

Chinese FDI and Employment Creation in Zambia

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Abstract

Zambia and China have nurtured their relationship that date back more than four decades ago. This paper looks at the effects of the Chinese foreign direct investment (FDI) on the Zambian labour market. China being the major player in Zambia's economy is expected to create jobs for the locals who in turn will improve the economy of the country. It is evident that China has increased its FDI inflow to Zambia in the last decade of which mining and construction sectors have received the lions share. The numbers of jobs created by Chinese FDI have also been increasing steadily in the past 10 years especially in the construction and mining industries. However, the paper does not investigate on the quality of both FDI and jobs.

Keywords: Foreign direct investment (FDI), job creation, developing country, Zambia

1.0 Introduction

Zambia is a sub-Saharan country that has many good attributes to attract foreign direct investment (FDI). Due to its good qualities, Zambia has attracted FDI from the second largest country in the world. In the past three decades, China has shown its tenacity to move from under-development and extreme poverty to an emerging global economic power and one of the largest exporters of manufactured goods which has caught the eyes of many developing countries. China is now being used by many African countries as a development model.

For the last 3 decades, China has developed relationships and increased its interest in investing into many African countries like Nigeria, Egypt, South Africa, Zambia, Ethiopia, and Mauritius. In 2007, China committed a lot of funds to many African countries (Gill & Reilly, 2007, p. 37). The main drivers of these foreign direct investment is profit made in the countries, which are bestowed with abundant rich natural resources. The government of China considers such investments as a win-win situation that promotes economic benefits for the both sides (Gill & Reilly, 2007, p. 45). According to Macdonald (2010) reports, China has emulated this strategy from Japan, which guided China with the first steps of development around 40 years ago

China's resources crisis is amplified by its being the second largest world oil consumer (2003) and third global importer (2004). China is the fifth major oil producer (4.8%) but it provides for less than half of its domestic oil needs, with its oil consumption having doubled in the past decade. China's manufacturing industries consume a lot of base metals (aluminium, iron ore, copper, manganese, lead, zinc). Hence, this increasing need for natural resources naturally makes Africa an attractive destination of Chinese economic interests. African countries are endowed with the most sought natural resources of which they have the 3rd largest oil reserves (9.5% in 2007). South African is the leading producer of platinum (80%). The DRC leads in cobalt (36%) and diamonds (1/3 of total). Other significant producers include Gabon (Manganese), Zambia (copper and iron ore), Zimbabwe (platinum) and Angola (diamonds, copper and iron ore).

1.2 Importance of Foreign Direct Investment

Foreign direct investment (FDI) flows play an important role in the development of the country as it allows it to restructure technologically and economically. FDI encourages the opening up of the market and the change in the market structure. The economy usually moves from being public controlled to private controlled type of enterprises. Portelli and Narula (2006) says that investments help in achieving industrial development through availability of capital, tangible resources and know-how, and China comes with all these changes in a host country.

1.2.1 Drivers of Foreign Direct Investment

Micro-theories and eclectic theory are used to understand the relationship between FDI and Export activity. The rate of return theory hypothesize that FDI is a function of international differences in profits made on capital investments. The studies conducted by Reuber et al. (1973) and Blais (1975) supported the Micro- theories. The traditional capital-flow theory has undergone various modifications. Attempts have been made to add new factors that might make it clearer why direct investments are pursued. One example of such factors may be the different levels of economic development in particular countries and the investment risk stressed by portfolio

theory and the exchange rate exposure of Multinationals (MNs).

Another theory that can serve as an explanation of FDI location decisions is the product life-cycle theory. This is purely formulated on the assumption that each product's life cycle can be broken down into several stages, such as a new product stage (a product is introduced to a market), a mature product stage and a standardised product stage that can develop into a product withdrawal and market exit stage. As the new product reaches maturity, transnational corporations start moving the production outside their home country. Standardised production is massive, which offers economies of scale and scope. When relocation of production to a foreign site is considered, an important location determinant is lower manufacturing costs, especially lower labour costs.

The portfolio theory helps investors to minimize their investment risks. Corporations that have widely dispersed their productive activities have minimal variations in their global profits (cf. Cohen, 1975; and Rugman, 1979)

In reference to Dunning's eclectic OLI paradigm (ownership, localisation, and internalisation), a corporation takes up direct foreign investments when three conditions are met at the same time:

1. The corporation to start the FDI holds ownership advantages over other corporations in the host country;
2. The costs of transferring the ownership advantages abroad are lower within a company's structure (internalisation) than are the costs of selling them or leasing to other firms (externalisation);
3. There are factors that make a given host country more attractive for locating manufacturing processes compared with a company's home country, or other countries willing to receive direct investments. Such factors are:
 - a. market size and its growth prospects;
 - b. labour costs;
 - c. availability of natural resources;
 - d. innovations, new technologies;
 - e. country's political stability and investment risk;
 - f. the government's policy towards foreign investors;
 - g. tariff barriers, the degree of trading freedom allowed between an investor's home country and the host country;
 - h. geographical location and related costs of transport (proximity of major importers);
 - i. technical and economic infrastructure;

1.3 Rationale of the study

Kamwanga and Koyi (2009) undertook a study of China-Africa Investment relation which clearly showed the level of investment China put in Zambia after 1991. After the liberalisation and privatisation of the Zambian economy, China increased its investment to Zambia significantly and to an extent of opening the Bank of China branch in Lusaka.

China's investment tilted heavily to the mining and manufacturing sector where they took over the underperforming mines by providing the state of art machinery.

1.3.1 Objective of the study

The main objectives of this study are:

- I. To determine the level of Foreign Direct investment from China
- II. Assess the jobs created by Chinese FDI in Zambia

1.3.2 Delimitations

This paper will not look at any environmental aspects of the Chinese FDIs in relation to job creation. It will also not look at the quality of jobs created by the Chinese FDI in Zambia.

2.0 Methodology

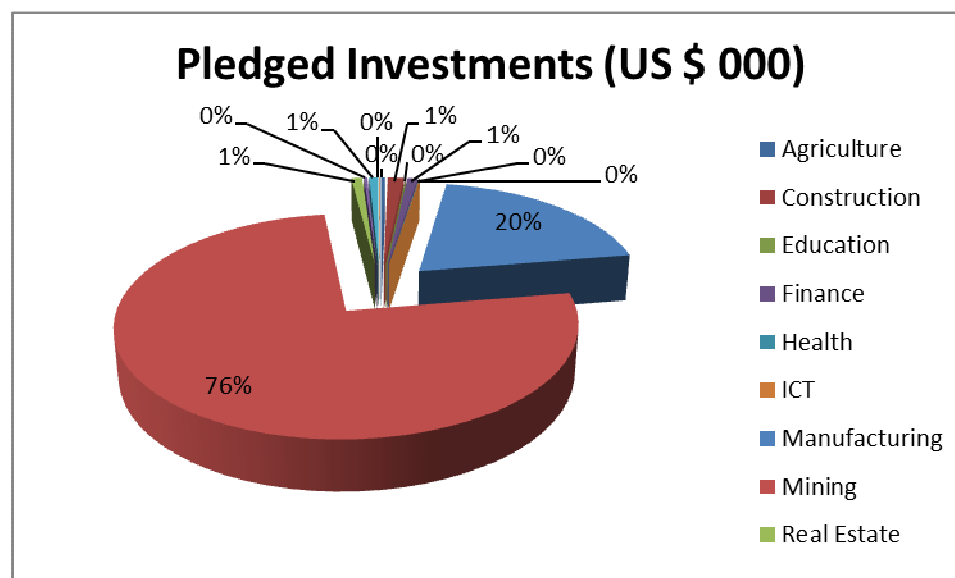
The study looked at the Chinese investments in Zambia for the last 10 years. Only secondary data obtained from the Zambia Development Agency was used. This article is purely descriptive in nature.

3.0 Data Analysis and Discussion

The data below shows the total investments and pledged employment from the People's Republic of China between 2000 and 2012

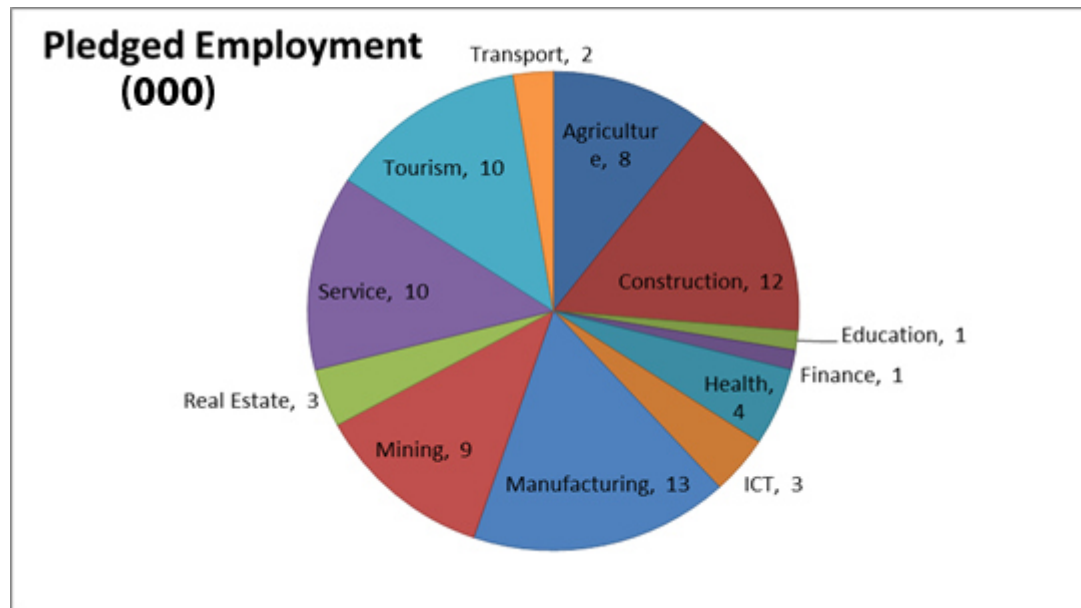
CHINESE INVESTMENT BETWEEN 2000-2012		
Sector	'Pledged Investments (US \$)	'Pledged Employment (000)
Agriculture	34,189,160	8
Construction	125,683,708	12
Education	1,150,000	1
Finance	80,500,000	1
Health	3,439,617	4
ICT	3,495,300	3
Manufacturing	1,838,541,822	13
Mining	7,056,846,823	9
Real Estate	85,257,891	3
Service	27,731,000	10
Tourism	71,141,756	10
Transport	5,425,000	2
Grand Total	9,333,402,077	76

Figure 1: pledged investment sector by sector between 2000 and 2012



Source: Zambia Development Agency

Fig 2: Pledged employment between 2000-2012



Source: Zambia Development Agency

The recent data from Zambia development Agency shows a significant increase in Chinese investment in Zambia especially in the Mining and Manufacturing sectors. In light of the above data, It is clear that Chinese investment in Zambia is resource seeking. Zambia being among the top 5 Copper producers in the world is a target of the mineral resources needed in the Chinese manufacturing industries. Besides, Zambia's political and economic factors are so attractive in the eyes of the Chinese government and corporations. Since its independence child and Zambia have strengthened their bilateral relations. Chinese has invested more than US \$9.3billion with the mining sector receiving 76 percent of this total investment. One would certainly infer from this percentage that China's investment is mainly resource based. The second biggest sector shown in the above statistics is the manufacturing sector which only accounts for a meagre 20 percent of its total FDIs in Zambia. China has set up manufacturing companies in Zambia to supply goods to the surrounding countries. They recently set up HITACH and HIGHER Buses in Zambia to service the entire Southern Africa with Chinese made machinery and vehicles. Good examples of Chinese vehicles that have become popular in Zambia are HIGHER buses and Foton Tipper trucks. Chinese Investments have augmented collective resource inflows into Zambia which has *improved capacity utilization, increased outputs and generated employment opportunities*. The growth of copper production has been quite impressive, and has in turn led to corresponding improvements in exports and earnings. These developments facilitate the attainment of the broader development agenda. However, while the imperative to acquire capital and newer technologies is well established, the Zambian population is youthful and marked by high unemployment levels. A caveat to capital and technological acquisition and transfer is that there must be a balance between the quest to acquire new technology and the need to create new jobs. These industries have to a certain extent created jobs directly and indirectly. China has created a total of 76 000 jobs between 2000 and 2012 with the manufacturing industry accounting for 20 percent of this aggregate number. Construction is second on job creation at 12 percent followed by the Service and Tourism sectors at standing at 10 each and then mining at 9 percent.

Chinese firms took over the Zambian Copper mines after the sudden pull out by Anglo American Corporation. The Western investors left purporting that running these mines did not make economic sense. The acquisition of these closed mines is indicative of the fact that the *Chinese motives are driven by more than purely economic considerations*. One thing to note is that more than 75 percent of investments from China are done by state owned conglomerates. Unlike the western investors who were mainly private companies with a sole motive of maximising profits in the short term. Hence their willingness to high earnings in return for long terms. In achieving their long term objectives, they have adopted survival strategies such as working among themselves to fend off competition. Collusions among Chinese businesses have been reported in Zambia.

The range of infrastructure projects that the Chinese are involved in aptly illustrate the *Chinese approach of combing business and political objectives*. For example Levy Mwanawasa General Hospital and Stadium were constructed using Chinese companies, which are supported by the Chinese state institutions. The increased involvement of the Chinese in the roads construction sector could be reflective of the competitiveness of Chinese

firms, which are reported to provide good quality projects at a price discount of 25 to 50 percent compared to other foreign investors. The Chinese firms are competitive on account of:

- I. lower profit margins
- II. access to much cheaper capital
- III. employment of low-paid staff
- IV. use of Chinese materials
- V. access to hard currency premium paid by the Chinese government
- VI. And Chinese Government provided subsidies.

4.0 Conclusion

China's outward FDI has grown tremendously in the last 10 years and it is largely driven by the need to acquire raw materials for its domestic industries. It is also driven by domestic competition which has led to excess capacity in many key sectors and increasing government support arising from the "going abroad" strategy. The Chinese government has come up with deliberate policies aimed at encouraging outward FDI and Chinese companies to invest abroad. With all these incentives and needs, China has become the largest source of FDI in Africa and Zambia in particular. Zambia on the hand possesses attractive features for foreign investors. The country has experienced peace since its independence and is endowed with mineral resources with Copper being the main export mineral. This has attracted Chinese firms to invest heavily in its mining sector. China has also invested largely in the construction and manufacturing industries. With infrastructure development being a priority area for the Zambian government, the Chinese government has created over 10 000 jobs for the locals who are mainly less skilled. The continued cordial relationship between the two countries is also a recipe for more Chinese investment and job creation. One would certainly conclude that the more the country receives FDIs the more the jobs are created for the local people. Subsequently, the study proposed that the Zambian government should sustain the good relationship with China to continue encouraging more investment from China. FDIs bring in so many benefits to the host country in form of technology transfer and industrial upgrading. This in turn can increase exports for the country and improve the country's Gross Domestic Product.

5.0 Recommendations

A further research should be undertaken to assess the quality of jobs created by Chinese FDI in Zambia especially in the Mining and Construction industry.

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