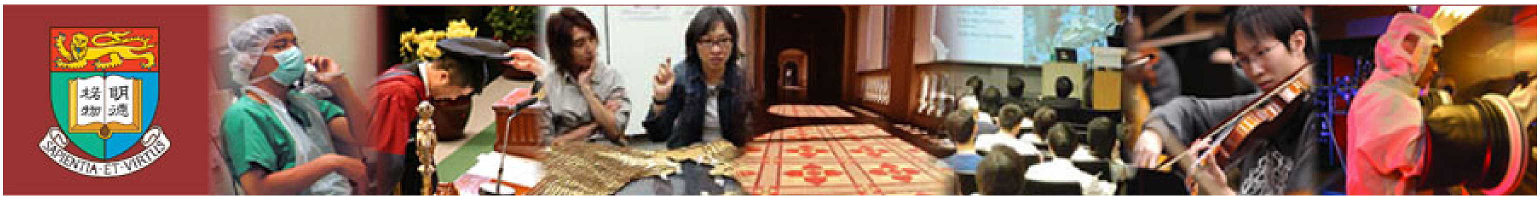

"Policy proposals to select African States to optimize benefits from China's interest and investment in Africa"

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Capstone Project Report submitted in partial fulfillment of the requirements of the Master of International and Public Affairs

Department of Politics and Public Administration

The University of Hong Kong

2016

July 29 | 17,927 Words

DECLARATION

I declare that this Capstone Project Report, entitled "Policy proposals to select African States to optimize benefits from China's interest and investment in Africa" represents our own work, except where due acknowledgement is made, and that it has not been previously included in a thesis, dissertation or report submitted to this University or any other institution for a degree, diploma or other qualification.

Eddie Lam, Geneva Damayanti, Malavika Shanker and Wing Shum Ko

ABSTRACT

The 21st century has been defined by the rise of China as an economic superpower. The intensity of its engagement in the international arena has aroused interest in academia and the media, especially as it relates to its activities in the rest of the developing world. Sino-African relations have been a rapidly increasing area of focus for Chinese political and economic actors since 1990. Studies thus far have largely focused on assessing China's motivations and to highlight the potential for the nation's involvement in Africa to derail international efforts to increase transparency, governance and to foster democracy.

In this paper, we choose instead, to adopt the African perspective. We acknowledge the extensive work published primarily by developmental organizations on the type of political reform necessary in Africa. In our effort to contribute positively to the body of work on Sino-African relations, we adopt an intentionally apolitical lens in constructing our policy framework to achieve our objective – inclusive growth and development.

In the first section of our paper, we critically examine China's approach to many nations in the African continent – the Angola model. We evaluate the model's

benefits and drawbacks, contrasting it to other developmental approaches that have been attempted in Africa. Our policy framework has three pillars - public services and infrastructure, economic diversification, and knowledge and technology transfer. We provide a theoretical basis for the choice of these pillars, as well as our rationale for selecting these areas as particularly suitable to optimization given China's approach to Arica.

In the second section, we leverage case studies as tools to present our recommendations - focusing on Angola and Zambia. Such an approach presents two advantages. First, in our research, we worked to identify countries with characteristics such as resource abundance and weak or nascent institutional structures. Many other countries in the African continent share such features. Second, in making specific policy recommendations for Angola and Zambia, we outline our rationale and the necessary conditions for these policies to succeed. This provides opportunity for future research to investigate applicability of these policies to other nations in the African continent.

TABLE OF CONTENTS

LIST OF FIGURES

ABBREVIATIONS

AIIB	Asian Infrastructure Investment Bank
COMESA	Common Market for Eastern and Southern Africa
ECOWAS	Economic Community of West African States
EITI	Extractive Industries Transparency Initiative
FDI	Foreign Direct Investment
FNLA	National Front of the Liberation of Angola
FOCAC	Forum on China-Africa Cooperation
GDP	Gross Domestic Product
IMF	International Monetary Fund
JV	Joint Venture
MDC	Maputo Development Corridor
MPLA	People's Movement for the Liberation of Angola
OECD	Organisation of Economic Co-operation and Development
PWC	Post Washington Consensus
RFI	Resource Financed Infrastructure
SDI	Spatial Development Initiative
SEZ	Special Economic Zone
SOE	State Owned Enterprise
UNITA	Union for the Total Independence of Angola
USD	United States Dollar
WC	Washington Consensus
WEF	Word Economic Forum
ZNHDR	Zambia National Human Development Report

"Policy proposals to select African States to optimize benefits from China's interest and investment in Africa"

Introduction

Relations between China and Africa have captured a lot of attention in the recent decade. In 2015, trade between China and Africa amounted to USD 385 billion, a tenfold increase as compared to the amount in 2005.[1] Views towards China's engagement in the African continent are mixed and manifold: some believe that there are mutual benefits from Sino-African cooperation, while others are skeptical and see China's involvement as largely extractive to fuel domestic growth.

China has been engaged in Africa for over a century. Academic interest in the relationship has intensified as trade relations increased exponentially from the end of the 20th century. This period coincided the rise of China as a global economic powerhouse. China in Africa, in the twenty first century, is markedly different from other foreign investors and trading partners in the continent for its commitment to non-interference in the political agenda. This has served as additional incentive for African States to largely welcome China's growing

[1] "China Africa Trade Approaches $300 billion in 2015," http://www.chinadaily.com.cn/business/2015-11/10/content_22417707.htm, *China Daily,* November 20, 2015, accessed July 24, 2016

presence in the region. The lens adopted by political scientists when analyzing Sino-African relations has ranged from "South-South" cooperation to a debate on whether China can be viewed as a neo-colonial power in Africa. As we discuss in later sections of this paper, the media has also focused on the perils of China's unwillingness to impose political conditions to 'reform' authoritarian regimes when extending assistance.

The strong economic performance of many African nations, since the late 1990s, on the other hand, is merely recorded as a data point. While this paper does not attempt to suggest or prove direct causality of China's involvement in Africa and hence this outperformance, it concerns itself with the African perspective. Understanding China's motivations for involvement in Africa, this paper aims to formulate specific policy recommendations for select African nations – Angola and Zambia, to optimize benefits from China's interest and desire to invest in these nations.

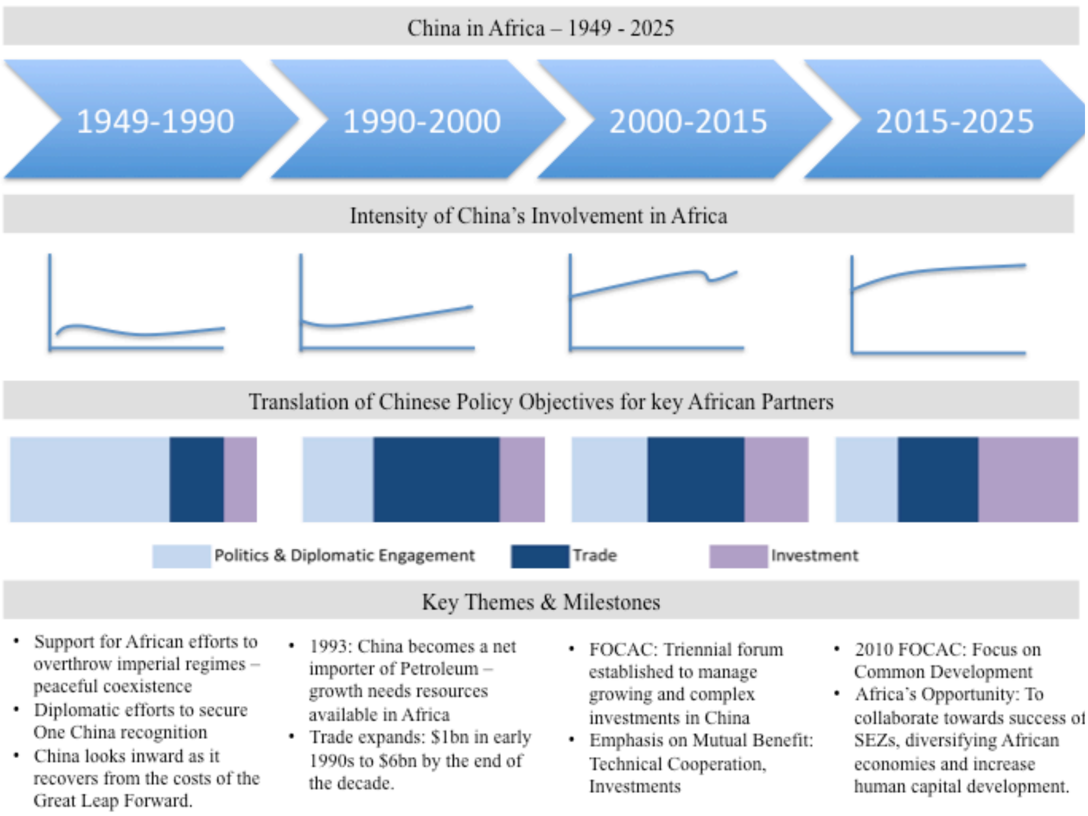
This paper begins with an overview of Sino-African relations highlighting the primary spheres in which Sino-African relations impact African nations. We leverage patterns observed in the evolution of the relationship between China and

Africa, to identify expected themes and their relative importance in the medium term – i.e. until 2025. Having established context, we discuss our research question and our choice of case studies – countries for which we design policy recommendations. We then discuss China's approach in Africa, termed the Angola model, elaborating upon its key features and providing a critical examination of its benefits and drawbacks for African nations. We also compare and contrast this approach to that of institutions such as the International Monetary Fund (IMF) and the World Bank who espouse the Washington Consensus framework. Upon establishing the suitability of China's model for Africa, we set up our policy framework. We identify and examine spheres within which Angola and Zambia can optimize benefits accrued from China's interest in the nations' resources and marketplace. We conclude by reiterating the importance of this window of opportunity for Africa, and briefly discuss the potential for future research to extend these policy recommendations to other African nations, which engage with China.

Overview of Sino-African Relations

This section provides an overview of China's involvement in Africa, highlighting key themes. We begin this section by compiling a visualization that depicts our understanding of the evolution of different dimensions of Sino-African relations since 1949. Three key themes are evident. - Politics & Diplomatic Engagement, Trade & Investment. These can be seen as objectives when viewed from China's perspective, as the driver of relations, and as benefits from an African viewpoint.

Figure 1: Evolution of Different Dimensions of Sino-African Relations



Source: Compiled by authors of this paper based on sources in the bibliography

Before 2000, China's involvement in Africa undulated as a result of major domestic events and priorities – such as dealing with the economic costs of the Great Leap Forward or Deng Xiao Peng's focus on the economy from the 1970s as he introduced economic reforms. Yet, consistency is seen in diplomatic engagement initiated by China with key African nations. While mutual respect has remained a constant theme in Sino-African relations, Chinese involvement in the continent has been marked by a commitment to non-interference since the end of the twentieth century. Interactions in the political sphere today, between China and Africa are focused on fostering and protecting trade, development and investment. From the 2006 Forum(s) for China-Africa Cooperation (FOCAC), China has demonstrated an increased commitment to physical investments in African nations. The China African Development Fund was established post the 2006 forum to finance these projects.[2]

In the 2010 forum, the Chinese politburo's desire to focus on "sustainable" common development was evident with a number of projects pledged in the energy sector and agrotechnology.[3] An increase was also seen in partnerships in research and knowledge exchanges in the science, technology and education sphere. While a slight downtick in intensity is seen as a result of the Global Financial Crisis and the slowdown in China, the nation has remained unwavering

[2] http://www.focac.org/eng/dwjbzjjhys/t952503.htm. Ministry of Foreign Affairs, the People's Republic of China
[3] Ministry of Foreign Affairs, The People's Republic of China, "Forum on China Africa Cooperation Sharm Al Sheikh Action Plan (2010-2012), 12 November 2009, accessed 16 June 2016, http://www.focac.org/eng/dsjbzjhy/hywj/t626387.htm.

in delivering on its committed financial assistance and projects in the continent. As we look beyond 2015, an understanding of China's stated objectives and goals has determined our chosen areas of focus as we formulate policy recommendations. We expect trade and investment to dominate relations between China and Africa, with investments in infrastructure and manufacturing sites. Specific focus sectors and hence areas of opportunity for select African governments are examined in greater detail in the sections that follow.

The Past – Before 2000

Trade between China and Africa has a very long history – it began during the Medieval times, and also in the Ming Dynasty and Zheng He[4], who made voyages rounded the coast of Somalia and down to the Mozambique Channel with his fleet to spread Chinese culture and its strength. Closer relations between the two continents began since 1949, the year when the People's Republic of China (PRC) was established.

Contemporary relations between China and Africa was furthered in the late 1950s, when China signed the first official bilateral trade agreement with a few

[4] Timothy Rich and Sterling Recker, "Understanding Sino-African Relations: Neocolonialism or A New Era?" *Journal of International and Area Studies* 20, no. 1 (2013): 61-76

African countries; while modern political and economic relations began with Mao Ze-dong. The year 1956 also marked another important moment of Sino-African ties. It was the year in which China establish diplomatic relations with Egypt.[5] Since then, China's involvement in Africa started to increase, mainly because of the shared ideological belief in anti-colonialism and the recognition of the importance of economic incentives.[6] During this period – the 1950s – China backed a number of liberation moments seeking to free African countries, such as Zimbabwe, Angola and South Africa, from colonialism. In other words, China has had relations with Africa for more than a 100 years. Some early examples of assistance China extended to Africa include that in building match plant and cigarette plant in Guinea in 1960, experimenting on sugarcane and tea in Mali in 1961-1962, and constructing the 1,860 km TAZARA Railway which links Zambia and Tanzania in 1970-1975.[7]

Financial engagement of China in Africa increased dramatically after it embarked upon its domestic reforms in the 1990s. The country has made large investments in Africa's infrastructure. In one of the World Bank Working Papers,

[5] JianJun Tu, "Sino-African Relations: Historical Development and Long-Term Challenges," *China: An International Journal* 6, no 2 (2008): 330-343
[6] Tu, J.
[7] Xiaoyun Li, "China's Foreign Aid And Aid To Africa: Overview," *OECD*, http://www.oecd.org/dac/povertyreduction/40378067.pdf (accessed June 16, 2016)

it is reported that the Chinese involvement in Africa mounted up to USD 44 billion in the past decades, financing hundreds of infrastructure projects.[8]

The Present – Between 2000 and 2015

In the new millennium, there has been remarkable growth in China's presence in Africa. China's assistance to Africa continued to soar between 2000 and 2015. Unlike the relations between the West and African, where aid is the priority[9], China adopts a model that does not merely involve grants for humanitarian purposes. Instead, China's approach creates opportunities for employment for the local population and prospects for African private enterprises to amass expertise. China invests in infrastructure in Africa; in return, Africa repays with its resources. In other words, trade is highly intertwined with investment. Below is a table which shows the amount in trade between China and Africa up till 2015.

[8] "Building Bridges: China's growing role as infrastructure financier for Sub-Saharan Africa," *The World Bank*, 2009, 5, https://openknowledge.worldbank.org/bitstream/handle/10986/2614/480910PUB0Buil101OFFICIAL0USE0ONLY1.pdf?sequence=1 (accessed June 16, 2016)
[9] Fredline, M'Cormack-Hale and Amadu Jacky Kaba, "The Obama administration and U.S.-Africa relations," *The Western Journal of Black Studies* 39, no. 3 (2015): 238-255

Figure 2: Amount involved in trade between China and Africa[10]

Year	$
1980	USD 1 billion
1999	USD 6.5 billion
2000	USD 10 billion
2005	USD 39.7 billion
2006	USD 55 billion
2008	USD 106 billion
2010	USD 114 billion
2011	USD 166.3 billion
2012	USD 198.5 billion
2013	USD 248 billion
2015	USD 385 billion

Source: Financial Times

Over the period of 2000 to 2015, some of the major aid projects that China invested in Africa are summarized in the following table.

Figure 3: Major Aid Projects by China in Africa[11]

Year of completion	Project	Country	Assistance
2009	Merowe Dam	Sudan	USD 3.5 billion
2011	Zimpeto Stadium	Mozambique	USD 57 million
2011	Dakar National Grand Theatre	Senegal	USD 34 million
2012	African Union Conference Centre and Office Complex	Ethiopia	USD 200 million

Source: China Daily

[10] Valenrina Romei, "China and Africa: trade relationship evolves," *Financial Times,* December 3, 2015, http://www.ft.com/cms/s/0/c53e7f68-9844-11e5-9228-87e603d47bdc.html#axzz4FKwblouM (accessed July 24, 2015)

[11] China Daily, "8 major aid projects by China in Africa," *China Daily*, May 6, 2014 http://www.chinadaily.com.cn/world/2014livisitafrica/2014-05/06/content_17487172.htm

There are several political and economic structures that foster and strengthen the economic ties. The first one being the Forum on China-Africa Cooperation (FOCAC), a political institution between the People's Republic of China and the states in Africa which was established in 2000, providing 'a diplomatic platform through which strategic large-scale investment deals are facilitated'.[12] A summit is held every three years, where foundational principles governing Sino-African relations are reiterated, new themes unveiled and additional financial commitments announced.

In 2006, in the Beijing Summit, the FOCAC Beijing Action Plan and a Declaration, which calls for strategic partnership with the aim to foster mutual trust and economic cooperation, was unanimously adopted[13]. The Chinese government announced eight steps, on trade, investment, infrastructure and development assistance, to strengthen the Sino-African relations[14]. In the Summit, Hu Jintao, President of China, pledged to provide USD 3 billion in preferential loans and USD 2 billion in preferential buyer's credits to African countries.[15]

[12] Lucy Corkin, *Uncovering African Agency: Angola's Management of China's Credit Lines* (UK: Routledge, 2013)
[13] Tu, J.
[14] Yiagadeesen Samy, "China's Aid Policies in Africa: Opportunities and Challenges," *The Round Table* 99, no. 406 (2010): 75-90
[15] Tu, J.

At the same period of time, China's economy had thrived, with it's Gross Domestic Product (GDP) growing rapidly. In 1990, China's GDP per capita was USD 316. Yet, in 2000, it tripled to USD 955. China's GDP per capita soared further to USD 4,515 in 2010 and USD 7,925 in 2015[16]. As a result, China had growing energy needs as its national security interest to sustain economic growth and development. The nation began actively participating in developing mines and oil wells to secure access to oil and natural resources to fuel its expanding and emerging economy, which served as incentive to deepen ties with Africa.[17]

Growing demand for resources from China was met by very willing suppliers in the African nations. This is because many governments in African countries welcomed the Chinese approach. The African population also holds a positive attitude towards China's engagement.[18] There are two reasons which primarily account for the preference of African countries. Firstly, it's because China's infrastructure projects in Africa are financed by low-interest loans and direct financing. Secondly, it's because over the years, China has maintained a 'non-interference' stance in Africa's domestic affairs. Thus, it is the economic

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[16] *GDP per capita – China*. http://politics.ucsc.edu/undergraduate/chicago%20style%20guide.pdf (accessed Jun. 28, 2016)

[17] Miwa Hirono and Shogo Suzuki, "Why Do We need 'Myth-Busting' in the Study of Sino-African Relations," *Journal of Contemporary China* 23, no. 87 (2014): 443-461.

[18] Marek Hanusch, "African Perspectives on China-Africa: Modelling Popular Perceptions and their Economic and Political Determinants," *Oxford Development Studies* 40, no. 4 (2012): 492-516.

might of the Asian nation and its non-intervention policy that lures African countries.[19]

The Future – Between 2015 and 2025

As discussed above, China and Africa have had over 100 years of relations. While the millennium began with China focused on resource and energy security, we expect the next decade to be defined by a broadening of interests and investments by China in Africa. This may include trends such as the deepening of industrialization, security and military cooperation, media and educational exchanges, and initiatives to ensure environmental protection.[20] Other than energy, we expect China to also focus on other interests such as food and agriculture, which can also contribute to its growing economy and population.[21] As China looks to become an internationally recognized and acknowledged superpower in the coming decade, we expect China's political engagement to become more institutionalized and multilateral, engaging with regional organizations in the African continent. China's recent efforts in this vein are discussed as a point of leverage in the case study section of this paper.

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[19] Tu, J.
[20] Tiezzi, S. (2015). The new China-Africa relations: 4 trends to watch. *The Diplomat.* Retrieved from http://thediplomat.com/2015/12/the-new-china-africa-relations-4-trends-to-watch/ on 19 June 2016
[21] Rich, T, and Sterling Recker

Media Portrayal of Sino-African relations

It is worth acknowledging how differently the Chinese and Western media are portraying and presenting relations between China and Africa. In Chinese media, China's involvement in Africa is presented in positive terms, as a sincere friend, as a good partner who helps its African brethren develop. An example is how Chinese media reported the TAZARA Rail, which was built in the 1975 enabling Zambia to export copper to Tanzania without having to go through a part in South Africa. Chinese media focused on the sincere intentions driving China, as opposed to the commercial advantages of the project. The continued bias in media in modern times, is illustrated by the extremely limited Chinese media coverage of labor disputes in Zambian mines, for example.[22]

In the West, the media presents China's presence in Africa as exploitative and neo-colonialist, stating that Chinese involvement is making poverty in Africa worse as projects funded by China reportedly use Chinese skilled labor with limited involvement of the local population. In relation to trade, while they acknowledge the existence of mutual benefits to both China and Africa, they

[22] Alexis Okeowo, "China, Zambia and a Clash in a Coal Mine," *The New Yorker,* 9 October 2015, accessed 3 June 2016, http://www.newyorker.com/business/currency/china-zambia-and-a-clash-in-a-coal-mine.

present outcomes as being unequal, favoring China. China's willingness to partner with non-democratic regimes, the Western media argues, serves as leverage which allows China to take advantage of the African nations to create these grossly unequal outcomes. As we compare the West's approach to China's activities in the African continent we assess the validity of these statements in later sections of this paper.

Research Question

In this paper, we aim to formulate policy recommendations for two African nations – Angola and Zambia – to optimize benefits from China's growing trade and investment in these nations. Designing policy recommendations at the country level, allows us to gain an in depth understanding of the structural nuances in each of these economies and the States. This in turn maximizes likelihood of political will to implement and its associated success. We rely on data compiled by governmental organizations and NGOs (based in Zambia) for evidence to support our policy recommendations. We also recognize two major challenges in obtaining data on Chinese investments in Angola and Zambia. First is a problem of classification, as commitments from China are directly linked to commercial contracts and state owned enterprises, resulting in a mismatch between how

Chinese and financial assistance from other nations is accounted. The second is an issue of transparency and we evaluate the consequences of this in later sections of this paper. We have taken reasonable measures to verify data, on the magnitude of China's investments in selections nations and projects, using multiple sources, where available.

Angola is a post-colonial African state, having broken free of Portuguese rule in 1975. Since that time, Angola underwent decades of a divisive civil war that left much of its infrastructure destroyed. Yet, Angola possesses an abundance of natural wealth, mainly in the form of oil. In fact, Angola's economy is dominated by the oil industry, with oil constituting over 90% of its exports and over 50% of its GDP.[23]

With China's need for energy security in the form of oil, Angola became a natural and logical trading partner for China, to the point that some might characterize the relationship as one of dependence on the part of Angola. Over 40% of Angolan exports go to China, while 22% of Angolan imports come from China.[24] But for all the numbers and dependence, it is important to remember that

[23] Patrick McGroarty, "Angola's Boom Fueled by China Goes Bust," *Wall Street Journal*, October 28 2015, accessed 28 July 2016, http://www.wsj.com/articles/angolas-boom-fueled-by-china-goes-bust-1446072930.

[24]Economist Intelligence Unit, "Angola Fact Sheet," Last updated July 20 2016, accessed 21 July 2016,http://country.eiu.com/article.aspx?articleid=1874428371&Country=Angola&topic=Summary&subtopic=Fact+sheet

Chinese interest in Angola is mainly one based on Chinese energy needs.

While the relationship has grown to become complex and layered, the basic relationship between the two countries stems from Chinese interest in oil resources in Angola, which is the primary reason for Angola being a suitable and appropriate case study for this current paper. Angola presents as a post-colonial, post-conflict, and resource rich nation. Furthermore, Angola's current state of economic development shows a need for resources and investment, particularly in construction and infrastructure. Throughout Africa, and in many parts of the world, many states share these same characteristics and needs. A number of countries have economies dependent on one natural resource, and many others have a need for infrastructure-building and capital investment. Modern economic relations between Angola and China, which have lasted for just over ten years, presents a good example of what can and cannot be attained in an economic relationship with China, especially for nations reliant on natural resource wealth but at the same time struggling with economic diversification and development.

Zambia is the continent's second largest producer of copper in the continent and is rich in minerals such as nickel and cobalt as well. The desire for resource security drives China's trade with Zambia, a common theme across the two chosen countries in this paper. However, it is not one of China's top 10 trading partners in Africa, and hence is not as dependent on Angola on revenues from trade with China. Zambia was chosen as the second country in this paper, primarily for three reasons. Zambia receives approximately 3.6% of Chinese Foreign Direct Investment (FDI) in Africa.[25] These funds have been deployed towards infrastructure and the creation of Special Economic Zones (SEZs), which were pivotal to China's economic success. Thus, it allows us to examine the relevance of SEZs for a resource rich nation such as Zambia and China's ability to partner with African nations and firms to achieve comparable magnitude of success as in China, through these zones. Secondly, while SEZs exist in other nations such as Nigeria, Zambia is characterized by a democratic government and has embarked on a focused pursuit of economic diversification. The country serves as an instructive example of the ability of an African nation to successfully influence and gradually achieve domestic policy objectives through its interaction with China. Thirdly, as Zambia develops it needs to manage its transition from a largely agrarian society to one that generates employment for the majority of its citizens in the manufacturing and services sector. China's efforts in the

[25] Larry Hanauer and Lyle J. Morris, "Chinese Engagement in Africa: Drivers, Reactions, and Implications for U.S. Policy," RAND Corporation, 35, accessed on 1 May 2016, http://www.rand.org/content/dam/rand/pubs/research_reports/RR500/RR521/RAND_RR521.pdf

agricultural sector – to introduce new technologies and improve yield are key contributions to successfully managing this transition. Zambia, for these reasons, serves as a valuable example for the majority of African nations which are resource-rich and hence need to diversify their economic base, while managing a structural shift towards manufacturing and services to develop and augment their standard of living.

We are intentionally apolitical, i.e. we do not consider structural political changes, when considering policy options for these nations. We justify this stance in two ways. First, China has been consistent in espousing its position on non-interference in domestic political matters in Africa since the 1990s. Thus, we do not expect to observe significant changes to China's willingness to invest in a certain country as a result of a political change, structural or otherwise. Hence, given our objective of optimization of benefits from Sino-African relations, we do not expect government structure to be an influential variable. Secondly, institutions such as the IMF and World Bank have published extensive literature on the types of governance and political reforms necessary to optimize growth in a neo-liberal framework. These recommendations have seen low adoption rates in many African nations, due to an absence of political will and motivation. We agree on the need for greater transparency and effective governance in many African nations. However, we suggest an alternative approach for gradually achieving this change. We choose to focus on policies that can be adopted by the existing government over the next ten years in the economic sphere. If successfully implemented, these policies can benefit the nation in question by augmenting prosperity and fostering inclusive growth and development. Such a phenomenon is crucial to empowering civil society within a nation, who in turn can initiate and mandate improvements in transparency and governance.

Resource Financed Infrastructure (RFI) and The Angola Model

As one of the selected African countries in the case studies, Angola holds stories of China's involvement in this country that are often viewed as a refreshing approach to foreign investment and economic development involving a global power and developing countries. China's continuous rapid economic development in the early 2000 forced the country to seek alternative supply of resource that can fuel the economy. The majority of African countries, on other hand, were still struggling to obtain funding and find effective ways to further develop their economy. Recognizing Africa's needs and endowment, which proved complementary to that of China's, the Chinese government identified an approach intended for the two parties to gain mutual benefit. This section elaborates and evaluates the approach brought by China in order to determine a framework for the policy recommendation.

Background

The Angola model is a term that often refers to China's adaptation of the resource-financed infrastructure with a legally-binding framework agreement. This approach links agreement of commodity or resources off-take with the provision of low-interest loans for infrastructure project for African country. China implemented this approach in Angola through the Export-Import Bank of China (China Exim Bank) financing arrangement at first. This approach has since been used as the template on how resource rich nations could undertake national reconstruction by opening up its door to foreign players in development financing. According to the Organization of Economic Co-operation and Development (OECD), USD 2 billion financing package was agreed to in March 2004 with Angola's Ministry of Finance where the funding has been used to develop infrastructure construction in Angola including energy, road, rail, health, education, etc.[26] Many of the financed projects can be considered as public goods

[26] Indira Campos and Alex Vinesola, "Angola and China – A Pragmatic Partnership" (paper presented at a CSIS Conference, "Prospects for Improving U.S.-China-Africa Cooperation," December 5, 2007

that would contribute to the development of Angola. Three years later, the deal was extended to the value of USD 500 million to increase the existing infrastructure spending and in the same year, the two parties reached another agreement for a further oil-backed loan of USD 2 billion. Overall, China disbursed USD 4.5 billion in loans to Angola to finance hundreds of projects that were proposed and approved by Angolan government, while guaranteeing a daily supply of oil to China through a joint venture (JV) between Angola's parastatal, Sonangol and China's state-owned oil company, Sinopec.[27] Similar to the involvement of Sinopec in the oil deal, the infrastructure projects could only be contracted to Chinese companies.

As this paper aims to suggest ways in which African states could optimize the benefit from China's engagement in their country, it is important to note the driving factors of this agreement because it highlights the assumptions for the approach to work. The major driving factor of the RFI in Angola is the complementary nature of Chinese and African interests.[28] In the first decade of the 21st century, China's main interest in engaging with certain resource-rich countries

[27] Martyn Davies, "How China is Influencing Africa's Development" Background Paper for the Perspectives on Global Development 2010 Shifting Wealth (Paris: Organisation for Economic Co-operation and Development (OECD), 2010), 14
[28] Justin Yi Fu Lin and Yan Wang, "New Structural Economics and Resource Financed Infrastructure" *Pacific Economic Review* 21 (2016): 110 accessed February 27, 2016, doi: 10.1111/1468-0106.12154

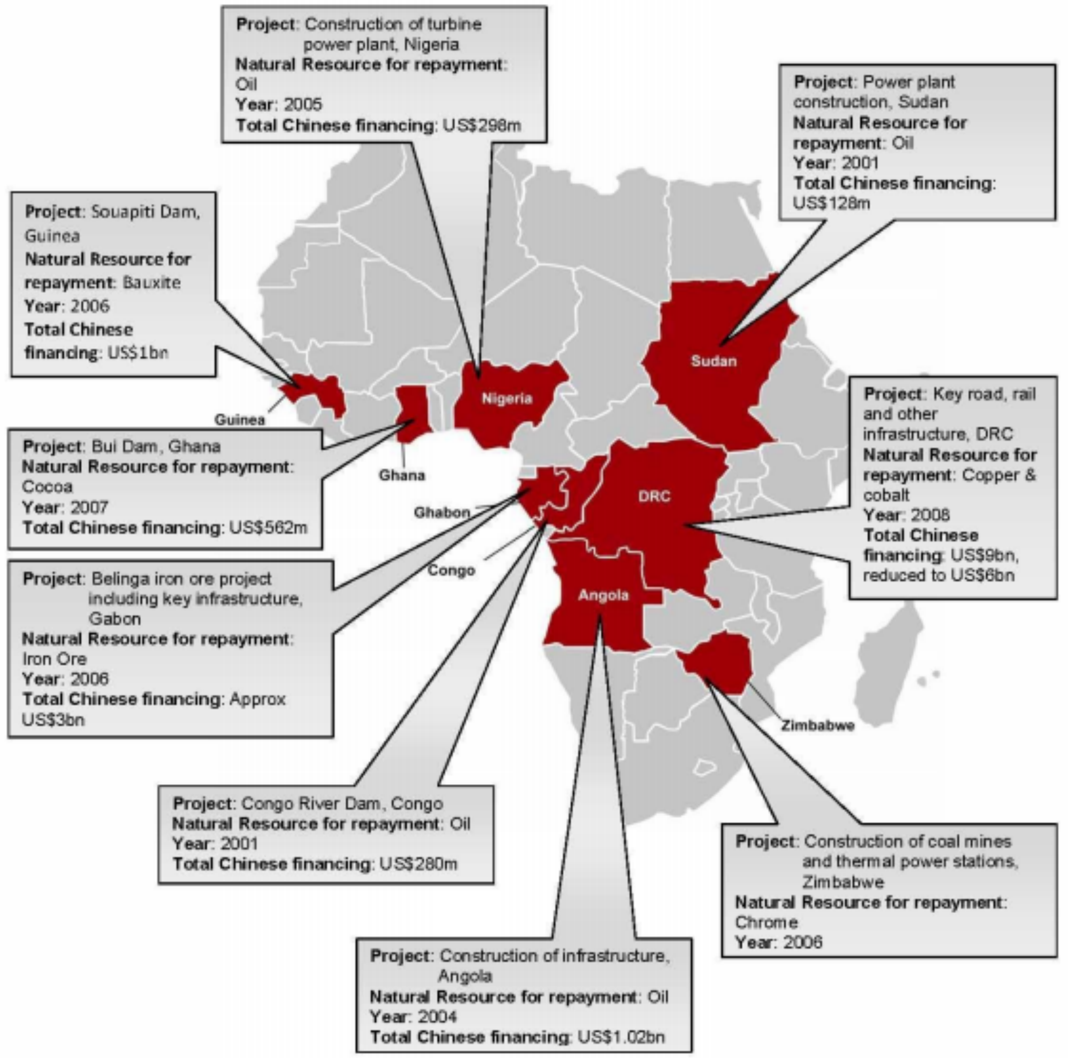
is to achieve resource security that would support China’s huge demand for oil to drive its remarkable rapid economic growth. On the other hand, Angola was seeking investment to support its infrastructure project as a part of national reconstruction effort after experiencing a decade-long civil war. During that time, IMF and other donors from the West would not provide the loan due to a wide range of issues including political and governance to African countries, while China came forward with a policy that only focused on the economic and financial considerations. Although this “no-strings-attached” principle in the name of respecting sovereignty provided flexibility for both China and African countries in conducting economic transaction, it has been criticized heavily, particularly by the West, based on the assessment of equality and the extent of real benefit enjoyed by the overall African society. On the other hand, China and to some extent, the African counterparts, view this framework as a business or commercial transaction where African countries are mortgaging their natural resources for funds to develop their infrastructure. This alternative to the Western approach was received positively by the Angolan government in early 2000, and eventually gained popularity among other African countries as it turns out that such policy is more aligned with African interest.

Spreading the Angola Model Across Africa

In the early 2000s, around the same time as the Angola model emerged, more and more African countries who found it difficult to secure aid or loan from major actors became more inclined towards this sort of framework agreement. Angola's example – of having successfully rebuilt its nation after the civil war, was especially attractive. For instance, the Democratic Republic of Congo (DRC) agreed to provide access to concessions of cooper and cobalt to China through the two countries' joint venture in exchange with the provision infrastructure, valued at USD 6 billion, including a 3,200 km of railway tracks between resource-rich provinces.[29] The OECD has mapped out a few examples of concession deals between China and select African countries, showing the project, type of resources for repayment, project year and the total financing amount by China *(*See Figure 4*).* This map also reveals that in the early 2000, the type of countries where China is applying its Angola model. These countries are endowed with rich natural resources that have become repayment tools for Chinese loans.

[29] Centre for Chinese Studies. "China and the Democratic Republic of Congo: Partners in Development?" *The China Monitor* 34 (2008), 4

Figure 4: Selected Chinese Concessional Finance Deals in Africa



Source: Frontier Advisory analysis (cited in "How China is influencing Africa's Development", OECD Development Centre, April 2010)

Assessing the Model

In order to prescribe policy for select African countries, it is important to examine the benefits and limitations of the model. China surely benefits from various aspects including the ability to secure resource for driving its economic development and the increase of potential investment in resource extraction and infrastructure development. African nations also benefit from the development of infrastructure aimed to increase their country's economic competitiveness and empowerment or improvement of the citizens' livelihoods. This section will explore and compare these benefits and limitations in details and as a result, show why the model presents potential for African countries to optimize benefits accrued from a relationship with a global power like China.

Countries' aspiration for economic development requires a long process of improvements in industry, infrastructure and technology as well as deepening of their comparative advantage. At initial stages of development, government involvement is critical in this long process in order to facilitate coordination and to address externalities. Otherwise, diversification may not be possible because private sector may be less willing to be involved in such projects. The RFI approach links the two separated supply chains of resource extraction and the building of infrastructure, thereby reducing transaction cost.[30] Additionally, as the resource transaction links directly with the development of infrastructure, the tangible results of the construction projects can be witnessed on the ground within a shorter time period. This would boost popularity of the existing host country's

[30] Lin and Wang 2016, 110

government as the society could see the observable impact of the agreement. Contrary to China's RFI approach, the World Bank conventionally considered resource extraction and infrastructure construction as two different sectors, which are to be designed and financed separately, and implemented by different ministries in the host countries, particularly in many developing nations.[31]

Another key advantage of the RFI model that supports policy proposals presented in this paper is its ability to link provision of public goods and resource extraction in a more effective way, which would make public goods more attractive to private sector. One way to achieve this is through the creation of industrial zones or clusters based on spatial concentration creating a more positive economic environment that reinforces further concentration.[32] As argued by Michael Porter, this results in lower transaction costs for individual firms and higher competitiveness for the national industry as these clusters server as a platform to bring private and public institutions together to interact.[33] These sort of clusters have existed in many parts of the world, although less so in developing countries. One country in Africa is often cited as an example and that is South

[31] Ibid.
[32] Justin Yi Fu Lin and Yan Wang, comment on Havard Halland et al., "Resource Finance Infrastructure," *The World Bank,* 2014
[33] Michael, E. Porter, "Location, Competition, And Economic Development: Local Clusters in A Global Economy," *Economic Development Quarterly* 14:1 (2000)

Africa. South Africa has launched 12 spatial development initiatives (SDIs) by early 2000 focusing on agricultural and tourism. Maputo Development Corridor (MDC) is one of the SDIs that spreads into neighboring country, Mozambique. The MDC links two spatially-based natural resources through road construction and it has become the home for a variety of resource-based industrial projects. SDIs such as MDC have provided benefit including infrastructure improvement, private sector investment and human capital investment especially of previously disadvantaged group.[34] It is evident that there is potential for African countries to benefit more from RFI or Angola model by adopting the SEZs or this spatial clusters concept, hence this paper will explore further in the specific country section.

The framework agreement and investment contract signed between China Exim Bank and Angola's Ministry of Finance provide other benefits for both countries. For China, without a doubt, the country was able to secure natural resource to drive its economic growth. This agreement also provides investment opportunities for China in the oil fields. One of the concerns that investors may have is the possibility for a country to expropriate their property rights.

[34] Benjamin Nelson and Alberto Behar, "Natural Resources, Growth and Spatially-Based Development: A View of the Literature," *World Development Report*, February 7, 2008, 14

Nevertheless, an African scholar from University of Namibia argues that, the agreement actually provides assurance for Chinese investors against such risk.[35] At the same time, African states that have signed the agreement are also insured by China, given there could be a risk of exhaustion of funding to develop the infrastructure as promised. China's treatment of the host African countries as their business partners allowed this mutual insurance to be achieved.

Angola, on the other hand, had low credit ratings in the early 2000. That created challenges for the government to borrow money from major development financial institutions and commercial banks as they would offer high interest rate and require short repayment period. China's arrival with RFI approach in Angola offered low interest rate, which is more favorable for Angola. Angola also took advantage of the flexibility in negotiating terms of agreement. In the second phase of loan disbursement, Angolan government added a clause incorporating local element. The clause stated "at least 30% of the contract amount should be subcontracted to local companies."[36] Local regulation also put a cap on the percentage of foreign workers as a total of work force, which is 30% except with special permission.

[35] Dunia P. Zongwe, "On the Road to Post Conflict Reconstruction by Contract: The Angola Model," *Social Science Research Network,* December 23, 2010
[36] Lin and Wang 2016, 111

In spite of these economic benefits presented by the Angolan model, China does have an image problem raised from the critics against this model. The West perceives China's approach as a new wave of colonialism as highlighted in the section on contrasting media views in this paper. In early 2000, when China started to set footsteps in Africa, China engaged more with resource rich countries as seen on Figure 4. Critics argue that there is real evidence of exploitation in the host country, especially when there is doubt in terms of quality and sustainability of infrastructure that China was building.

In any country, change in administration could drive a change in its domestic and foreign policy. The Angola model would also be affected from such change. A change in administration and political structure could possibly result in renegotiation or even cancellation of the agreement, which would hinder the process and slow down the impact of the infrastructure development. This is more plausible if resistance grows from local community in many African countries against China's involvement in the industry. This drawback, however, does not only apply to Angola model, but other types of foreign countries' involvement as well. Many have criticized China's non-interference policy while engaging in other countries. However, in fact, this principle is relative to different countries and continent. In recent years, there has been significant political transformation in Africa and as a result, China had to adjust its policy approach accordingly. According to Aidoo and Hess (2015), Chinese government differentiates its approach based on the political structure of the country. In non-democracies like Angola, China develops strong relationship with party in power, while showing loyal support against opposition forces. On the other hand, in countries like Zambia where it has a more democratic regime, China forged ties with both the party in power and the opposition. Such approach allows Beijing to hedge risk arising from potential leadership change.[37] This reflects China's pragmatic approach in interacting with different government while still upholding its non-interference policy. On the other hand, reforms demanded by some international financial institutions could also exacerbate political change or even unrest such as the case of Greece, while China's involvement in Africa could be insulated against this change due to the interconnected nature of economic relationship between China and African countries. China's hedging strategy in the political domain of host countries gives itself the flexibility to adapt to political change for their best interest. Hence this paper recommends a set of policy for African states to

[37] Richard Aidoo and Steve Hess, "Non-Interference 2.0: China's Evolving Foreign Policy towards a Changing Africa" *Journal of Current Chinese Affairs* 44:1 (2015) 107–139.

maximize their benefit without focusing on political change as it assumes that China is able and willing to adjust and adapt to political change in the host country.

Another weakness of the Model that is extensively talked about is the issue of transparency. Whether it is the lack of transparency during negotiation or in terms of distribution of the fund, China's record in this aspect has not shown significant improvement domestically and more so, abroad. It is a legitimate concern as it may undermine the benefit that African countries can enjoy from this relationship with China. It is important to remember that China's engagement with overseas partner countries are considered as business partnership and RFI is a commercial contract. There is a self-reinforcing principle where corruption would increase transaction cost and makes it less attractive for investment. As the funds extended by China are often directly extended to the contractor executing the project (often a Chinese State owned enterprise) graft resulting from the involvement of middlemen is minimized. A good balance between transparency and confidentiality during negotiation is relatively challenging. Any RFI deals that are not negotiated in transparent manner will be more likely to receive backlash from public and revoked or renegotiated if there is a leadership turnover in the country. This would increase undesirable economic cost to both parties. In the economic sense, perhaps the ability to enforce certain consequences if a party breaks a commercial deal would be more important to avoid any unintended cause and in turn optimize the benefit. The very nature of linking resource extraction revenue directly with infrastructure development, especially where choice of contractors executing on the project is constrained, already limits certain level of corruption.

On the issue of transparency, other players in development financing such as the World Bank and Asian Development Bank have already pushed developing nations to be more transparent consistently. Civil societies also play an important role in ensuring transparency of project implementation hat will affect the livability and survival of the citizens. Globally, there is already an initiative in place, such as the Extractive Industries Transparency Initiative (EITI) aims to encourage open and accountable management of natural resources.[38] Zambia, is in fact, a member of this initiative. Angola is currently deliberating on whether they will join this initiative through the creation of inter-ministerial working group.[39] Although more can be done, it is necessary to acknowledge that over the years,

[38] Extractive Industries Transparency Initiative, "What is EITI?," *EITI International Secretariat,* accessed July 4 https://eiti.org/eiti

[39] Liliane Chantal Mouan, "Can EITI make a difference in Angola?" *Publish What You Pay,* February 29, 2016, http://www.publishwhatyoupay.org/can-eiti-make-a-difference-in-angola/.

Angola has shown improvement in transparency by publishing list of infrastructures plan and their cost.[40]

The Angola model also raises concerns regarding sustainability of development. China's evident economic motivation reflects its priority in income and profit. Once China sees that the agreement ceases to be profitable, the benefit for African governments may be threatened especially as China may have the upper hand in bargaining power. African government's over-reliance on specific industry must be addressed to avoid this issue, hence diversification is one of the main goals of policies proposed here in this paper.

China's image problem is slowly being reexamined as it establishes the Asian Infrastructure Investment Bank (AIIB). Reuters mentioned that the AIIB will demand the projects to be legally transparent and abide to social and environment standards that will protect them.[41] However, in accordance to China's principle, AIIB will not demand for privatization or deregulation as a requirement for loan provision.[42] The successfulness of AIIB in implementing this requirement

[40] Donia P. Zongwe 2010, 11
[41] Koh Gui Qing, "Exclusive: China's AIIB to offer loans with fewer strings attached – sources," *Reuters,* September 1, 2015, accessed June 26, 2016 http://www.reuters.com/article/us-aiib-china-loans-idUSKCN0R14UB20150901
[42] Koh 2015

will become a proof of how China is ready to tackle transparency issues. Such progress could signify its progress that may also be applied in its engagement with African countries.

The drawbacks that are acknowledged in this section mostly reflect the elements of politics and governance. The scope of the policy proposals will focus on how to maximize the benefit for African countries given such drawbacks. This paper recognized that China's pragmatism and non-interference policy will prevail in the time period that is examined in this proposal, hence the perspectives and relevant cases used in this proposal will focus on the capacity of African countries. This paper also acknowledged that there are sufficient benefits that can be extracted from this model. In fact, the OECD reports even described this inventive approach as a "potential game changer"[43]. The use of such a term reflects the innovative alternative that China has presented to the conventional development models.

Other Developmental Models

The benefits and drawbacks of the Angola model from an African

[43] Martyn Davies 2010, 17

perspective, detailed above, can be supplemented by contrasting the model to the experience of many African countries with international institutions such as the IMF and the World Bank. These institutions advocate a neo-liberal growth model, often termed as the Washington Consensus. Barry Sautman and Yan Hairong further categorize the approach advocated by the IMF and the World Bank into the Washington Consensus (WC) and Post Washington Consensus (PWC).[44] The latter supplements the traditional neo liberal economic approach with conditions for transparency and governance, democracy along with the stipulation of poverty reduction as an explicit developmental goal.

China's engagement model in many African nations, of which the Angola model forms a key component along with a commitment to non-interference and principles of mutual benefit and peaceful coexistence, is often termed the "Beijing Consensus," suggesting a contrast to the WC.[45] However, China's approach is founded upon principles that were foundational to her economic success – largely neo-liberal principles under Deng Xiao Peng. The primary difference between the two models lies in the role envisioned for the State in the economic sphere.

[44] Barry Sautman and Yan Hairong, "Friends and Interests: China's Distinctive Links with Africa," African Studies Review 50: (2007), 77, accessed 1 July 2016, doi: http://www.jstor.org/stable/27667241.
[45] Sautman and Hairong, Friends and Interests, 78.

The WC and PWC advocate unbridled opening of the economy, with rapid liberalization of industry and export led growth. It is critical to note that when China, who was a late entrant to the region, began strengthening economic ties, African nations had been suffering from economic malaise. WC based policies had proven ineffective due to exogenous factors, such as fluctuating commodity prices thereby hurting export revenues or due to lack of political commitment to undertake reforms that would hurt a State's primary constituency[46]. Additionally, as IMF programs required nations to scale back social expenditure, basic infrastructure requirements remained unmet in order to service the debt burden.

China's approach to reform its economy, on the other hand, embraced the benefits of trade and global investment flows, with strong State oversight and control. The State was an active participant in the economy, investing in infrastructure and acting as the chief architect of industrial policy. China's proven success was encouraging to governments in Africa for several reasons that have been elaborated upon in the preceding section. These reasons serve to explain the favorable perception of China's involvement in the African economy through deals based on the Angola model. Additionally, that China's model is better suited

[46] Ikubolajeh Bernard Logan and Kidane Mengisteab, IMF-World Bank Adjustment and Structural Transformation in Sub-Saharan Africa, *Economic Geography*, 69 (1993): 16, accessed 18 July 2016, doi: http://www.jstor.org/stable/143887.

structurally to many African nations is also evident. China's success lies in its successful transition from an underdeveloped economy to a developing one. As African leaders observe the Chinese example, they see a populous nation that has lifted millions out of poverty and build a strong economic base. China's strength lies in its commitment to foster internationally competitive domestic industries. For example, Wu Jiahuang, a WTO official's analysis indicates that China has rapidly decreased average tariffs on goods from 43% in 1992 to 10% in 2005, as its nascent industries were incentivized to become more competitive.[47] Thus China's example served as a proven trajectory for an underdeveloped nation to follow to rapidly become a developing nation.

Other structural benefits of China's approach are as follows. Firstly, in the WC model organizations such as the IMF merely act as facilitators and technical experts. China on the other hand, adopts an active approach providing financial assistance and implementation expertise, through its State owned and private enterprises. Critics of China's involvement in Africa often raise concerns on the tied nature of the assistance that China provides. Especially for more complex infrastructure investments, African nations have been found lacking in the

[47] Sautman and Hairong, "Friends and Interests," 92.

requisite technology to complete the project at hand.[48] Finally, tied aid is often portrayed as a distinctly Chinese phenomenon. However, 80% of all US aid is tied, as is up to 65% of Canadian aid, with similar numbers for countries such as Japan, Germany and France.[49] While in some of these cases, deals may not be secured by natural resources conditions benefiting the donor nation economically accompany the assistance. It is not the claim of this paper that for African nations, tied aid is of no concern as most of the nations' significant donors adopt this approach. Instead, especially because assistance from these foreign donors is motivated by a profit motive and economic interest, it is critical for these African nations to deploy these funds in the most productive ways. This in turns will ensure the ability of the nation to service the debt, while continuing to attract additional funds.

The structure of the economy in many African nations is similar to that of China, where significant divides may exist between the rural sector and the urban areas, with the informal sector serving as the bridge between the two spheres of the economy. While rapid urbanization is a typical characteristic of a developing nation, the State in China has proven effective in its ability to build infrastructure

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[48] World Economic Forum, World Bank, African Development Bank and the Organization for Economic Cooperation and Development, "The Africa Competitiveness Report, 2015," prepared for the World Economic Forum 2015, accessed on 3 May 2016, http://reports.weforum.org/africa-competitiveness-report-2015/.

[49] Sautman and Hairong, Friends and Interests, 84

to act, physically, as a conduit for market forces to reach rural centers, which tend to house the majority of the population. In the example of Zambia, this paper examines the importance of agriculture as such as a sector, and the need to connect it to the larger marketplace. In its ability to assume a longer-term profitability view and absorb greater risk than private enterprise, the State is uniquely positioned to deploy resources to such initiatives. Secondly, compared to the operating model of established international developmental organizations, China is respectful of the will of the ruling entity to deploy funds as it deems fit. This further leads to a greater probability of completion of a given infrastructure build, which is also one of the advantages of Angola model. China's stance has engendered criticism from the U.S. and EU for its willingness to deal freely with authoritarian governments. Yet, as analysis commissioned by the U.S. military suggests, this comparison is against an American ideal rather than vs. the practice of free association with non-democratic regimes where it suits U.S. interests, such as in Equatorial Guinea.[50] Thirdly, China has shown willingness to share lessons and structures learnt as it diversified its manufacturing base, through the establishment of SEZs and also industrial clusters for example. Chinese firms as a part of the 'Going Out' strategy highlighted in the introduction are also

[50] Lloyd Thrall, "China's Expanding African Relations: Implications for U.S. National Security," RAND Corporation, 2015, 14, accessed 3 June 2016, http://www.rand.org/content/dam/rand/pubs/research_reports/RR900/RR905/RAND_RR905.pdf.

increasingly looking to African nations as a manufacturing base, presenting African nations with the opportunity to move up the value chain while accumulating human capital. The openness and liberalization advocated by the IMF structural adjustment programs were exacerbated in resource-rich countries in Africa due to steep fluctuations in commodity prices as well as worsening terms of trade. As long as these African nations continue to export unprocessed natural resources, they will remain extremely vulnerable to these exogenous shocks. In light of this, China offers two distinct advantages. It can serve as a market for these natural resources allowing for a strong trading relationship. Its corporations desire to maintain their cost advantage by investing in Africa as a manufacturing hub. These nations are hence confronted with the opportunity to build and strengthen their economies as they integrate into the global economy. This is the context within which our policy framework is built.

Policy Framework

Considering the interests of China and African countries, such as Angola and Zambia and recognizing the advantage that Angola model brings to a country's development progress, several potential areas are identified in order to lay a framework of a set of policy that will help African states such as Angola and

Zambia to optimize benefits from the growing relationship with China. These focus areas include; *public services and infrastructure, economic diversification, and knowledge and technology transfer*. They have been chosen due to their degree of feasibility and applicability in Angola and Zambia. One aspect that this paper also tries to address is how African states can gain more from their relationship with China at intergovernmental level. Moreover, there is also a question of distribution of benefits within the country itself. As discussed earlier, one of the criticisms of this relationship is whether the fruit of economic growth driven by Chinese loans and investments has only been enjoyed by the African elites. Evidently, inequality still exists in African societies. The three focus areas that will be examined provide opportunities to address this problem and promote the type of economic growth and development that will benefit the population at large.

Basic public services and infrastructure are the backbones of a country's economy. World Economic Forum (WEF) Inclusive Growth and Development framework identified improvement of basic services and infrastructure as one of the policy incentives that have relevance in the inclusivity of growth[51]. Public

[51] World Economic Forum, "The Africa Competitiveness Report 2015," 22

services and basic infrastructure tend to be underfunded and undersupplied in less economically developed countries. In fact, infrastructure ties directly with productivity of a society. Well-developed and easily-accessible transportation routes, energy supply and telecommunication will enhance ease of economic activities and services. Basic services such as healthcare are an important element to ensure workforce that is healthy, productive and competitive[52]. A policy recommendation that aims to improve these spheres will benefit the whole population as public services and goods can be enjoyed by the entire population and not only restricted by a certain segment of the society.

Based on the OECD map (Figure 1), China has shown its commitment to help Angola and other African countries to build road and railways as well as other infrastructure including energy supply system such as power station. Apart from infrastructure projects that are usually given to Chinese companies, Beijing has also assisted African countries with the provision of other basic services, such as health clinic projects financed through zero-interest loans offered by the Ministry of Commerce.[53] Although China has proved its contribution to this focus area, there is still potential room of improvement and opportunities where Angola

[52] Richard Samans et al., *The Inclusive Growth and Development Report 2015* (Geneva: World Economic Forum, 2015), 13

[53] Richard Schiere, Léonce Ndikumana and Peter Walkenhorst, ed., *China and Africa: An Emerging Partnership for Development?* (Tunis: African Development Bank Group, 2011), 110

and Zambia can utilize its capacity and optimize the benefit from their relationship with China.

Economic diversification in a country is integral, not only for the sustainability and equality of development, but also to ensure that the economy is not entirely susceptible to the market volatility of specific industries. High dependency is a long-term threat especially for countries like Angola that relies heavily on oil production. The United Nations publication on Africa published in 2014, has noted that the World Bank highlighted three major problems in Angolan economy.[54] Two out of the three reflect the problem diversity in Angolan economy; first Angola is highly dependent on oil revenue and second, the country lacks a diversified job market.

China's economic slowdown and global economic downturn in recent years brought up the debate on how African economies can manage the repercussions of the downturn on their economies. Without a doubt, China has contributed to Angolan oil revenue and the framework agreement allows Angola to directly link loan payment with infrastructure construction, which is an

[54] Nirit Ben-Ari, "Inequality clouds growing economy, » *Africa Renewal,* August 2014, http://www.un.org/africarenewal/magazine/august-2014/inequality-clouds-growing-economy

important aspect as highlighted earlier. However, the dependency on oil revenue still put Angola at risk from price volatility. Furthermore, due to the lack of diversification, viable alternative sources of employment do not exist. In 2012, The African Development Bank published Angola's private sector country profile and revealed the composition of Angola's GDP between year 2009-2012.[55] It is apparent that in the earlier years, oil and gas dominated almost half of the GDP composition despite of the significant dropped in 2012. Zambia, on the other hand, has acknowledged that diversification is an integral part for its economy on the country's policy-making process. The African Economic Outlook published in 2014 stated that Zambian government continues to focus its overarching policy goals on diversifying the economy and reducing dependence from the copper industry[56]. Furthermore, the issue of diversification has become the main highlight of the recently published 2016 Zambian National Human Development Report (ZNHDR). The Report urges Zambia to diversify its economy by prioritizing manufacturing and agriculture as these two sectors were found to be able to create productive jobs faster than copper mining and increase overall productivity, which lead to a path of inclusive development and poverty reduction[57]. This shows that

[55] Estefanía Jover, Anthony Lopes Pintos and Alexandra Marchand, "Angola Private Sector Country Profile," *African Development Bank*, September 2012, 9
[56] "Zambia Economic Outlook," African Development Bank Group, accessed July 4, 2016 http://www.afdb.org/en/countries/southern-africa/zambia/zambia-economic-outlook/
[57] "Zambia: UNDP Report Says a Diversified Economy will Spur Inclusive Development and Poverty Reduction," United Nations Development Programme, accessed July 4, 2016

diversification is imperative for an economy to develop sustainably, while driving its economic growth and development from foreign country's interest. The policy recommendations will highlight how diversification can be implemented in Angola and Zambia in relation to each country's capacity and engagement with China already in place.

Another important area that has great potential to help Angola and Zambia in maximizing the benefit of relationship with China is through *knowledge and technology transfer*. Technology, in this case, is not simply about the tangible software and hardware, but also knowledge and know-hows. Just like the other two focus areas, there are plenty of direct and indirect benefit in advocating for technology transfer. Access and usability of technology influence economic productivity in almost all sectors. Sustainability of natural resources can also be obtained through technology transfer. Technology transfer can also help to improve the livelihoods of people who rely on those natural resources through increased efficiency of use.[58] This, however, must take into account local contexts of African countries to ensure effectiveness[59]. The effectiveness of technology

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http://www.africa.undp.org/content/rba/en/home/presscenter/pressreleases/2016/05/04/zambia-undp-flagship-report-says-a-diversified-economy-will-spur-inclusive-development-and-poverty-reduction-.html

[58] African Development Bank. "African Development Report 2012 Towards Green Growth in Africa," African Development Bank, 2012

[59] Kishan Kodhay and Leisa Perch, "China and the World: South-South Cooperation for Inclusive

transfer shall reflect, the needs of the less privileged citizens of the country and the ways in which the country can leverage on existing policy instrument[60], in this case China's Angola model approach. Technology transfer, especially the hardware, requires a solid funding to support its implementation. More importantly, capacity building initiatives, training and other infrastructure must be financed well enough to help facilitate the technology transfer. Therefore, assessment of appropriateness of the technology in question is integral especially prior to the execution of the project.

China, in fact, has tremendous influence in this aspect throughout the rest of Africa since the trend of South-South cooperation in technology transfer flow has been increasing. Zambia is an example of an African country that has enjoyed the benefit of technology from China, especially in its agricultural sector. Yet, the country still has a lot of potential to gain in this area based on its framework agreement with China. The policy recommendations made in this paper, consist of specific examples where such transfers have been effective, and delve into the importance of productivity improvements in the primary sector.

Green Growth," *International Policy Centre for Inclusive Growth, United Nations Development Programme,* 2012, 9 http://www.ipc-undp.org/pub/IPCWorkingPaper95.pdf
[60] Ibid.

This paper does not intend to measure changes of key indicators for each of the policy approach. However, it recognizes some metrics that are most appropriate to continually measure effectiveness of policy recommendations, Aspects such as countries' ability to pay debt, credit rating, income inequality measured by Gini coefficient and GDP growth may reflect the condition of the country that would be affected by the three focus areas in this policy recommendation. But it is also important to recognize that there are other significant factors that contribute to the result of such measures apart from just the degree or extent China's investment or other involvement in a host country. These outcomes can be measured, with the strength of causal mechanisms evidenced through extensive regression, which is beyond the scope of this paper.

The Angola model is considered as an initial ground for a type of relationship between China and select African countries. The policy proposal will adapt lessons learnt from the resource for infrastructure approach, utilize the three focus areas and customize the approach based on the uniqueness of each country. The three focus areas comprise of long term public and social investment to ensure sustainability of economic growth and development, promote greater equality of opportunity within the country and optimize the benefit of relationship between African countries in China.

Case Studies and Policy Recommendation

Case Study A: Angola

The China-Angola relationship in context

Angola's History

From the 16th century through to 1975, Angola was a colony of Portugal. Its fight for independence began in the 1950s, and saw years of conflict against the ruling Portuguese regime until 1974. During this time, several groups in Angola were active in the fight against the Portuguese regime. Principally, they were the People's Movement for the Liberation of Angola (MPLA), the National Front for the Liberation of Angola (FNLA), and the National Union for the Total Independence of Angola (UNITA). The Carnation Revolution of 1974 in Portugal started the process of Portuguese decolonization in its African colonies, including Angola, and in 1975, Angola become an independent state.

Independence did not bring peace and wealth to Angola. The country promptly entered an era of civil war, with the MPLA and UNITA groups from the colonial period becoming rivals and the main combatants in a conflict that embroiled the country. The Angolan Civil War is generally characterized as conflict for power between the groups, but also complicated by the backdrop of the Cold War. A number of outside governments attempted to intervene or assist in the conflict, including the Soviet Union, Cuba, South Africa, and China.

China's Historical Involvement in Angola

To the extent that China was involved in the early part of the Angolan Civil War, it is generally regarded as a mistake. At the time, the Chinese government supported the UNITA movement, as did the South African government.[61] The Soviet government, on the other hand, supported the opposing MPLA movement, at a time when Sino-Soviet relations were rather poor. For two reasons, China's involvement turned out to be a poor decision. First, the FNLA ended up on the losing side. Second, the act of associating with the racist white-minority government of South Africa was heavily criticized.[62] Of course, the whole intervention seemed to run counter to China's own principles of non-interference.

China was able to recover and normalize relations with Angola in 1983, but the interaction between the two nations was not strong, until 2002. The end of

[61] Lucy Corkin, *Uncovering African Agency: Angola's Management of China's Credit Lines* (Burlington: Ashgate, 2013), 2.
[62] Id.

the Angolan Civil War brought about stability for Angola and opportunity for outside countries. After a period of civil war, Angola was in desperate need of infrastructure, as roads were in disrepair, bridges were destroyed, and sewage waste was not being disposed of properly.[63]

Angola Today

From 1979 onwards, the ruling party of the MPLA has been in control of the state government, and the same has remained true since the end of the civil war. The head of state, Jose Eduardo dos Santos, has been in power for that same period of time, and continues to be the leader today. The country's constitution describes a government with three branches of government, that of legislative, executive, and the judiciary. Since 1992, Angola has theoretically been a multiparty democracy, but for most practical purposes, the Angolan government remains a centralized one-party government, ruled by President dos Santos and the MPLA.

Because of this setup, scholars have described Angola as a strong "weak

[63] Deborah Brautigam. *The Dragon's Gift* (Oxford: Oxford University Press, 2009), 275.

state."[64] Much of the state bureaucracy is weak and in disarray. Poverty and inequality is very high, especially between geographical regions. But at the same time, the MPLA ruling party has a strong hold on the economic and political workings of the country, with the ability to regulate social relationships and control the extraction of resources.[65] State bureaucracy is generally seen as weak, perhaps by design, so as to keep the political elites in control without fear of alternative power centers developing in other parts of government. Perhaps the only exception to the rule of weak bureaucracy is the state-owned enterprise of Sonangol, the national oil company of Angola.

Sonangol, up until very recently, had a wide-ranging portfolio of duties and responsibilities that made it a powerful player in Angola's political and economic spheres. In addition to the exploration and exploitation of oil in Angola, it also had regulatory powers with respect to the oil industry, as it could organize oil auctions, sign production sharing agreements, and exercise rights of first refusal any time a foreign oil venture was looking to sell its stake in an Angola oil field.[66] All oil companies looking to operate in Angola had to cooperate with Sonangol through the use of a joint venture entity or by signing a production

[64] Corkin 2012, 25.
[65] Joel S. Migdal. *Strong Societies and Weak States*. (Princeton: Princeton University Press, 1988), 4.
[66] Alves 2013, 105.

sharing agreement.[67] Certainly, government regulators had a role to play, in particular the Ministry of Finance and the Ministry of Petroleum, but Sonangol was generally seen as the center of the oil industry in Angola.

In recent months, Sonangol has seen its wide-ranging powers and responsibilities, pared back by the government, in a recent restructuring that creates new agencies to oversee regulation and administration. How that will reshape the politics and oil sector at large remains to be seen.

Modern China-Angola Relations

The turning point in China-Angola relations began in 2002. At the time, Angola was in need of financial loans to rebuild the country. The IMF was an option, but the terms and conditions of their loans required political reform and more transparency from the Angolan government. These conditions were too restrictive for Angola, at a time when it was just emerging from civil war. The terms set by the IMF were similar to other loans that Angola had taken in the past. China offered an alternative.

[67] Id.

The terms of the loan offered by the China Exim Bank, of two billion USD with a seventeen-year repayment period and a five-year grace period, was seemingly a panacea to the other deals being offered. The interest rate attached to the loan was LIBOR plus 1.5%. The loan would be paid back by the proceeds from oil sales made by Angola over the term. Additionally, the line of credit was to be used entirely for infrastructure building in Angola.[68]

This is not to say that China was the only lender to Angola. Over the years, prior to and after 2002, Angola had been the recipient of numerous loans and grants from third-party governments and their banks. However, around that time, because Angola's credit rating was much lower due to the recent end of the civil war, it was difficult for Angola to secure terms that were better than what most western financial institutions were willing to offer. For the most part, those loans would be made at the interest rate of LIBOR plus 2.5%, with five-year repayment periods. Certain institutions, depending on their nature and role in the world, would also request political reforms or greater transparency, and in some cases, budget cuts and austerity measures.

[68] Corkin 2012, 275.

Policy Recommendation

The Oil for Infrastructure Framework

China's offer through the Exim Bank was ultimately a more attractive offer for the Angolan government. Through these loans, China was able to build hospitals, irrigation systems, and roads.[69] For the next three years, additional loans were made through the same framework, to the amount of $4.5 billion.[70] Another credit line to the Angolan government was announced in July of 2010.

Because the loan is for infrastructure, it is reasonable to ask how the money is used and who is involved in the construction process. And though the term oil-for-infrastructure has been used interchangeably, it is not in fact, an in-kind transaction. Barrels of oil are not shipped to the China Exim Bank. Nor are the loans simply given as cash to the Angolan government free of checks and conditions.[71] Instead, the loan is guaranteed by proceeds of oil sales, which are deposited into the borrower's account at the lending institution.[72] Typically, a specified amount of oil is sold to a Chinese oil company. For example, the terms

[69] Corkin 2012, 280.

[70] Corkin, Lucy. "Uneasy allies: China's evolving relations with Angola." *Journal of Contemporary African Studies* 29, no. 2 (2011): 171.

[71] Brautigam 276.

[72] Ana Cristina Alves. "Chinese Economic Statecraft: A Comparative Study of China's Oil-backed Loans in Angola and Brazil." *Journal of Current Chinese Affairs* 42, no. 1 (2013): 101.

of the first loan in 2004 stipulated that the oil would be sold to the China International United Petroleum and Chemicals Co. Ltd., a part of Sinopec Group. That Chinese oil company then deposits the money for oil purchase into the borrower's account at the lending institution. In turn, it has generally been found that Chinese oil companies operating overseas have little to no obligation to ship the purchased oil back to China, and instead can sell wherever they can find the best price.[73]

In turn, infrastructure building is performed by contractors, and for the majority of the time, the contractor is of Chinese origin. Where the company contracted for the infrastructure project is Chinese, payment is usually made directly by the China Exim Bank, and the contract amount is written down against the line of credit that was made.[74] In this way, the risk of corruption and patronage on the part of the Angolan government agencies is reduced, as most of the payments take place only between the Chinese organizations themselves.

Because the infrastructure building is done mostly by Chinese corporations, it is also the case that most of the equipment, materials, and labor is

[73] Corkin 2012, 281.
[74] Corkin 2011, 171

also provided from Chinese sources.[75] In fact, the financing conditions on China Exim Bank loans tend to state that a minimum of fifty percent of project procurement must come from China itself.[76]

Labor in Infrastructure Building

The value added dimension of local Angola labor has been a point of contention. One would assume that using local labor would be a cheaper and more efficient avenue for infrastructure purposes. However, for a variety of reasons, this has not been the case with Chinese infrastructure projects in Angola. For one, Chinese labor has been perceived to be more reliable, as they live on construction sites and generally have a work culture more conducive to completing projects on time. Local Angolan workers are more likely follow typical working hours and have families to go home to, thus setting a lower priority on deadlines.[77] The weak education and training in Angola has meant more unskilled labor, which when coupled with the language barriers between Angolans and Chinese, has led to a a even greater preference for Chinese workers.[78] All this has meant that even if a Chinese worker is more expensive than an Angolan worker, companies have

[75] Chinese Academy of International Trade and Economic Co-operation (CAITEC). China-Africa Trade and Economic Relationship, Annual Report 2010, Beijing (2010), 7.
[76] Corkin 2012, 101.
[77] Corkin 2012, 113.
[78] Corkin, 2012, 111

judged it to be more prudent to find workers from China willing to work for months or years in Angola, at a higher rate of pay than their Angolan counterparts, to ensure that deadlines are met and construction quality is satisfactory.

Materials for infrastructure construction have also generally been Chinese sourced. In the oil for infrastructure context, construction materials imported for the purposes of national reconstruction are exempt from import duties.

It should be noted that though the framework is generally known as oil for infrastructure, the Angola model as applied to Angola is not about the Chinese government attempting to secure energy. Since 2004, Chinese companies have had mixed results in their attempts to acquire Angolan oil interests, with Sonangol at times facilitating and blocking acquisitions by oil blocks by Chinese oil companies.[79] In fact, Sinopec's best relations with Sonangol occurred just after the first China Exim loan in 2004. Subsequent relations and negotiations fell through, and Sinopec was unable to expand their equity stake in Angola.

However, Chinese energy security is better met through the diversification

[79] Alves 2013, 112.

of sources, and Angola is simply one small part of that equation. The Angola model should instead be considered in a commercial context, in which the gains for Chinese banks and Chinese construction companies are the greatest.

Adaptability of the Angola Model

The Angola model, and the work of the China Exim Bank, has had far more success opening the African market for infrastructure to Chinese construction companies. It has provided guaranteed project contracts, a stable source of payments, and procurement contracts all at the same time. Because Angolan workers, companies, and procurement is often cut out of the construction cycle, Chinese companies are at a great advantage.

As mentioned before, the Angola model is not unique to China's dealings with Africa.[80] However, the model itself is a good starting point as a framework, because of its adaptability. And with the corollary effects of the model becoming clear in the Angola context, recipients of these loans are now armed with better information and can project how these projects can generally produce even greater benefits and spillover effects for the country. This same framework has been

[80] Corkin 2011, 170.

applied to different countries throughout the world, revealing China's flexibility and limits within this model.

It is important to note that the Chinese-Angola relationship is generally not seen as a long-term strategic partnership. At the current time, the concept of mutual benefit applies, but there is also a degree of convenience to the association. For China, at this current juncture, it has been said that the national energy security policies of the Chinese government dovetailed nicely with the profit-making motives of Chinese national oil companies.[81] Should the oil companies of China become discouraged by the Angolan oil industry, or should the Chinese government have a different attitude toward sending workers abroad, then the Angola model as applied to Angola becomes tenuous.

And as a final point, at no point should it be assumed that China has somehow been the more dominant player in the relationship with Angola. No one disputes that China has greater capital and resources, but that does not translate to

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[81] Erica Downs, "China Development Bank's Oil Loans: Pursuing Policy – and Profit," *China Economic Quarterly* (December 2011), accessed May 23, 2016, online: <www.brookings.edu/~/media/research/files/articles/2011/12/09%20china%20development%20bank%20downs/1209_china_development_bank_downs> (30 June 2012).

China being the driver's seat. China's interests in Angola are mainly commercial, and Angola has had success with leveraging China's interest in its economy to draw and attract other foreign investments.[82] Some scholars have even gone so far as to ask if China will simply become one of many foreign states to be used and channeled by African elites to further their own political agendas.[83]

Training Local Labor

Improving the use of local labor in infrastructure building would provide greater economic benefits for Angola in the long run. The main driver of that must be political willpower to forego speedy construction, and to instead set construction deadlines that give contractors more time. In doing so, the supposed limitations of local Angolan workers can be addressed, and allow for deadlines to be met with a workforce guided by regular working hours. Furthermore, longer projects will make the hiring of local workers more appealing, as the costs of overseas Chinese labor will only stand to grow.[84] In other words, the longer the project, the more likely an overseas company may be willing to train a local workforce for the project. However, the political willpower obstacle is not a small

[82] Corkin 2012, 5
[83] Christopher Clapham, "Fitting China In" in *China Returns to Africa: A Rising Power and a Continent Embrace*, ed. Chris Alden et al. (London: Hurst & Company, 2008), 366.
[84] Chuan Chen et al. "An Empirical Analysis of Chinese Construction Firms' Entry into Africa." CRIOCM, International Symposium on Advancement of Construction Management and Real Estate, Sydney, Australia, 8-13 August (2007).

one, as shorter time frames and more numerous projects lead to more opportunities for rent seeking, and political elites may not want to forego such opportunities.

Extending Deadlines

The main impetus for using Chinese labor has been efficiency and time. Generally speaking, Chinese state owned enterprises are the only contractors available for the infrastructure projects involved, as projects tend to have a minimum value of 10 million USD.[85] Very few companies are able to manage a project that size. While most resources are sourced from China, certain materials are processed through factories set up by the Chinese in Angola, a practice that began in 2008.[86] Certain resources can be found in Angola, and at the same time, shipping costs can be reduced on heavier construction materials like timber, brick, cement, and steel.

The point is, the economic benefits of infrastructure projects by the Chinese should not be viewed in isolation. Once large enough, these infrastructure projects attract a number of related and tangential industries to the area, and a

[85] Ferreira 2008, 285.
[86] Corkin 2012, 104.

variety of other private companies are needed to fulfill supply chain demands and to meet the demands of workers, managers, and companies in these infrastructure projects. For instance, as will be discussed below, a possible method would be to encourage investment in the value-added manufacturing chain in Angola, whether for manufacturing or assembly purposes, to lower the costs of construction. But more importantly, the extension of construction deadlines encourages Chinese firms to hire locally. With longer timeframes, the investment costs attached to the sourcing of local materials, supplies, and labor becomes a greater value proposition compared to the current practice of importing Chinese labor and materials. Investments in the local supply chain and labor are likely to have long-term benefits that outlast the infrastructure project itself, leading to a cheaper and more sustainable source of materials and labor for future projects.

Special Economic Zones (SEZs)

Over the past decade, China has been setting up special economic zones around the world, based on its own experience and management with the Chinese domestic zones. In recent years, several African nations have invited China to set up similar economic zones in their own countries, taking advantage of China's need to move certain mature industries abroad. Angola has not had extensive experience with Chinese Special Economic Zones, but the idea could be floated to the Chinese as a policy to further expand and diversify the Angolan economy. The creation of a SEZ in Angola would ultimately mean further investment and capital from China, but at the same time, it could exacerbate the issue of further Chinese labor in a country where local labor could use more assistance. Any movement on this policy would require further examination of SEZ's already in place in states such as Egypt or Zambia, to determine the correct model that could benefit Angola.

Value of Precedent and Entrenchment

The fundamental point made throughout this section is that the China-Angola relationship has been one of economic convenience. The ideological alignments of the Cold War era resulted badly for the Chinese, and today's involvement has resulted in economic returns for China. Naturally, this does raise fears of economic downturns causing a breakdown in the current relationship.

Much of what has been proposed as far as Angola's dealings with China has been predicated on the assumption that the economic conditions remain favorable for a continued relationship. But even if economic conditions do change, as they likely will, the key feature of the Angolan model being examined is its adaptability. Even if economic conditions change, Angola can look to other Angolan model as experienced by other countries in differing economic states, and look for policy guidance based on those experiences. Such is the value of precedent. The flexibility of the Angola model as applied by China to different countries suggests that there is room within the model that is agreeable to China. If China is agreeable to similar policy changes with regards to Special Economic Zones, labor standards, and infrastructure regulations abroad, then it is suggesting that they would be amenable to similar structures in Angola as well. The Angolan experience with China has been largely defined by oil and infrastructure, but even within those boundaries, there is room for maneuvering.

Angolan Leverage

Everything noted in these policy positions does rely on Angola having the necessary capacity and leverage to change the terms of economic engagement with China. There have been commentators who note that China's involvement in Africa as having characteristics of colonialism.[87] Angola's capacity to withstand a

[87] Mark Esposito, Terence Tse, and Merit Al-Sayed. "Recolonizing Africa: A modern Chinese story?" *CNBC*, December 30, 2014, accessed June 19, 2016, http://www.cnbc.com/2014/12/30/recolonizing-africa-a-modern-chinese-story.html

neocolonial power might be questioned, especially if Angola is dependent on China and China alone. Furthermore, the downsides to any policy changes from China's perspectives would need to be minimal or manageable.

But for two reasons, there is reason to be optimistic about Angola's leverage. For one, Angola has already demonstrated a tactful ability to play against powerful sovereign and financial interests. In 2002, Angola owed over $10 billion to international creditors, some of which were oil-backed loans arranged by reputable financial institutions from the western world.[88] In need of further financial assistance, Angola first attempted negotiations with the IMF, but those loans ultimately fell through due to the reforms being demanded of Angolan financial and government institutions. Ironically, China was Angola's solution to pressure for reform coming from the IMF. That may have been the reason western banks became more amenable to the arranging of more oil-backed loans to Angola.[89]

Second, large infrastructure loans to Angola have not been limited to Chinese sources. Since the beginning of Chinese loans in 2004, a number of other

[88] Corkin 274.
[89] Corkin 276.

countries have also provided financing for infrastructure, construction, exports, and economic diversification, from such sources as Spain, Canada, Brazil, Germany, Portugal, the United States, and Great Britain.[90] Angola's search for financing has not been restricted by its relationship with China, and in many ways, the record seems to show a conscious effort to diversify. On this diversification basis alone, Angola can make China aware that its dependence, while significant, may not be catastrophic if China were to threaten to abandon the Angola market.

Furthermore, it is important to consider China's own growing needs. The areas of poverty alleviation, energy security, and export markets have been highlighted as coming Chinese concerns.[91] Angola helps with two of those concerns.

Case Study B: Zambia

<u>Overview of Sino-Zambian Relations</u>

Zambia was one of the first countries with which the Chinese established relations in Africa. As early as 1967, China began offering Zambia loans that grew from $7mm to $17mm in a course of a year, when China was in nascent stages of

[90] Corkin 2011, 176
[91] Cargill 2010, 37.

development itself.[92] Since then, China's investments in Zambia have grown rapidly and it is now one of the country's primary investors and trading partners. Since 2006, China's activities in the nation reflect the major principles stated in China's Policy Paper in Africa published in 2006.[93] China's areas of focus include:

a) Political cooperation: ministerial visits, knowledge sharing between policy making bodies and mutual support in international affairs
b) Economic cooperation: Trade in natural resources, foreign direct investment in manufacturing and agriculture, tourism and finance. Assistance is also provided in the form of concessionary loans, accompanied by debt relief where necessary.
c) Human Resource development: Technology transfer, health, education and knowledge sharing amongst technocrats

Politically, Zambia has been a democracy since 1991, with six successful elections and multiparty representation. As such a system that is fundamentally different from the political dictatorship in Angola, allows us to evaluate the benefits of China's involvements that may be similar regardless of regime type.

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92 David H. Shinn and Joshua Eisenmann, *China and Africa: A Century of Engagement*, (University of Pennsylvania Press: 2012), 324.
93 Ministry of Foreign Affairs, The People's Republic of China, "China's Africa Policy" January 2006, accessed on 1 June 2016, http://www.focac.org/eng/zt/zgdfzzcwj/t230479.htm.

While Zambia serves as a useful comparative case study given its democratic political structure, it shares a burden borne by many African nations - resource dependence. China's primary interest in Zambia is the African nation's abundance of natural resources – primarily copper, cobalt and nickel, which are inputs into a large number of manufacturing goods and processes. Over 65% of Zambia's exports to the world consist of copper and cobalt.[94] Dependence as measured by the Herfindahl index shows that Zambia is at a healthier rate of dependence on a single trading partner, compared to Sudan, Nigeria or Angola.[95] This is a result of government efforts to partner with China and other foreign investors to diversify its economy. Numbers suggest that an imbalance exists between Zambia's dependence on copper (high, as stated above), and China's reliance on Zambia (a mere 2.6% of overall exports from Africa).[96] This strengthens Zambia's effectiveness as a case study to evaluate the importance of appropriate policy choices to mitigate dependence on the resource, while promoting diversified and inclusive growth.[97]

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[94] Observatory of Economic Complexity, "Zambia", Accessed on 15 July 2016, http://atlas.media.mit.edu/en/profile/country/zmb/.
[95] Marius Brulhart, Nora Dihel and Madina Kukenova, "More Than Copper: Towards the Diversification and Stabilization of Zambian Exports," *World Bank Group: Policy Research Working Paper,* January 2015, accessed 20 June 2016, http://www.hec.unil.ch/mbrulhar/papers/Zambia1501.pdf.
[96] Hanauer and Morris, Chinese Engagement in Africa, 29.
[97] World Bank's definition of inclusive growth is used in this paper, involving broad based economic growth that facilitates participation of majority of the country's labor force.

With the procurement of natural resources at the center of Chinese investment decisions, many facets of China's interactions with Zambia can be categorized under the Angola model. Concessional loans are provided by China to Zambia and guaranteed by commitments to deliver natural resources to China. On the other hand, it is one of the ten largest FDI recipients, comprising 3.6% of China's investment flows into Africa in 2010.[98] Apart from securing natural resources necessary to fuel the manufacturing sector, two other motivations for China's involvement in Zambia are worth examining. As of 2015, Zambia's major trading partners were South Africa, followed by the Democratic Republic of Congo and China.[99] While its exports tend to be produced from extractive industries, Zambia imports machinery and transport equipment – i.e. higher value-added products, thus resulting in unfavorable terms of trade with its major trading partners.[100] For this reason, Zambia fits into the "going out" strategy of Chinese State Owned Enterprises (SOE) as it presents a new and growing market for goods and services produced by these firms as well as private enterprises within China. Goods and services imported from China have a competitive advantage in

[98] Hanauer, Chinese Engagement in Africa, 33.
[99] "Zambia Trade Statistics", Trade Websites: European Commission, Jun e21 2016, accessed on 1 July 2016, trade.ec.europa.eu/doclib/html/113466.htm
[100] UN Comtrade and UN ServiceTrade, "Zambia," accessed on 20 June 2016, comtrade.un.org/pb/FileFetch.aspx?docID=5385&type=country%20pages.

the Zambian market due to lower prices as well as mutual tariff free agreements that China has in place with many nations in Africa, including Zambia.

From the 2006 FOCAC, a distinct shift was seen in China's strategy toward African nations with a greater emphasis on mutual benefit and sustainability.[101] Practically, these principles translated into an increase in efforts to:

a) Establish a global value production chain for goods and services made by Chinese corporations, as costs of production rose domestically in China. This in turn encouraged firms to establish manufacturing bases in African nations including Zambia

b) Increase technology transfer to Zambian firms who partnered with Chinese corporations on projects and Zambian citizens employed in the production process, as well as increasing exchange of knowledge and skills across industries

c) Establishment of intra-African networks, a commitment that was re-emphasized during the 2012 FOCAC by President Hu Jintao, as he committed to the development of trans-regional infrastructure networks

[101] Hanauer, Chinese Engagement in Africa, 39.

while encouraging Chinese corporations and institutions to embark on such initiatives.

Initiatives such as the establishment of special economic zones and education centers focused on imparting knowledge of optimal farming techniques to local farmers are examples of how these principles have translated to projects and benefits beyond resource-related revenues for Zambia since 2006. These initiatives are covered in-depth in the later sections as we examine policy recommendations for Zambia.

Zambia suffers from an infrastructure deficit like many other African nations. Developing nations within Africa have 1/5th the infrastructure of other nations in a similar stage of development in the world, such as in Eastern Europe and Latin America.[102] China's willingness to extend financing to the nation to invest in infrastructure has been critical to improving economic performance. Specifically, in copper mining, China's investments in the country's largest copper mines have resulted in increased copper production as efficient mining technologies were deployed and copper prices were at record levels in the early 2000s.[103] A 2010 study of Africa commissioned by the World Bank concluded that

[102] Africa Competitiveness Report, 43.
[103] Alastair Fraser and John Lungu, "For Whom the Windfalls: Winners and Losers in the Privatization of Zambia's Copper Mines," Civil Society Trade Network of Zambia, 2006, accessed

infrastructure improvements contributed to up to 50% of the increase in economic growth over a five-year period.[104] Specifically in Zambia, FDI contributions from China are said to have contributed to up to 2% of GDP growth from 2003 to 2009.[105] More importantly, such investments are seen as fundamental to improving prospects for sustained medium and long -term growth.

Policy Recommendation

High levels of dependence on a single commodity imply that a country is especially vulnerable to price fluctuations in the commodity as well as volatility in global demand for the same. Since 2014, the adverse effects of this dependence are seen, where growth rates that were averaging at 7% per annum, slowed to 3% due to the steep decline in commodity prices.[106] In the face of slowing growth, this section of the paper looks at three policy recommendations in particular that look to leverage China's presence and willingness to invest in the nation to revive growth while increasing broader participation in the formal economy. Zambia's state is actively involved in planning and promoting economic growth through the

on 4 May 2016, www.liberationafrique.org/IMG/pdf/Minewatch**zambia**.pdf.

[104] Vivien Foster and Cecilia Briceno-Garmendia, "Africa's Infrastructure: A Time for Transformation," Prepared by the World Bank for the Africa Development Forum 2010, accessed on 23 March 2016, https://openknowledge.worldbank.org/handle/10986/2692.

[105] Gerard Kambou,"Box 2.1: Linkages between China and Sub Saharan Africa," in Global Economic Prospects June 2015, World Bank, accessed on July 3 2016, https://www.worldbank.org/content/dam/Worldbank/GEP/GEP2015b/Global-Economic-Prospects-June-2015-China-and-Sub-Saharan-Africa.pdf

[106] "Zambia Overview," The World Bank, Last Updated April 8, 2016, accessed on 23 June 2016, http://www.worldbank.org/en/country/zambia/overview.

development of national economic plans. It remains an outlier, compared to other African nations, in specifically including diversification as a part of its national economic strategy. Such a commitment to a goal that has historically been challenging for states in resource-dependent nations to achieve, has contributed to consistency in economic policy. For example, dramatic fluctuations have not occurred in government policies to attract foreign investment in special economic zones. Corporate tax benefits have stayed largely consistent despite changes in majority political leadership. Thus, aligned with the broader framework of this paper, these policy recommendations are not contingent on dramatic changes to the state's desired involvement in the economy.

The similarity of the Zambian state's involvement in the political economy to the Communist Party's developmental model for China in fact presents opportunity for greater collaboration amongst Chinese and Zambian technocrats. Three types of policy recommendations are explored in the sections that follow: diversification through the growth of the manufacturing sector, investment in agriculture in order to effectively manage the economy's transition to one that is reliant on manufacturing and services, and investment in infrastructure and its long-term benefits.

In analyzing each of these policy recommendations, consideration is given to evolving motivations of both the Chinese and Zambian state. As copper prices have plunged due to China's economic slowdown, and reduced global demand, the Zambian state has more incentive to invest in diversification to continue receiving taxes and other rents from the production process. China on the other hand is faced with rising domestic costs, and as indicated above post 2012, has demonstrated greater commitment to leveraging select African nations, such as Zambia, as satellite manufacturing hubs. Additionally, it has also shown a greater willingness to work with regional organizations in Africa to support the development of domestic industry. Visits by technocrats from China to share lessons learnt from China's build out of special economic zones and the provision of services by Chinese firms to African companies are examples of initiatives that can be leveraged to implement the policy recommendations made below.

Diversification

The African Competitiveness Index produced by the World Bank classifies Zambia as a "factor economy."[107] As growth is largely driven by unprocessed

[107] World Economic Forum, "Africa Competitiveness Report 2015," 178.

exports of a factor of production (copper, cobalt and nickel as described above), this is considered Stage 1 for an economy as it is at the lowest stages of the value-chain and the production process. For an economy to move towards stage 2, where production efficiency drives competitiveness and continued growth, it needs to build a services and manufacturing base. African nations that are at similar stages fall into two types. In the first category are countries such as Kenya, which have focused on deploying resources away from its primary sector directly into the services sector.

In the second category, is Zambia, which has a growing services sector designed to complement the build out of the manufacturing sector. The second follows China's economic approach, thus rendering China's expertise and experience extremely relevant to the Zambian state and economic actors. Successful diversification is predicated on two factors. First, productivity in agriculture needs to consistently improve to allow for the workforce to transition into the manufacturing and services sector. Secondly, employment opportunities need to be created in the manufacturing and services sector to absorb labor made redundant as a result of these productivity improvements in agriculture. Hence, a metric used to evaluate the success of efforts to diversity is the reduced contribution of agriculture as resources transition into increasing the manufacturing base along with the services sector. Zambia's experience in the agricultural sector and China's involvement is discussed in the section that follows.

Special Economic Zones are pivotal in contributing to diversification, as successfully demonstrated by the Chinese and South East Asian example. Special economic zones are a key component of the China Africa Development Fund. Established in 2006, post the FOCAC the fund deals with investments that promote industrialization in Africa.[108] The policies adopted by Zambia are instructive lessons for other nations such as Ethiopia and Nigeria where SEZs have not been as successful. Challenges are then identified as areas of focus for the Zambian state to leverage China's involvement in the nation and specifically in the build out of SEZs. Government involvement is critical in creating infrastructure and ecosystems that facilitate the build-out of manufacturing.

Diversification is recommended by continuing to collaborate with China to develop special economic zones in Zambia. As China's own example has shown,

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[108] Hanauer, Chinese Engagement in Africa, 39.

where local governments are successful in creating linkages between an SEZ and the domestic economy – this promotes the development of local industry. In 1979, China began with 4 SEZs, with rapid success resulting in more than 100 SEZs in various cities across China as of 2010.[109] This in turn proved crucial to sustained broad-based economic growth. China's policy makers and its private zone operators have hence built significant expertise in designing, launching and maintaining SEZs, which can be leveraged by African governments and enterprises. SEZs in Africa are either operated entirely by these private enterprises or in conjunction with local join venture partners. Chinese enterprises have also successfully managed transitions in the operations of an SEZ, where the Chinese corporation manages the SEZ in the initial stages with a defined timeline for handover to the local partner, once the latter has accumulated sufficient expertise. Secondly, World Bank research indicates that China's initiative to build SEZs has a greater chance of success compared to previous attempts.[110] This is primarily as a result of support (monetary and non-monetary) from government bodies such as the Ministry of Commerce, which provides grants and concessional loans to enterprises who secure projects within overseas special economic zones. Specific

[109] Deborah Brautigam, Thomas Farole and Tang Xiaoyang, "China's Investment in African Special Economic Zones," The World Bank Poverty Reduction and Economic Management Network, March 2010, 4, accessed 3 June 2016, https://openknowledge.worldbank.org/handle/10986/10202
[110] Brautigam et al, "China's Investment in Special Economic Zones," 5.

government policies in relation to SEZ's are discussed briefly as we look beyond to 2025. Three specific SEZs are examined to depict contribution to diversification of the economy as well as to highlight the relevance of China's developmental model in providing appropriate policy and technocratic assistance to Zambian officials.

A) **Lusaka South Multi-facility Economic Zone**. This zone was established in 2013, 11 companies inhabited the zone with over $120 mm in investment.[111] This SEZ focuses on attracting firms investing in R&D + Logistics.

B) **Zambia-China Economic and Trade Cooperation Zone**: This zone consists of two SEZs: The Chambishi MFEZ & The Lusaka East MFEZ. Chambishi was established in 2007, as one of the earliest SEZs in the continent. This zone is in close proximity to Zambia's largest copper mine, which is owned by China's SOE, China Non Ferrous mining corporation. Since 2007, the SEZ has seen over $1.2bn in investments and 8735 jobs.[112] Firms specializing in Copper Mining, Smelting, Mining Equipment &

[111] United Nations Development Program and International Poverty Reduction Center in China, "If Africa builds nests, will the birds come? – Comparative Study on Special Economic Zones in Africa and China," *Working Paper Series*, June 2015, 34, accessed on 3 May 2016, http://www.cn.undp.org/content/dam/china/docs/Publications/UNDP-CH-Comparative%20Study%20on%20SEZs%20in%20Africa%20and%20China%20-%20ENG.pdf.
[112] UNDP, Comparative Study on Special Economic Zones, 35.

Services, Construction vehicles & materials, chemicals & logistics are located within this zone.

C) **Lusaka East MFEZ**: This zone was established in 2010. $40 mm in investments has trickled into the zone thus far with 10 companies Agricultural Processing & Manufacturing industries.[113] These firms process agricultural goods for regional and international markets

The mere establishment of an SEZ is not enough to guarantee success as the experience of other African nations such as Nigeria indicates. Zambia's success presents valuable lessons for other African nations. Firstly, as China's decisions indicate, the choice of location is vital for an SEZ to attract foreign and domestic companies to commence operations within them. Secondly, economies of scale are created through network effects, as pools of labor that are relevant to the industries within the SEZ are established in cities surrounding the zone. While this shortfall can initially be dealt with by migration of labor, in the longer term the State needs to encourage public private partnerships to foster the creation of such a pool. Thirdly, coordination across firms with an SEZ and actors outside of it who may have a role to play within the production chain is necessary to

[113] UNDP, Comparative Study on Special Economic Zones, 38.

attracting new firms to the zone as well as to create local linkages to the domestic economy. Chinese firms who have expertise in the provision of these services can be engaged to partner with African firms to set up such services.

By mandating domestic JVs for foreign investors, a State could increase the likelihood of technology transfers, which benefit the local population. Transfer of knowledge and technology, creates jobs, boosts overall productivity, enhances competitiveness and entrepreneurship and ultimately eradicates poverty through economic growth and development.

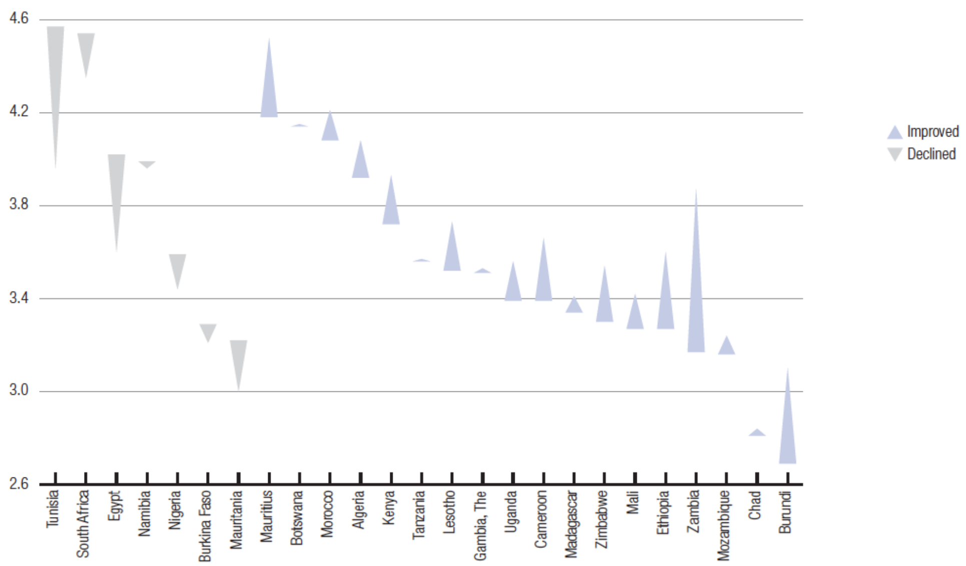
In creating a relatively stable political environment, Zambia has a competitive advantage compared to many other resource-rich nations. This is seen in Figure 5, where Zambia is among the most competitive nations in Africa despite its lower levels of development. Figure 6 provides evidence of the effectiveness of the institutional and policy developments in Zambia as a significant increase in competitiveness is seen in Zambia in 2015 versus 2007.

Figure 5: Africa Competitiveness Index

	Country/Economy	Global Competitiveness Index	BASIC REQUIREMENTS: 1st pillar: Institutions	BASIC REQUIREMENTS: 2nd pillar: Infrastructure	BASIC REQUIREMENTS: 3rd pillar: Macroeconomic environment	BASIC REQUIREMENTS: 4th pillar: Health and primary education	EFFICIENCY ENHANCERS*: 5th pillar: Higher education and training	EFFICIENCY ENHANCERS*: 6th pillar: Goods market efficiency	EFFICIENCY ENHANCERS*: 7th pillar: Labor market efficiency	EFFICIENCY ENHANCERS*: 8th pillar: Financial market development	EFFICIENCY ENHANCERS*: 9th pillar: Technological readiness
Middle-income	Mauritius	4.52	4.60	4.74	4.66	6.14	4.66	4.92	4.33	4.74	3.97
	South Africa	4.35	4.50	4.29	4.45	3.96	4.04	4.71	3.80	5.37	3.86
	Morocco	4.21	4.21	4.38	4.72	5.66	3.56	4.41	3.81	4.02	3.57
	Botswana	4.15	4.47	3.19	6.30	4.14	3.59	4.12	4.56	4.22	3.58
	Tunisia	3.96	3.70	3.80	4.03	6.00	4.28	4.03	3.51	3.35	3.38
	Namibia	3.96	4.19	4.17	4.62	4.63	3.23	4.13	4.31	4.43	3.42
	Seychelles	3.91	4.04	4.50	4.89	5.98	4.04	4.18	4.44	3.65	3.73
	Zambia	3.86	4.12	2.67	4.16	4.56	4.16	4.65	4.06	4.37	2.99
	Lesotho	3.73	3.86	2.77	5.69	4.03	3.23	4.24	4.16	3.27	2.37
	Ghana	3.71	3.85	3.03	3.38	4.46	3.46	4.34	3.94	4.15	3.11
	Senegal	3.70	3.81	2.93	4.29	3.96	3.18	4.34	4.23	3.80	3.21
	Cape Verde	3.68	3.89	3.14	4.11	5.96	3.91	4.01	3.59	3.36	3.54
	Egypt	3.60	3.41	3.20	2.96	5.37	3.27	3.95	3.08	3.19	3.21
	Swaziland	3.55	3.94	3.26	4.79	3.69	3.18	4.09	3.86	4.00	2.66

Source: Africa Competitiveness Index Report 2015

Figure 6: Change in the Performance of African Economies



Source: Data sourced from the GCR 2006–2007 (World Economic Forum, 2006) and the GCR 2014–2015 (World Economic Forum, 2014a).

Source: Africa Competitiveness Report 2015

Zambia's reputation for ensuring stability of economic and financial policy could serve as leverage if and when the Zambian government looks to impose regulations requiring a quota for local labor involvement in construction projects or mandating partnerships with local firms for foreign investors. This change could be managed by actively engaging with firms invested in the nation to discuss the proposed changes to legislation in a transparent manner and facilitating dialogue and linkages with industry trade associations and local firms who may serve as suitable partners. China and India have successfully implemented similar policies in the initial stages of development. The development of infrastructure is a crucial driver of success of a particular economic zone, this will be covered in the following section below.

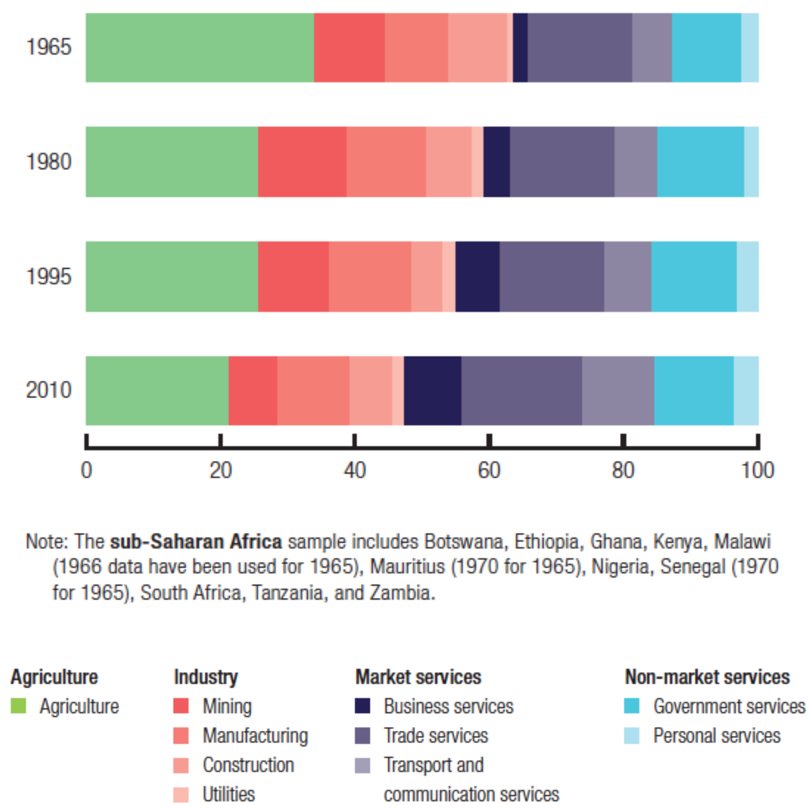
Investment in Agriculture

Zambia is endowed with 42 million hectares of land of which 1.5 million hectares is cultivated annually, while 56% of the total land mass is in fact arable and hence available for investment.[114] As the nation is endowed with up to 40% of the water resources in Central and Southern Africa, availability of irrigation is hence not a geographic constraint, but more an infrastructure investment.[115] In 2013, agriculture contributed to 18% of GDP and up to 35% of the country's non-

[114] "Why Invest in Zambia," Zambia Development Agency, 2015, accessed 3 June 2016, http://www.zda.org.zm/?q=why_invest_in_zambia.
[115] United Nations Conference on Trade and Development, "An Investment Guide to Zambia: Opportunities and Conditions," 2011, 2, accessed 16 June 2016, http://unctad.org/en/Docs/diaepcb201008_en.pdf.

traditional exports.[116] Especially for a developing nation, this investment in agriculture is critical to ensure that its rural population does not get left behind as growth traditionally largely benefits urban centers. Figure 7 from the 2015 African Competitiveness Report below indicates that while agriculture contributes to less than 30% of GDP, it employs more than 40% of the populace in countries in Sub-Saharan Africa, including Zambia.

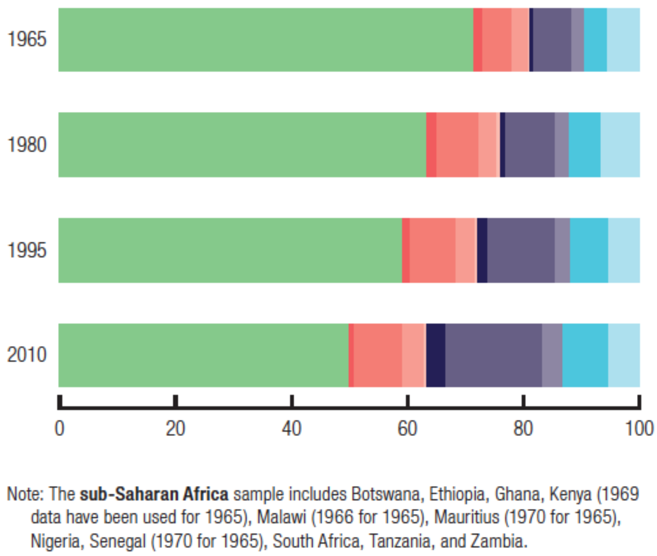
Figure 7.1: Agriculture's Contribution to GDP



Source: Africa Competitiveness Report 2015

[116] World Economic Forum, "Africa Competitiveness Report 2015," 178.

Figure 7.2: Employment of populace across sectors



Source: Africa Competitiveness Report 2015

Additionally, agricultural products contribute to the diversification of the export base. With appropriate government incentives, in the form of well-maintained infrastructure as well availability of a consistent supply of labor, Chinese corporations can be encouraged to invest in manufacturing plants that specialize in processed agricultural goods in Zambia. The production of dried mushrooms in Zambia within the Lusaka East SEZ is one such example.[117] This in turn contributes to the growth of the manufacturing sector of the economy and allows Zambia to scale up the production value chain, away from exporting unprocessed natural resources.

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[117] UNDP, Comparative Study on Special Economic Zones, 36.

China's involvement in Agriculture has two significant characteristics. Firstly, private sector involvement is higher than state involvement in Zambia. As of 2014, Zambia was home to 30 private Chinese farming corporations compared to two Chinese state owned farms.[118] Both types of farms catered to the local market. Secondly, China in adhering to its commitment to invest in human capital has established a number of "China-aided technology centers" in Zambia.[119] These are training centers that the Chinese State finances in collaboration with the University of Zambia. In these centers, farmers are trained in agricultural machinery, storage and processing of farm produce, soil management and techniques of cultivation which improve yields. Focus is on crops that are favorable to Zambian climatic conditions such as mushrooms, soya beans and other vegetables and fruits. Knowledge is also shared to improve effectiveness of life stock rearing. Such centers have been a greater part of China's investments in agriculture since the 2006 FOCAC. China has also shown a willingness to partner with institutions such as the World Bank through the Africa Skills Initiative to enable scale and share expertise given the nation's success in augmenting

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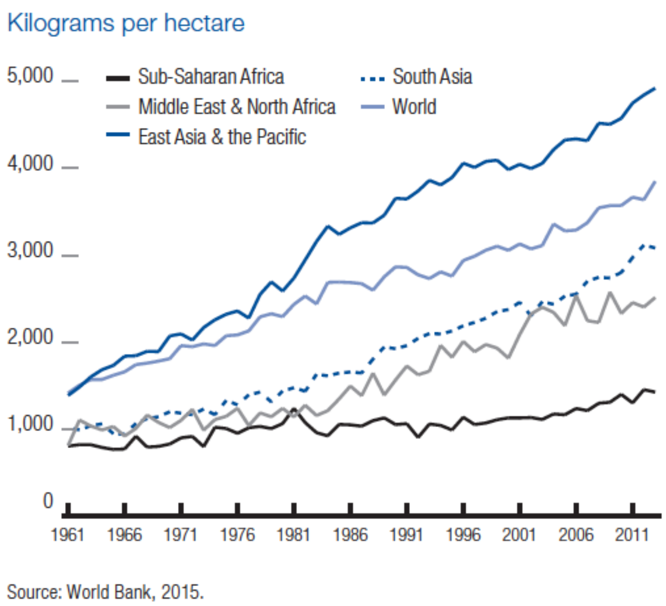
118 Solange Guo Chatelard and Jessica M. Chu, "Chinese Agricultural Engagements in Zambia: A Grassroots Analysis," Policy Brief – the SAIS China Africa Research Initiative at Johns Hopkins University, April 2015, 3, accessed on 16 May 2016, http://static1.squarespace.com/static/5652847de4b033f56d2bdc29/t/568c474fd8af1097861ed025/1452033871100/CARI_PolicyBrief_4_Jan2015.pdf.

119 "Africa Economy: China-aided center helps improve lives of Zambian farmers," Forum on China-Africa Cooperation, 17 September 2015, accessed 20 June 2016, http://www.focac.org/eng/jlydh/dfwl/t1297483.htm.

productivity in farms in China. Figure 8 below from the 2015 African Competitiveness Report depicts both the valuable nature of expertise given high levels of productivity seen in East Asian farms. This chart also highlights the importance of such initiatives for Zambia, as continued productivity increases in agriculture are imperative to ensuring availability of sufficient labor to contribute to a growing services and manufacturing base.

Figure 8: Cereal Yields by Region, 1961-2013



Source: World Bank 2016 (cited in Africa Competitiveness Report 2015)

As Zambia develops, it is likely that the contribution of agrarian sector of the economy will diminishes over time. However, to minimize development differentials between the urban and rural population, such incentives are critical. Additionally, as demonstrated in the case of a few of the SEZ's detailed above, manufacturing of agricultural goods, could serve as a conduit for redeployment of factors of production, which may presently be deployed in agriculture, to the manufacturing sector of the economy, thereby creating horizontal and vertical linkages. In Africa, where smallholder farmers, mostly women, comprise the majority, integration into agriculture value chains is crucial to creating capacity within the sector.[120]

Investment in Infrastructure

China's earliest involvement in infrastructure in Zambia was in the construction of the Tanzanian-Zambian railway line, which in the 1970s cost over $400mm, the largest foreign aid project undertaken by China at the time.[121] Since then China has continually invested in the basic infrastructure necessary for economic growth in the African continent. Examples of projects include electricity grids and roads connecting production centers to the market place. As of 2010, projects ranged from the construction of sports stadiums, to agricultural demonstration centers, hospitals and rural schools. Investment in infrastructure is critical to sustain economic growth. As World Bank economist David Dollar describes, investments in infrastructure are structurally ill-suited to attracting

[120] Solange and Chu, "Chinese Engagement in African Agriculture, 4.
[121] Amy Fallon, "Throwing the Tanzania-Zambia Railway a Lifeline," Inter Press Service, December 11 2013, accessed on 4 May 2016, http://www.ipsnews.net/2013/12/tanzania-zambia-railway-line-time-stands-still/.

private financing, as returns are long term, while initial outlays tend to be significant.[122] Additionally, political uncertainty, which is particularly acute in African nations, but prevalent in most developing nations is priced in, exaggerated returns are demanded by the private sector to compensate for these risks. Even within infrastructure, certain types of investments such as railways or roads tend to be more structurally unfavorable to private investment than telecommunication. This has resulted in an infrastructure deficit for Zambia and the continent, with the World Bank estimating a $93 billion dollar injection required on a yearly basis to build and maintain necessary infrastructure in Africa.[123]

Thus, China's model of state-led development of infrastructure has three benefits. Firstly, government spending in strengthening production infrastructure has a multiplier effect of the economy. The country benefits from the lower rates of financing that could be offered to a government versus needing to bear high costs of privatization at the initial stages. Thirdly, it allows for governments to structure agreements with foreign players who have the necessary expertise to build the required infrastructure. That China's assistance is often tied in to use of China corporations, both state-owned and private, is often raised as a concern by

[122] David Dollar, "Supply Meets Demand: Chinese Infrastructure Financing in Africa," World Bank blog, July 10 2008, accessed 23 June 2016, http://blogs.worldbank.org/eastasiapacific/supply-meets-demand-Chinese-infrastructure-financing-in-africa.
[123] Hanaeur and Morris, Chinese Engagement in Africa, 13.

international media, developmental agencies and domestic groups. However, a recent IMF study found that in many developing nations, access to financing is less of a constraint than the capacity to implement along with regulatory frameworks to support the efforts.[124] Thus, China's expertise can be leveraged to narrow this gap.

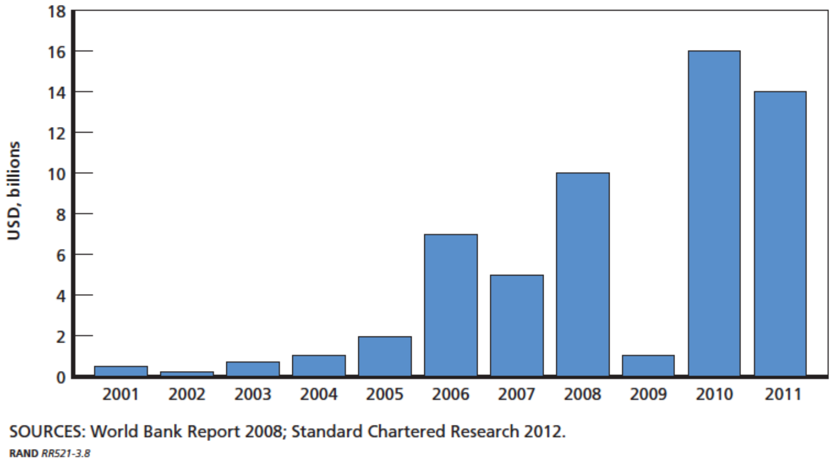
An understanding of these structural nuances can also allow the Zambian government to prioritize Chinese investment in sectors that most unfavorable to private investment. With such a model, the primary role of governance then is to ensure transfer of technologies and capability to local labor as well as transparency to minimize misappropriation of funds. The role of government as well as civil society in this regard is discussed at the end of this section.

China's investment in infrastructure across the continent has increased exponentially since 2010. It is worth noting that classification of China's spending on infrastructure tends to vary drastically across organizations and sources, given the difficulties in classifying "government" assistance. For example, initiatives by State-owned enterprises are often classified as "other" types of assistance,

[124] World Economic Forum, "Africa Competitiveness Report," 12.

whereas efforts by a foreign private corporation from the United States or Europe would be deemed as private FDI. To facilitate trend analysis, we rely on Figure 9 which has been compiled by the World Bank.

Figure 9: China's Infrastructure Finance Commitments



Source: World Bank Report 2008

In the initial stages of development, investments in infrastructure are particularly beneficial, as they benefit the poorer sections of society who may not be able to afford alternative means to access the market place. Therefore, the potential for inclusive growth increases. Secondly, infrastructure is also essential to boost labor productivity. A study across 7 African nations, mapped the contribution of ineffective infrastructure to firm productivity.[125] In Zambia, infrastructure's contribution was at 45%.[126] In addition to productivity measures,

[125] Vivien Foster and Carolina Dominguez, "Zambia's Infrastructure: A Continental Perspective," World Bank Africa Infrastructure Country Diagnostic Country Report, March 2010, 4, March 2010, accessed 3 June 2016, http://siteresources.worldbank.org/INTAFRICA/Resources/Zambia-Country_Report_03.2011.pdf
[126] Foster and Dominguez, Zambia's Infrastructure, 7.

several institutions such as the IMF and World Bank measure the direct contribution of infrastructure investments to GDP. The quality and scale achieved as a result of continued investment from China can be measured using this data point.

Spending on infrastructure and other capital-intensive investments when a country is in the nascent stages of development outpaces government revenues. Hence, most developing nations face the need to borrow from willing nations or international organizations. Zambia, pre-1991, borrowed from the IMF, and has been the beneficiary of multiple debt write-off programs for low-income countries. For a resource rich nation, large price fluctuations are often seen in the price of the natural resources. Zambia has been a victim of such price movements copper, which has resulted in a larger and significant economic slowdown – which in turn may affect ability to service debt. As the bargaining power of most African nations against China is limited when renegotiating exist debt commitments, consideration must instead be given to ensuring the debt can be serviced as required without affecting credit ratings. Two strategies can be considered in this regard – request for debt relief and the development of alternate sources of revenue to supplement the primary industry. An advantage of China's approach, is its willingness to consider debt relief in various forms including payments in kind. This is in contrast to international institutions who, as discussed in previous sections, require rapid liberalization in order to consider debt relief, which most African states are unlikely to be amenable to. Thus, while the Chinese model proves advantageous in terms of the ease of availability of inexpensive funding through the Exim Bank for example, the Zambian state needs to focus on diversification of revenue sources in ways discussed above to ensure consistent serviceability of debt.

A final comment on the nature of China's investments in infrastructure in Zambia concerns energy production. For a nation that was plagued by power failures up to the early 2000s, China's willingness to expand its know-how in hydroelectric power to other countries is invaluable to ensure sustainable growth. Zambia's 750 MW hydroelectric power plant was built by the Sino Hydro Corporation, financed by the Exim Bank.[127] It is the third largest plant in Zambia and was the country's first investment in energy infrastructure in 40 years. Leveraging China's expertise in optimizing sources of energy to fuel the production process is critical for Zambia to define a sustainable path for itself.

[127] Hanaeur and Morris, Chinese Engagement in Africa, 37.

Inequity in Sino-Zambian Relations

The sections above focus on the areas that serve as opportunity for the Zambian government to optimize benefits accrued to them and the population from the partnership with China. It is also necessary at this stage to briefly summarize the key areas of inequity. The first two are most often cited as concerns of the domestic populace. These include: a) the fundamentally extractive nature of industries whose produce Zambia exports to China, and invested in by China b) that ultimately the African nations serve as additional marketplaces for Chinese corporations and c) that working conditions in production facilities set up by Chinese corporations tend to be unsafe. China does not operate under the pretext of being a benevolent donor in Africa. Thus, that it looks to achieve resource security through it operations in Africa and is driven by self-interest is not unexpected.

However, the areas of opportunity for the Zambian state in the face of this inequity are three fold. First, in its principles of engagement in Africa, mutual benefit is emphasized. Since 2012, China has shown a greater willingness to contribute towards increasing production capacity of the African economies. Hence, success in creating horizontal linkages, where the natural resources being extracted are refined or processed in Africa, is dependent largely on the efforts of the African State to partner with China to create these manufacturing bases. Secondly, Zambia has demonstrated the ability of a state that is not the most dominant player in terms of trade or investment to shape favorable domestic outcomes from Chinese investments, while increasing government revenues. Investments in SEZs and hydroelectric power in Zambia are two such examples. Thirdly, it is essential to acknowledge that the Chinese goods imported into nations such as Zambia tend to be a) goods that Zambian firms do not have the expertise to produce and/or b) cheaper than imports from elsewhere in the world. This in turn augments purchasing power of the domestic populace.

China has also shown a greater willingness to engage with regional African organizations since 2012. The FOCAC continues to remain a forum for China to demonstrate the importance of Africa's states and leaders to the East Asian nation politically and economically. It also serves as an effective forum to outline deepening of China's commitment in Africa and any changes to its engagement strategy. Additionally, other regional organizations such as the Common Market for Eastern and Southern Africa (COMESA) and Economic Community of West African States (ECOWAS) have seen increasingly positive outcomes as a result of their engagement with China.[128] While these regional organizations were set up as early as 1978, China in its push to construct more transregional linkages has shown a greater willingness to work with these organizations to achieve specific sector-based outcomes. For example, COMESA successfully negotiated tariff free imports of cobalt and copper from Zambia, which has resulted in increased exports. Additionally, the organization also exerts pressure on China to increase domestic production in its member states, working with Chinese officials to identify feasible projects and initiatives. Such organizations will continue to play a significant role in shaping the nature and quality of outcomes of Sino-African nations as economic relations deepen.

A final area of inequity, particularly relevant to Zambia, is labor conditions in mines and plants operated by China. Accidents and threats posed by lapses in safety measures undertaken by Chinese corporations has resulted in riots and social friction. Since 2002, Zambia has been led by political parties that campaigned in strong favor of Chinese presence in the country, and those who pledged to extricate the investor from the Zambian economy. Yet, both the Chinese State and the different leaders who have been at the helm of Zambia have

[128] David Shinn and Joshua Eisenman, "Trade Relations," in *China and Africa: A Century of Engagement*, ed. David Shinn and Joshua Eisenman, (University of Pennsylvania Press: 2012), 99-127.

ultimately continually acknowledged mutual benefits from the ‘relationship’, and the need to remain considerate of each party’s concerns.[129] This is Zambia’s greatest leverage in achieving gradual change towards fairer labor and safety conditions. The democratic nature of Zambia’s government serves as an advantage here, where the nation will be forced to address the concerns of the electorate should it wish to remain in power and minimize social unrest. China because of its determination to not interfere in domestic politics will have to recognize the governmental structure as such. Civil society, which is nascent but growing in Zambia, also has a role to play in lobbying for equity in labor conditions. For example, in a representative poll of African opinions on Chinese involvement in the continent, as seen in Figure 9, the majority of individuals see China’s presence as beneficial for their respective nations. Thus, representatives from Chinese corporations can also be incentivized to work with non governmental organization to maintain this positive sentiment, while negotiating a transition to working terms and conditions that do not jeopardize Zambian lives.

[129] Barry Sautman and Yan Hairong, “African Perspectives on China-Africa Links”, *The China Quarterly*, 199: China and Africa: Emerging Patterns in Globalization and Development, (September 2009): 728-759, doi: http://www.jstor.org/stable/27756499.

Figure 10: For Your Country, is China's Path Development

Country	A very positive model (%)	Somewhat positive (%)	Irrelevant (%)	Negative (%)	Don't know (%)	Number
Botswana	16.4	39.2	15.5	9.5	19.4	232
Egypt	39.3	36.7	11.7	6.6	5.6	196
Ethiopia	33.0	52.8	4.6	6.1	3.6	197
Ghana	44.4	38.8	4.8	2.0	10.0	250
Kenya	36.2	47.4	5.6	4.6	6.1	196
Nigeria	34.5	40.6	6.1	3.6	15.2	197
South Africa	3.0	43.7	1.5	2.0	49.7	197
Sudan	44.0	40.5	4.4	6.3	4.8	252
Zambia	22.0	52.9	8.4	10.5	6.3	191
Total %	30.9	43.3	7.0	5.7	13.2	100
Total number	(589)	(826)	(133)	(108)	(252)	1,908

Source: Sautman and Hairong, African Perspectives, 741.

Conclusion

The characterization of China's relationship with Africa throughout this paper has been one of economics, and the mutual benefits of trade that typically result from trade. As such, the relationship in many ways has been one of convenience, in that Chinese trade and investment in Africa is only feasible so long as it remains profitable for China.

But at the same time, China is a complicated actor with a variety of moving parts and institutions. For all that might be said about its government, its decision-making, and its foreign policy, China dealings with the outside world is still run through a countless number of institutions with individual agendas and influence. Each institution has different economic and political incentives. In other words, a trade relationship with China is not a deal with a single actor, but rather, an agreement to cooperate with a wide number of economic and business actors.

Trying to determine how each actor will act in the future is perhaps an exercise in futility. But instead, it may make sense for an African nation to look at previous examples, to determine how the totality of circumstances and aggregation of relationships might shape the nation. This paper has taken exactly that track, with an examination of Angola and Zambia's dealings with China to determine common patterns and trends in its economic relations.

Perhaps the greatest point of emphasis should be China's adaptability and flexibility in its investment decisions. In examining the different ways China constructs deals with Angola and Zambia, and in searching for policy options experienced by other nation's dealing with China, it is striking as to China's willingness to adapt the framework of the Angola model to match an individual nation's local political and cultural situation. The Angola model has been described as development model dependent on a nation having the requisite natural resources that China desires. For the most part, that characterization is correct, and the economic and financial logic behind that decision-making is sound. But the desire for Chinese actors to reap economic benefits in these trade relations means that the Angola model is not a one-sided negotiation on the part of China. Previous examples of the Chinese using the Angola model as an investment framework has shown a layered and nuanced application in each case, suggesting a respect and understanding of local conditions.

With that respect and understanding comes room for negotiation. So long as there is flexibility within the Angola model, the model will likely remain viable as a development model available for other developing nations around the world. Developing nations, in pursuing a new or continuing investment relations with China, should not be discouraged by their own geographical or resource limitations, but instead should look at the Angola model as simply a starting framework that can be molded to fit local needs.

This paper has not attempted to perform statistical analyses of various developmental models, including the Angola model. However, in analyzing the ability of developing nations to optimize benefits within this model, it seems likely that the Angola model as a developmental model is here to stay, especially with China's growing influence in the world. Whether China is becoming a neo-colonial power is beside the point. The more important point is that China is increasingly becoming a viable and attractive alternative source of development funds and investment, where such sources are already extremely limited. As such, developing nations should share in the common goal of not standardizing the process of obtaining such development funds, but rather, optimizing such funds based on local needs and limitations.

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