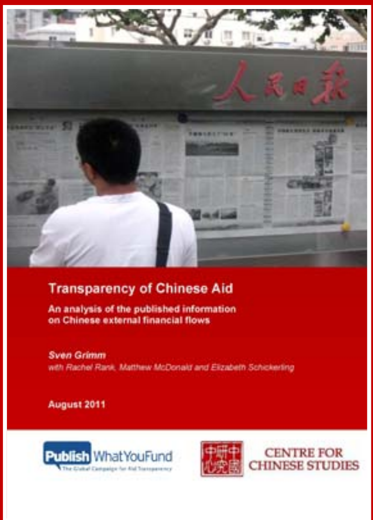


Research Report

Transparency of Chinese Aid: An analysis of the published information on Chinese external financial flows

Sven Grimm
with Rachel Rank, Matthew McDonald and Elizabeth Schickerling

August 2011

The Chinese government publishes less data about its overseas aid spending than western donors, but more than is commonly thought, according to a new report from the campaign group, Publish What You Fund and the Centre for Chinese Studies at Stellenbosch university.

Transparency of Chinese Aid, launched today with a debate at Chatham House in London, highlights the shortcomings of Chinese aid information disclosure. These include the tendency to report aggregate levels rather than country-specific data, the absence of a central monitoring agency, and the lack of impact assessments.

However, the authors conclude that, contrary to general perception, provision of information is evolving fast in China and there is a willingness among the authorities to work with international partners on aid transparency, in particular looking at the technical details involved.

“Aid transparency is essential to enhance overall aid effectiveness and this year is key with the High Level Forum in Korea providing an opportunity to review donors’ progress,” said Karin Christiansen, Director of Publish What You Fund. “As emerging donors like China start to play a more central role in aid provision, it’s important to engage them in a dialogue about transparency and encourage them to increase the information available.”

The report’s purpose is not to provide estimates of the overall aid volumes given by China (which are not systematically reported) but it reproduces figures from a recent Chinese government white paper, China’s Foreign Aid, showing that 45% of all Chinese aid in 2009 went to Africa, 32% to Asia, and 13% to Latin America and the Caribbean. Of this, two fifths was spent on projects conceptualised, planned, financed and delivered by Chinese actors.

The Chinese definition of foreign assistance and aid are different from that used by Western countries, which makes comparison difficult. The Chinese count military spending as aid, but unlike traditional donors, do not include debt relief or the cost of educating foreign students.

According to the recent Chinese government white paper, 11% of their aid goes to upper-middle income or high-income countries and around a third is given to countries with the same or higher income per capita than China. One of the reasons why more country-specific aid information is not published could be to avoid the tricky questions about why China is giving aid to middle-income countries when it still has high levels of domestic poverty.

Others possible reasons for the non-publication of data include defensiveness towards the still-more substantial Western aid donors; irritation with the international community demanding adherence to their standards; desire to avoid competition between recipient countries; and lack of capacity to deal with the statistics. An additional challenge is the number of different ministries and state agencies involved in disbursement of aid.

"Finding information on Chinese aid is like putting together a jigsaw puzzle. This is of course the case with other donors but the missing pieces are larger and less comparable in China," said Sven Grimm, Director of the Centre for Chinese Studies at Stellenbosch University, and the paper's main author. "What this report shows is a mixed picture: some progress but still a long way to go before Chinese aid could be considered truly transparent."

The report makes a number of recommendations for how China could make progress on aid transparency:

- **Initial steps:** Assess, test and develop a publication schedule for aid information that Chinese agencies already hold in line with the emerging best practice standard set out in the International Aid Transparency Initiative.
- **More substantial steps:** Publish existing information already held by these agencies, in line with best practice, and facilitate the dissemination and use of this information, particularly by recipient country governments in the first instance.
- **More ambitious steps:** Build systems to collect data that is not currently held and invest in the accessibility and use of that information in China itself.

The report also notes the responsibility of aid recipients to articulate the demand for increased donor transparency, and provide compatible information about their own budgets.

Attempts by the international community to engage Chinese actors are likely to be best framed in terms of the existing conversations about "South-South Cooperation", according to the paper's authors, rather than via the concept of aid-transparency.

You can download *Transparency of Chinese Aid: An analysis of the published information on Chinese external financial flows* on the CCS website.

Publish What You Fund *is the global campaign for aid transparency, advocating for a significant increase in the availability and accessibility of comprehensive, timely and comparable aid information, with the World Bank, U.S., and EU as our main targets –* ***http://publishwhatyoufund.org/***

The launch of the paper 'The Transparency of Chinese Aid' took place at Chatham House on 14 September at 12:00 – 13.30pm (GMT).

Briefing Round-Up

A Round-Up of all the top stories drawn from our Weekly Briefings over the previous month

Dagong downgrades South Africa's credit rating Chinese credit rating agency Dagong Global recently downgraded the credit rating outlook for South Africa from stable to negative. The country's local and foreign currency sovereign credit ratings remained unchanged at A, the rating agency said. The agency said the move reflects South Africa's slow economic recovery, climbing government debt and rising capital influx through portfolio investments.

Majority voice in Ghanaian Parliament seals $3bn Chinese deal After days of back and forth arguments over the US$3 billion Chinese credit facility to finance infrastructure projects under the Ghana Shared Growth Development Agenda (GSGDA), the deal has finally been sealed, with Parliament approving the controversial Master Facility Agreement (MFA). Despite declaring their support for the intent of the projects contained in the MFA, the Minority Members of Parliament (MPs) abstained from the voice voting, giving the Majority members of the House a field day to approve the loan deal by popular acclamation.

Chinese company to build 5,000 social houses in Angola Five thousand new houses are due to be built in two years in a new neighbourhood of the city of Kilamba, in Angola, via a partnership between the government and China International Fund Limited (CIF), the Minister for Urbanism and Construction, Fernando Fonseca said in Luanda. The project is located three kilometres south of the centre of Kilamba where there are already 3,000 houses. It is part of the Master Plan for the City of Kilamba and will be carried out in an area of 250 hectares.

Dalai Lama applies for visa to South Africa The Dalai Lama, previously barred from South Africa, has applied for a visa to attend Archbishop Emeritus Desmond Tutu's 80th birthday. Tutu has urged the government to grant a visa to the Tibetan spiritual leader this time. The Dalai Lama was barred entry to South Africa in 2009 to ensure ties with key trade partner China were not jeopardized. The Dalai Lama is due to give a lecture as part of events to celebrate Tutu's birthday.

China raises 2015 renewable energy goals: report China will raise development targets for renewable energy such as wind power for the five-year period through 2015, state media reported recently, as the world's top energy user and carbon emitter aims to reduce its reliance on fossil fuels. The country aims to have 100 gigawatts (GW) of on-grid wind power generating capacity by the end of 2015 and to generate 190 billion kilowatt hours (kWh) of wind power annually, the China Securities Journal reported, citing a government plan.

China denies providing weapons to Libya Chinese companies have not provided Libya with any "military products", China's foreign ministry said shortly, after reports of Beijing offering weapons to the ousted Libyan leader Muammar Gaddafi. A newspaper reported shortly that Beijing offered huge stockpiles of weapons to Gaddafi during the final months of his regime and held secret talks on shipping them through Algeria and South Africa. The report said state-controlled Chinese arms companies were ready to sell weapons and ammunition worth at least US$ 200 million to Gaddafi, despite UN sanctions.

World Bank, China may cooperate to transfer manufacturing jobs to Africa The World Bank is in “very early stage” talks on cooperating with China to promote the transfer of low-value manufacturing jobs from the nation to Africa, said Robert Zoellick, head of the Washington-based lender. An expected end to the expansion of China’s labour force and the government’s push for domestic companies to move up the value chain could help shift jobs that would boost employment in sub-Saharan Africa and North Africa.

Nigeria to include Chinese Yuan in foreign exchange reserves Nigeria plans to include the Chinese yuan as part of its foreign exchange reserves, the central bank said recently, a symbolic shift in Africa's largest oil producer and one of its biggest economies. Central Bank governor Lamido Sanusi, said that the Chinese yuan would account for between 5-10% of reserves -- a relatively small amount in Africa's most populous nation.

China, Africa gather to discuss rural development Officials and delegations from China and African countries have gathered at a seminar held in Beijing to discuss rural development and economic growth. The seven-day seminar kicked off shortly, attracting representatives from China and 11 African countries to exchange views and experiences related to the theme of "agriculture and rural development." China has worked on 142 cooperative agricultural projects with 14 African countries to date.

Google gets internet permit renewed by China's government Google Inc., which moved its Chinese search-engine service offshore last year to avoid the country's online censorship rules, said China's government renewed the company's Internet license. "We can confirm that the government has renewed our ICP license," Google said in an e-mailed statement. Google has been losing market share in China's search market to Baidu Inc. since January 2010, when the company said it was no longer willing to comply with China's requirements for Websites to self-censor content.

China welcomes early establishment of interim government in Libya China recently said that it looks forward to the establishment of an interim Libyan government at an early date and a peaceful and orderly regime transition in the war-torn country. "The situation in Libya has changed greatly and the country has entered a key phase toward reconstruction," said Foreign Ministry spokesperson Jiang Yu at a regular press briefing. China appreciates the NTC's promise, Jiang said, adding that "we hope to make joint efforts with the Libyan side to realize a steady and smooth transition and development of the bilateral ties."

Nigeria to overtake South Africa as China's trading partner? Nigeria will soon overtake South Africa as China's biggest trading partner, Nigeria's ambassador to the Peoples' Republic of China, Alhaji Aminu Bashir Wali, recently said. Chinese companies such as China Southern, he stressed, had expressed deep interest in the on-going power project restructuring, in particular in the areas of generation, distribution and marketing with emphasis in the thermal, hydro and coal sectors.

The financial rise of China in Zambia Recently, the Lusaka branch of the Bank of China became the first in Africa to offer renminbi banking services, which means you can now make deposits in the Chinese "people's currency" and even withdraw yuan from the tellers. Qi Wang, the bank's assistant general manager, said the renminbi service was for both Zambian and Chinese businesspeople who wanted to import goods into Zambia and save money on currency conversion.

China ahead of others in race for solar energy Despite efforts by countries like US, India and Britain, China is marching well ahead of all of them when it comes to capturing the solar market, a top American energy official has said. China's solar energy budget still stands roughly 20 times larger than America's investment in the same period. China is now home to five of the 10 largest solar panel manufacturers in the world while only two of them are in the US.

China will expand investment in Europe: Wen Premier Wen Jiabao said China will continue to expand its investment in the eurozone and called on Western countries facing a crippling debt crisis to "put their houses in order". As Europe's struggling economies look to cash-rich China as a possible rescuer, Wen recently urged EU leaders to reciprocate by according the country full market economy status ahead of schedule. Beijing has long demanded that the European Union and United States accord China full market economy status.

US$3 billion Chinese loan agreement illegal The controversial US$3 billion Chinese loan agreement between Ghana and the China Development Bank Corporation has been described as illegal by the Executive Director of the Danquah Institute, Gabby Asare Otchere-Darko, insisting that it breaches the Petroleum Revenue Management Act. Gabby stated the US$3 billion loan facility is a commercial loan divided into two tranches of US$1.5 billion each.

Sourced from: Iol, All Africa.com; BBC, Bloomberg; Engineering News; China Daily; Google; Wall Street Journal, Lusaka Times, Zambia Post; Timeslive; CRI.net; Reuters; Business Week; FT.com; Afrik.com; Xinhuanet

For more of the China Briefings we have collected in the last month, please see our Weekly Briefings, which can be accessed via our website: www.sun.ac.za/ccs

The China Forum - Recent Events

Launch of Report on Transparency of Chinese Aid at Chatham House, London - 14 September 2011

Photo: tieguy.org

CCS Director, Dr. Sven Grimm, attended the launch of the CCS and Publish What You Fund (PWYF) report, *Transparency of Chinese Aid* at London's renowned foreign policy think tank Chatham House (The Royal Institute of International Affairs). The event was co-organised with PWYF, a global campaign for aid transparency, and was attended by around 100 scholars, policy-makers and NGO representatives. The report makes a number of recommendations for how China could make progress on aid transparency. The report also notes the responsibility of aid recipients to articulate the demand for increased donor transparency, and provide compatible information about their own budgets. More details on the report can be found on Page 12 of this issue of The China Monitor.

CCS Director presents at conferences in Cambridge 5-9 September and Hamburg 9-11 September


Photo: Lonely Planet

CCS director Sven Grimm presented two papers at conference in Europe on Chinese engagement in Africa. The first paper is a co-authored piece with CCS affiliate Christine Hackenesch (of the German Development Institute, DIE) on the implication of 'emerging economies' engagement' in Africa for European policy for global development, which will appear as a book chapter in April 2012 in an edited volume on European Policy for Global Development. The Cambridge conference was the annual conference of UACES, the University Association for Contemporary European Studies, hosted by Robinson College of the University of Cambridge.

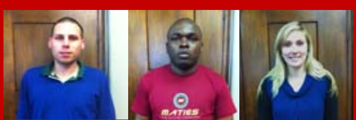
The second conference contribution was to the Poverty Reduction, Equity, and Growth Network (PEGNet) conference 2011 on poor countries, poor people, and the new global players, held in Hamburg, where Dr Grimm discussed the Chinese responsibility for African development on a panel. The contribution in Hamburg was based on a CCS discussion paper of June this year, to be found on the CCS website.

CCS attends Moon Festival celebration at Stellenbosch University - September 2011

Photo: capetravelguide.com

The Confucius Institute and the Post-graduate and International Office at Stellenbosch University recently hosted a celebration of the Chinese Moon Festival at the Sasol Art Museum on the University campus. Guests were treated to poetry readings, song recitals, tai ji and sword dancing demonstrations among other performances, before everyone enjoyed traditional moon cake in the garden of the museum.

CCS welcomes a new visiting scholar and two new Research Assistants


Photos: CCS

The CCS recently welcomed Dutch scholar, Gerard van Bracht to the Centre for a five month stay. Mr. Van Bracht will be researching Chinese immigration in Zambia during his time at the CCS, including a three month research trip to the country.

Marlich Schuld and Wilondja Mubangu, two postgraduate students from Stellenbosch University, were recently appointed as Research Assistants at the CCS. Welcome to the team!

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