CHAPTER 3

Going Global: Foreign Aid in the Toolkit of a Rising China

On a piece of property owned by the Tanzanian Ministry of Defense, a small factory sits behind a sliding black gate marked "Tanzansino United Pharmaceuticals (T) Ltd." A stadium built by the Chinese towers in the background, glinting in the sunlight. China's old and new foreign aid meet here, in a flat and sandy neighborhood just outside of Dar es Salaam.

I visited Tanzansino with a member of its board of directors, Zhou Yong. Zhou is an old friend of Beijing University historian Li Baoping, a fluent Swahili speaker who is in turn good friends with Jamie Monson, chair of the history department at Minnesota's Carleton College, and an expert on the Tan-Zam Railway. Jamie introduced me to Li Baoping, who gave me an introduction to Zhou Yong. *Guanxi* ("connections") like this helped to open gates like Tanzansino's in Tanzania.

The factory was built as a Chinese aid project close to the end of the Maoist period.[1] It aimed to produce tropical vaccines and medicines, one of a handful of enterprises operated directly by the Tanzanian military. While Tanzania has been at peace for all of the years of its independence, Julius Nyerere maintained a relatively robust army. At one point, with the tacit support of all his neighbors, he marched the army across the border with Uganda to oust the brutal dictator Idi Amin after he had begun to threaten Tanzania.

Nyerere's army was successful in ridding Uganda of Idi Amin, who went into exile in Saudi Arabia. The factory, under Tanzanian management, was less successful. The Chinese were asked to return. In 1997, the embassy brokered a $3 million joint venture between New Technological Applications Center of northern China's Shanxi province and the Tanzanian Ministry of Defense. The factory limped along more or less until 2006, when Wang Lichen, the Chinese entrepreneur who started Holley Pharmaceuticals, saw an opportunity. One of Holley's specialties is artemisinin, an effective anti-malarial medicine derived from a Chinese shrub *Artemisia annua*, a variety of witch hazel. Holley was growing *Artemisia annua* in the purple mountains near Chongqing. Could the shrub also grow in Africa?

Wang Lichen is bullish on Africa: he is also the vice-chairman of the China–Africa Business Council. His company has distribution outlets in Tanzania, Kenya, Cameroon, Uganda, and Nigeria. China has targeted pharmaceuticals like his as a key technology export sector, one marked out for state support. Indeed, one of the promises made at the lavish November 2006 Forum on China–Africa Cooperation (FOCAC) Summit in Beijing was a grant of almost $38 million to supply artemisinin to the thirty malarial treatment centers China promised to construct across Africa.

Holley hired Zhou Yong, who had originally come to Tanzania in 1999 to run distribution and marketing for a Chinese pharmaceutical company, and made him the managing director of their Tanzania branch. They bought out the Shanxi company's shares, and applied for a Chinese loan to expand the joint venture. In 2006, Holley invested more than six million dollars in an *Artemisia annua* plantation in Tanzania.

Why did Holley set up in Tanzania, I asked Zhou Yong, as we drove out to see the factory under the blazing January sun. "The cost of importing medicine from China is high," Zhou Yong told me. "This creates an opportunity for us to produce locally. And the Tanzanian government gives a 15 percent preference for local products for its medical stores." I asked him what help he had gotten from the Chinese government. "They helped a lot in making contacts." He ticked off a few more points. "The Chinese government will buy our product to make donations to local hospitals and clinics. And the government has sent two medical teams, one in Zanzibar and one on the mainland. It's a good opportunity for us to introduce Chinese medicine."

The stadium towering above the factory shows another side of China's aid. In 2000, Tanzanian President Benjamin Mkapa, elected to succeed

Julius Nyerere when Nyerere stepped down, promised Tanzanians that he would build a state-of-the-art 60,000 seat stadium before leaving office in 2005. "The President made a commitment that he would like to leave Tanzanians a good stadium," Tanzania's Foreign Affairs Minister Jakaya Kikwete, who signed the agreement, told the BBC news.

But Mkapa found that it was not so easy to arrange to build the stadium. Tanzania was a Highly Indebted Poor Country (HIPC). Under the 1996 HIPC program, international donors were prepared to cancel some of Tanzania's mountain of debt to the World Bank and the IMF, but only if the government maintained a strict program of austere spending. To the Bretton Woods institutions, building a modern stadium in a poor country with an annual per capita income of $330 seemed a bit like the Romans building a new coliseum with the barbarians camped outside the city walls. It may have been a project with genuine local ownership. But was this really a good idea?

Mkapa pressed ahead. The Tanzanian government issued a tender for a very ambitious project, with an Olympic-size swimming pool, an athletes' village, and other amenities. In 2004, a French company, Vinci Construction Grands Projets, won the tender with a bid of $154 million. Under pressure from Washington, the Tanzanians reluctantly abandoned this more expensive option. Its cost "would have sown panic in the Bretton Woods institutions," a journalist noted.[2] They turned to the Chinese.

The stadium is "a *special* aid project," an official at the Chinese embassy acknowledged. Usually the Chinese government provides all the funding for projects like stadiums, but in this their grant of $20 million covered only half of the estimated cost; the Tanzanians would have to raise the rest. Beijing Construction Engineering Group got the contract. Mkapa (and the ruling party) got their stadium – a considerably simpler version. The International Monetary Fund continued to object, pointing out that the stadium's cost had not been included in the Public Expenditure Review, Tanzania's annual report card to its major donors. But President Mpaka "is very happy," a Tanzanian official said at the time, "because all of this is his work, the credit goes to him and I am confident that the stadium will be ready before the next elections."

The stadium, and the pharmaceutical factory sitting in its shadow, represented the political side of China's aid (the joint venture with the

Ministry of Defense, the stadium a politically important "prestige project"). But the factory is now in its third life: first as a traditional aid project, second as one of the joint ventures that rose in the consolidation experiments of the 1980s, and now part of the wave of Chinese companies *going global*. In Africa, there are many misconceptions about China's "going global" strategy. Some believe it is all about resources, others that it began as recently as 2002. Below, we will see how deep are the roots of this strategy, as well as how it works today.

Chinese leader Deng Xiaoping's cautious Open Door policies included "going out" as well as "bringing in." Chinese firms made their first tentative steps overseas in 1979. Through the 1980s, as we saw in the previous chapter, the government encouraged state-owned companies to bid on contracts, and form joint-ventures abroad. By the early 1990s, provinces like Fujian and Guangdong were actively promoting the overseas activities of their companies. Policymakers created additional tools and instruments to promote trade and investment overseas during the 1990s.[3]

As China entered the new millennium, its leaders' economic concerns continued to center on the United States, Europe, and Japan. Gaining access to the advanced technologies of these countries was a key reason why China applied to join the World Trade Organization. Those negotiations took nearly fifteen years, snagging frequently on details of China's pledge to liberalize its markets. During all that time, Beijing steadily prepared for WTO entry with its hallmark gradual reforms. Finally, in December 2001, China was admitted to the WTO. That year, China's tenth five-year plan marked the escalation of China's own globalization, "with Chinese characteristics." It formalized the directive for Chinese companies to "go global": *zou chuqu*.

Zou chuqu means, literally, "walk out." Walking out involved trade – finding *new markets* – as one step. But there was more. Chinese companies at the high end would be asked to establish *brand names* with global recognition (Lenovo in computers, Huawei in telecoms, Haier in home appliances). They would be encouraged to *invest overseas*, establish factories, buy property. Small and medium-sized companies would also be encouraged to go out, particularly those at the lower end, where moving offshore would aid China's domestic restructuring. Characteristically, the Chinese embrace of globalization, and the role aid would play in that embrace, would not look much like globalization viewed from the West.

Battle in Seattle

The establishment of the World Trade Organization (WTO) in 1995 marked a milestone in the march toward a global market. The WTO absorbed the GATT, the gradually negotiated set of rules established in 1947 to organize trade among the world's industrialized, capitalist economies. This new organization was also tasked with the incorporation of items on the "new" trade agenda – services, investment, and intellectual property rights – into the global trade regime. Yet almost as soon as the WTO began operations, the world's giddy rush toward globalization stumbled badly. Financial markets imploded across the developing world, a warning that would fail to avert the even more severe banking crisis that roiled the global economy in 2008.

The first post-WTO crisis began in Asia. Encouraged, and sometimes pressured, to remove restrictions on the free movement of capital ("open their capital accounts") before their regulatory systems were robust enough to regulate these flows, a number of Asian countries were ripe for disaster. It happened first in Thailand, where real estate troubles triggered capital flight, and ultimately a collapse of the Thai currency. Spooked, nearly $150 billion in foreign capital fled the Asia region in the course of a few months in the second half of 1997.

The economic crisis spread like a virus, with exchange rates tumbling across Asia. Former World Bank vice-president and Nobel laureate Joseph Stiglitz later charged that Washington – and the Bretton Woods institutions more generally – had badly bungled their response to the crisis, insisting on austerity and tighter monetary policy when the situation demanded exactly the opposite. The Chinese reacted with great sangfroid. They had not opened their own capital accounts, and they refused to exploit the crisis by devaluing their currency to grab market share from the more troubled countries. Beijing contributed one billion dollars to a temporary loan fund established by the IMF to assist Thailand. Nevertheless, there followed similar meltdowns, as Russia was forced to default on its external debt in 1998 and the Brazilian exchange rate collapsed that same year.

Then, in the spring of 1999, as Asia was still smarting from the wounds of its crisis, protests erupted into riots in Seattle, where the World Trade Organization was holding its annual ministerial meeting. Anarchists wearing black face masks smashed the windows of Starbucks and McDonalds. More thoughtful critics called on WTO members to reject the market fundamentalism that they said put the rights of corporations and private investors above those of workers, consumers, ordinary people, and the environment. These protests were a backlash against the power of a small group of countries (especially the United States) that had played a large role in shaping the global financial architecture and foreign aid to reflect *their* priorities and ideologies.

Rallies and marches began to take place outside meetings of the Geneva-based World Economic Forum, and each April at the meetings of the world's finance ministers at the Bretton Woods institutions in Washington DC. The September 2001 terrorist attacks in Manhattan that toppled the World Trade Center pushed the backlash against globalization off the front page. Yet the Bush administration's subsequent "war on terror" failed to recognize that the fallen twin towers were also symbolic of the fragility of the global financial architecture, something that became painfully apparent to the world with the financial turmoil that began in 2008.

In Africa, structural adjustment policies with their focus on growth, and demands for liberalization and privatization, continued to frame aid during the 1990s, even as aid officials and recipients alike grew increasingly weary of the failure of adjustment to foster economic recovery. Critics described the process as an elaborate charade: aid recipients pretending they would reform, and donors pretending to believe them. (China's promise to give aid "without conditions" showed how little the Chinese thought of all this.)

Even as structural adjustment continued to shape aid from the West, a renewed focus on poverty, governance, and concern about the cumulative debt and financial crisis that had plagued the developing countries since the 1980s gradually gained momentum. A coalition of NGOs called Jubilee 2000 built support for an agreement to cancel debt owed by the Highly Indebted Poor Countries (HIPCs). And in September 2000, almost 150 world leaders at the UN's Millennium Summit signed off on a symbolic commitment to eight Millennium Development Goals (MDGs) at the United Nations.

Pushed by Jeffrey Sachs, director of the Earth Institute at Columbia University, the MDGs marked a resurgence of optimism about aid.

In many ways, the eight goals were a triumph for NGOs and other critics of structural adjustment. The MDGs focused attention on *social* development: ending poverty and hunger, combating malaria, achieving gender equality and universal primary education. In Africa, donors increased their funding for social sector programs to 60 percent of the total.[4] But there was a cost. Funding for agriculture, which in the late 1980s received more than a quarter of total aid to Africa, fell to only 4 percent. Aid for manufacturing and infrastructure dropped to historic lows. The traditional donors left a vacuum, and who was there, ready to step in? The Chinese.

Deeper into Africa

China's rise as a donor *and* development model happened as many in Africa and elsewhere were growing weary with the old models of aid and global engagement. Chinese President Jiang Zemin attended the UN Millennial Summit in New York, but no doubt as he stood there with the other world leaders, he was thinking about another meeting that would take place in Beijing a month later: the launch of the new Forum on China–Africa Cooperation (FOCAC), in October 2000. Forty-four African countries sent their foreign ministers and those responsible for economic affairs to Beijing. Much like the FOCAC Summit held in Beijing in 2006, the first FOCAC meeting contained pledges that China would establish an array of new programs – debt relief, training programs, an investment fund – to move its economic cooperation with Africa forward.

In 2000, China was starting to harvest the fruits of nearly two decades of reform in its aid and economic relations with Africa. Buildings financed by China's aid or built by Chinese contractors had reshaped the skylines of dozens of African cities. In Ethiopia, Rwanda, and elsewhere, Chinese contractors who had originally arrived to carry out Chinese aid projects were now winning half or more of the construction contracts funded by other donors. Dar es Salaam alone had eight resident Chinese engineering companies, which had won more than 170 small and large contracts between 1990 and 1997.[5] A total of 42,393 Chinese engineers and skilled laborers were working in Africa in 2000.[6] China's Ministry of Commerce[7] approved fifty-seven Chinese investments in Africa that year, bringing the total number to just under 500. Two-way trade between China and Africa surpassed ten billion dollars. All this happened without much comment from the West.

As should be clear by now, Beijing's engagement with Africa involved a well-thought-out and long-term strategy, not the hasty, desperate scramble familiar from media headlines. This strategy addressed three central political and economic challenges. *First*, rapid growth was already outpacing China's ample natural resource base. In 1993, China became a net importer of oil. Logging had increased, and China was losing 500,000 hectares of forest every year, putting pressure on the watersheds. Africa's vast natural resources were a growing attraction. *Second* was a political challenge. Beijing needed to calm concerns that its rapid rise would preempt other developing countries' development prospects. It needed to establish China's reputation as a rising but "responsible" power.[8] And, as always, front and center among Chinese political concerns in Africa was Taiwan and its continuing campaign for diplomatic recognition. China's embrace of globalization created the *third* challenge. China would need to expand into new markets, manage the upgrading of its increasingly "mature" domestic industries, and build up its fledgling multinational corporations, those like Holley Pharmaceutical.

Beijing proceeded in three steps. First, a major aid reform in 1995 created new instruments to link aid, trade, and investment together. Second, after 2000, Chinese leaders took on a much higher profile stance as promoters of "common prosperity," creating regional organizations to support a series of programs that combined aid and economic cooperation. Third, parallel to joining the World Trade Organization, Beijing refined its portfolio of tools to aid its domestic restructuring by pushing its mature "sunset" industries offshore. A quiet decision to establish up to *fifty* special economic cooperation zones in other countries would become the most visible signal of this step.

Value for Money

China's 1995 aid reform, the *Indian Ocean Newsletter* commented, "marks the determination of the Beijing authorities to put an end to the era of pouring funds down drains and subsidizing flamboyant sports stadiums and presidential palaces. Now, the People's Republic of China wants value for its money."[9] In the 1990s, Beijing implemented a series of reforms that would shape China's aid program well into the new millennium. The reforms were sparked by lessons gleaned from the experiments of the 1980s, collected and discussed at a 1991 national conference on foreign aid. But they were also a product of public management reforms in China that went well beyond aid. They emphasized competition, efficiency, and "market-oriented" principles in the use of public money, including foreign aid.

Two organizational changes in the 1990s were especially key for the aid program. First, the trading companies and economic cooperation corporations owned by Chinese ministries were further separated from their parent ministries and pushed to operate as independent companies, responsible for their own profits and losses. These companies had been given limited independence to seek new business in the 1980s. But over the 1990s, their budgets would be progressively "hardened" and they could no longer count on regular transfers of budget support. Eventually, in the early 2000s, some of the large, state-owned enterprises would be closed down or merged, and almost all small and medium-sized firms would be privatized.

As we sat in his air-conditioned office in an otherwise eerily deserted building in Freetown, George Guo, managing director of the Magbass sugar complex, told me how these reforms affected his company, China Complete Plant Import and Export Corporation (Complant), previously owned by the Ministry of Commerce. "In 1993, Complant became an independent company," Guo said, "so we had to find commercial opportunities. We found that sugar was a good business, especially if it was a former aid project." Complant started by leasing one of China's former aid projects in Togo. "When we had success in Togo, we went to Madagascar. We changed from 'management cooperation,' where the local government is responsible, but the Chinese are asked to give continual help, to doing it on a purely commercial basis," he said.

In 1994, a second organizational change created three "policy banks" (China Development Bank, China Export Import Bank, and China Agricultural Development Bank). While other state-owned banks were asked to operate more on commercial principles, the three policy banks remained tools of the government, allowing Beijing to allocate preferential or targeted finance through a hybrid of planning and market means. China Eximbank and China Development Bank began to operate overseas.

The importance of policy banks like the Eximbank and China Development Bank in China's development model and its international economic relations cannot be emphasized too strongly. China, as I noted earlier, is in many ways a typical East Asian *developmental state*. It acts to accelerate development through the deliberate use of state policies. The central characteristic of a developmental state is its control over finance. This control need not be exclusive – but it must be important at the margin in order to influence the behavior of firms in directions determined by political leaders. In this regard, Beijing is following directly in the footsteps of the earlier Asian successes, Japan, Korea, and Taiwan, who all used development finance to "pick winners" in the globalization race.

In China, aid would become part of that process. The Chinese had learned a lot from being a *recipient* of aid, particularly aid from Japan. During the early 1990s, those lessons fed into the active debates on aid reform. In a rare glimpse into the thinking of China's leaders, we have a 1993 statement from Wu Yi, China's Minister of Foreign Economic Relations and Trade. China was reforming its aid program, "using as our reference the internationally practiced and effective ways of providing aid."[10]

The centerpiece of the reforms was the launch in 1995 of an entirely new system of concessional aid loans, offered through China's Eximbank. We will look at this more closely in the next chapter. But let me emphasize here that this 1995 reform marked the most dramatic formal change in China's aid program since its inception. In effect, China launched a new aid program.

Also in 1995, a clear mandate came down to the Ministry of Commerce from China's State Council: *combine aid to Africa, mutual cooperation, and trade together*.[11] The strategy was called the "Great (or 'Mega') Economic and Trade Strategy." The point was simple. Aid would be used to foster three kinds of initiatives, all growing out of the experiments of the 1980s and early 1990s.

Joint-venture investments in manufacturing and agriculture were first on the list. For example, Mauritius received a concessional line of credit of about six million dollars to support productive joint-venture projects.[12]

Assembly factories were a second target. Set up by Chinese companies in Africa, they would create demand for exports of Chinese machinery and parts, as well as fabric and other inputs. As the government put it in 1995: "Chinese trade corporations and manufacturing enterprises should be encouraged to invest in African countries with better investment climate to promote the export of our medium and small equipment, processing machinery, relevant technology, and labor service."[13] Vehicle assembly factories were set up with concessional loans in Côte d'Ivoire, Cameroon, and elsewhere. Finally, the government emphasized exploration and investment in mineral and forest resources. In 1996, long before the war in Darfur erupted, Sudan became the first country to receive Chinese aid to finance oil exploration, in a joint venture with China National Oil Corporation.[14]

The new aid program was deliberately shaped to assist Chinese firms to enter an unfamiliar region with daunting challenges. As Europe, the US, and especially Japan had long been doing, the Chinese now wanted to channel their aid money more directly as support for "mutually beneficial" business. But for countries in Africa long accustomed to the flexible, zero-interest terms of China's traditional aid, the announcement that China would now be offering more aid, albeit at a considerably higher cost, through its new Eximbank was at best a mixed blessing.

Entering Europe's Backyard

As the vacuum in Africa grew larger, with European and other wealthy countries de-investing and shifting aid funding out of infrastructure, industry, and agriculture, Chinese leaders saw vast opportunities for a new approach that would meet their own political and economic needs, as well as Africa's. Year after year, the Department of Foreign Aid reported that they were "pushing and supporting" (1992) or that they had "actively propelled" (1998) Chinese companies to do business overseas.[15] There were just two problems. More independent now, China's companies did not seem terribly interested in seeking business in Africa. They still saw Africa as Europe's backyard. Just as importantly, China's traditional partners in Africa were alarmed at the change in aid policy and unsure what it would mean for them.

The Chinese government had a lot of ideas for what Chinese companies should do: they should actually come to Africa and do intensive studies of local markets; the Ministry would help organize delegations. If exporting machinery, they should set up repair and maintenance shops to guarantee that customers' needs would be taken care of. If exporting Chinese medicine, companies should take care to translate directions in English and in French.

For their part, the Chinese government adopted a multifaceted approach to promote their new strategy and market it to African leaders. The state-owned Bank of China was directed to set up a branch office in Zambia in 1997, and China Construction Bank opened an office in Johannesburg in October 2000 to make it easier for Chinese companies to enter unfamiliar territory. Eximbank began offering preferential loans to construction firms in 1998 to boost their ability to win contracts overseas in the Middle East, South Asia, and Africa. This, explained a *People's Daily* story, will help them in a sector "which had long been monopolized by developed countries."[16] Eximbank followed this by opening overseas branches in Côte d'Ivoire and South Africa.

The State Council also directed China's state-owned companies to launch a number of trade, investment, and development centers across Africa. Each center was to be built and operated independently by an experienced Chinese company with extensive business interests in that country. The centers offered bonded warehouses for traders, referrals for legal assistance, travel and banking advice, and help with the complicated matters of customs clearance. In December 1995, Complant, newly independent from the Ministry, opened the first trade, investment, and development center in Guinea, China's first aid recipient. At least ten other centers followed.[17]

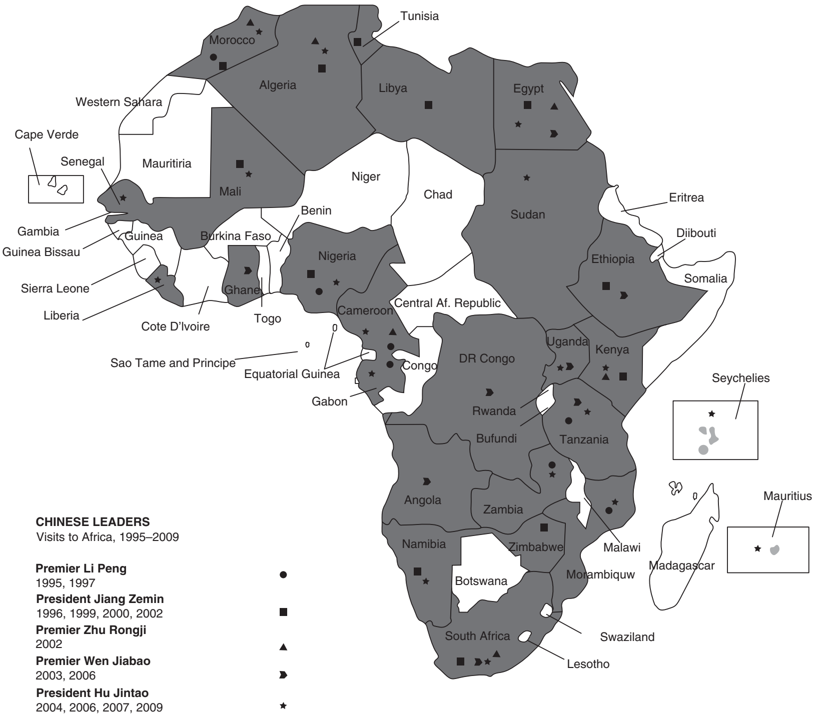
This was a potent symbol of the shift in priorities. The centers were constructed on a standard "build–operate–transfer" model. In Benin, for example, the Chinese government contributed a grant of RMB 17 million ($2.5 million) out of its aid budget to build the five-floor center, while Zhejiang Tianshi International Economic and Technical Cooperation Company did the design and construction. In a pattern that would become standard for the mix of aid and business, the Chinese company financed a share of the cost (about a quarter, in the Benin case) in return for the right to run the center for fifty years, after which it would be turned over to the host country.[18]

Additionally, the Ministry directed its municipal and provincial branches to organize delegations of "outstanding enterprises" to travel to Africa, exposing them to opportunities on the ground. A delegation from Yunnan province visited Djibouti in December 1995, and discussed setting up a tobacco farm, and a public–private partnership with the state-owned electricity utility. One of the Yunnan companies on this delegation later won a contract to manage Djibouti's Sheraton Hotel. These delegations increased after the millennium. In 2007, for example, Guangdong province organized a business seminar in Dar es Salaam, attended by 900 Chinese business people.

The new strategy was capped by a dramatic increase in visits by top leaders to Africa, where they explained and marketed the new program of aid and economic cooperation. Three Chinese vice-premiers fanned out to visit a total of *eighteen* African countries in 1995. Chinese premier Li Peng visited Morocco that year, and the following year President Jiang Zemin traveled to six African countries, the first time a Chinese president had ever visited Africa. Premier Li Peng followed this with a 1997 trip to six more African countries (Figure 3.1 maps the visits of top Chinese leaders since 1995). Li Peng emphasized to his worried hosts that "China's basic policy of providing aid to Africa has not changed [but] . . . China's policy has moved from aid donation to economic cooperation for mutual benefit."[19]

Zhu Rongji and the Tan-Zam Railway *Redux*

The challenge of explaining China's aid reforms may have been toughest with China's close allies, Tanzania and Zambia. Vice-premier Zhu Rongji, who had been purged several times in the Maoist era for his "rightist" views, was in charge of breaking the news about the shift in aid policy and how it might affect China's flagship project, the Tanzania–Zambia Railway. Zhu, a trained engineer who would become China's premier in 1998, was a complicated man. Alleged to be a direct descendant of the emperor who founded China's Ming Dynasty, he was known as China's "economic czar." Zhu pushed hard on issues such as China's WTO membership, global engagement, and domestic restructuring, but he was also intensely practical. Once, at a state banquet in Australia, he failed to reappear from a visit to the


Tunisia
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Benin
Gambia
Guinea Bissau
Guinea
Burkina Faso
Nigeria
Ethiopia
Somalia
Sierra Leone
Ghane
Liberia
Cote D'Ivoire
Togo
Cameroon
Central Af. Republic
Sao Tame and Principe
Equatorial Guinea
Congo
DR Congo
Uganda
Kenya
Gabon
Rwanda
Bufundi
Tanzania
Seychelies
Angola
Zambia
Mauritius
Malawi
Namibia
Zimbabwe
Madagascar
Botswana
Morambiquw
South Africa
Swaziland
Lesotho
CHINESE LEADERS
Visits to Africa, 1995–2009
Premier Li Peng
1995, 1997 ●
President Jiang Zemin
1996, 1999, 2000, 2002 ■
Premier Zhu Rongji
2002 ▲
Premier Wen Jiabao
2003, 2006 ◗
President Hu Jintao
2004, 2006, 2007, 2009 ★

Fig. 3.1. Map of Chinese leaders' visits to Africa

lavatory. Security officials found him studying the mechanism inside the water-saving toilet, which he had disassembled. Given this, his attitude to the iconic railway is perhaps not so surprising.

The Tan-Zam Railway was a problem, and Zhu Rongji confronted it during his 1995 visit without a lot of sentiment. He knew the history: after the iconic railway was handed over in 1976, a group of Chinese experts remained behind to provide technical training, but the railway was operated by local staff. Losses mounted, and service deteriorated. In 1983, under the aid consolidation program, Tanzania and Zambia agreed to invite Chinese managers back. Two hundred and fifty Chinese were soon stationed across the different bureaus of the railway, in most of the top management positions. They raised the efficiency of the railway, paid their own expenses out of the revenues, and began to report operating profits. But China continued to provide new zero-interest loans for spare parts and rehabilitation, rescheduling payment when necessary.

In 1995, under pressure from other donors (some of whom were also financing Tazara), the railway was allowed to run on more commercial principles. This prompted concerns in Tanzania that socialist China would cease supporting the railway. But Zhu Rongji complimented the government on its "boldness" in making reforms.[20] Commercializing the railway should ensure better services, he said, and he promised a new aid loan. Noting that the railway was currently employing about *2,500* more workers than was necessary, Zhu commented briskly: "Laying off workers is not a good thing, but we will have no alternative of making *our railway* run efficiently other than doing what the reality dictates."[21]

Zhu's practical advice might have come from the local World Bank representative. The efforts to consolidate aid projects in the 1980s convinced the Chinese that aid for productive projects would only be sustainable if it involved Chinese companies more directly. By 1995, the Chinese attitude was not far from the famous Berg Report that blamed African governments for the problems plaguing the World Bank's projects in Africa.[22] But the solution was radically different. Structural adjustment programs were trying to use conditionality to create an enabling environment for the private sector in Africa. The Chinese also decided to use part of their aid to support private sector initiatives, *but* they did it by fostering cooperation directly between Chinese companies and those in the recipient countries. "Complant really started to expand into investment around the time of Zhu Rongji's visit to Africa," as the manager of China's Magbass sugar complex, George Guo, told me later. China's effort to promote exports to Africa, Europe's backyard, had another effect: a proliferation of Chinese traders in African markets.

"Koni . . . Koni . . . Koni"

In early 2008, the rains were late in northern Namibia. Between 2004 and 2008, as Swiss anthropologist Gregor Dobler reported, the number of Chinese shops in the border town of Oshikango quadrupled.[23] Rumors began to spread through villages near the Angolan border that the drought was God's punishment: Namibians had allowed the Chinese traders to open their shops on Sundays. In Dar es Salaam, Chinese traders were increasingly visible in the busy central market neighborhood of Kariakoo. Their small crowded shops sold traditional medicine, hair pieces, embroidered fabrics, and other Chinese goods. Some Chinese traders were even competing with the village women, squatting on the ground selling groundnuts and roast corn outside the fish market and the bus terminal, enticing customers with Swahili shouts of "Kranga . . . kranga . . . kranga! Koni . . . koni . . . koni!"[24]

In the 1990s, Chinese products and Chinese traders became a rapidly growing part of the landscape in African cities and rural towns. Many established larger, more formal shops to import Chinese vehicles, machinery, electronics, and equipment. Chinese companies were encouraged to sell and service small power tillers and other kinds of agricultural machinery first introduced through aid programs. In addition, with aid projects at one time or another in every country in Africa but Swaziland, and teams of Chinese laborers imported to work on these projects, some stayed behind. Drawing on *guanxi* (connections) to set up an import business was a fairly easy way to finance the first stage of plans that generally went far beyond a small market stall (or a patch of ground on which to sell groundnuts). This accelerated after emigration rules were somewhat relaxed in China in 1985. The pattern we see today of a Chinese presence in African markets is partly due to the success of government programs to push Chinese export businesses to expand into Africa, but there is no evidence that the Chinese government sends workers to Africa under a *plan* to have them remain behind as traders. These are individual decisions.

Packaging Soft Power

The process of preparing for WTO entry, the need for natural resources, and the goal of building and diversifying trade, meant that Beijing continued to be interested in Africa and other parts of the developing world for economic reasons. But, as the quiet ongoing diplomatic war with Taipei laid out in Chapter 1 made clear, China also needed to package itself as a *politically* attractive partner. In addition, as a rising power engaging overseas in foreign investment and resource extraction, Beijing wanted to make the case that China was not simply a newer version of Japan and the Western "imperialist powers." Beijing needed to make its aid and other forms of what Harvard professor Joseph Nye has called "soft power" much more visible. It needed to convince other developing countries that China's rise would be peaceful, and not zero-sum.[25]

Public framing of the growing ties with Africa as "win-win" took top priority. In 2000, as we saw above, the Chinese unveiled the Forum on China–Africa Cooperation. But the FOCAC model was soon echoed in the China–Caribbean Economic and Trade Cooperation Forum, and a similar forum linking China and Portuguese-speaking countries, both launched in 2003. The Forum on Cooperation between China and Arab States followed in 2004, and the China–Pacific Islands Economic Development Forum was set up in 2006. All of the new forums framed aid within a broad set of economic cooperation policies, and allowed for regular dialogue and high-level meetings. Each included promises of preferential funds for investment, tariff-free entry to China for many categories of goods, cancellation of debts, scholarships and training in China for officials from the region, and so on.

China's growing political engagement in Africa was clearly part of a broader strategy of engagement with the developing world more generally. In September 2005, Chinese President Hu Jintao reinforced this with a speech at the United Nations Summit on financing the Millennium Development Goals. China would step up to the plate, he said. Hu Jintao pledged to train 30,000 people and provide *ten billion dollars* in concessional finance and export credits to developing countries, over the next three years.[26]

Dragon Heads

"Going global" was partly about supporting sophisticated, high value-added, brand-name companies with their own intellectual property. It was also about nurturing "dragon heads" (national champions) to become globally competitive multinational firms. As part of the push, Eximbank and the National Development and Reform Commission (NDRC, China's state planning authority) began to provide lower-cost loans to Chinese companies to help them expand overseas.

The telecommunications firm Huawei received a $10 billion line of credit from China Development Bank to support its "going global" activities.[27] China National Oil Company landed a soft loan of $1.6 billion (repayable over ten years) for its investments in Nigeria. Several large construction firms like Beijing Construction Engineering Group (which built the US embassy in Beijing) received attractive lines of credit from China Eximbank. This helped them win bids to build dozens of overseas projects – casinos in

Las Vegas and the Bahamas, as well as the gleaming new stadium just outside of Dar es Salaam that we saw at the start of this chapter. China State Construction Engineering Corporation gained a $3 billion, five-year preferential line of credit in 2005, something that boosted its ability to win bids on contracts from Ethiopia to Botswana.

To foster the overseas investment, engineering contracts, and search for new markets that were all part of "going global," Beijing promised diplomatic support, export tax exemptions, help with risk assessments, easier emigration approvals, and insurance. They set up programs to give enterprises "with comparative advantages" interest rate rebates for loans taken out from China's domestic banks to finance working capital for overseas engineering contracts valued at $5 million and above.[28]

Investment responded to the incentives. Figures 3.2 and 3.3 show the growth over four short years in Chinese overseas investment in agriculture-related activities, mining, and manufacturing. They also show that this growth is not particularly steady. One reason may be *changes* in the incentives, put in place by the Chinese government to fine-tune investment decisions by firms. The State Council publishes regular catalogs listing overseas activities that are eligible (or not) for this support, and countries where investment would be encouraged (or not). For 2007, unsurprisingly, Beijing provided support for projects involving petroleum and a host of minerals, but also encouraged rubber and fuel oil plantations, cotton farms,

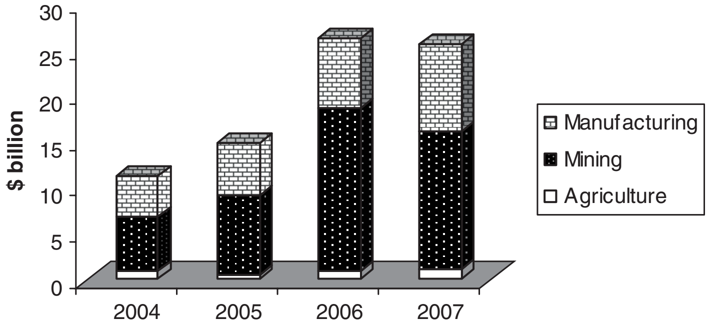

Fig. 3.2. Chinese outward FDI stocks: Manufacturing, mining, and agriculture

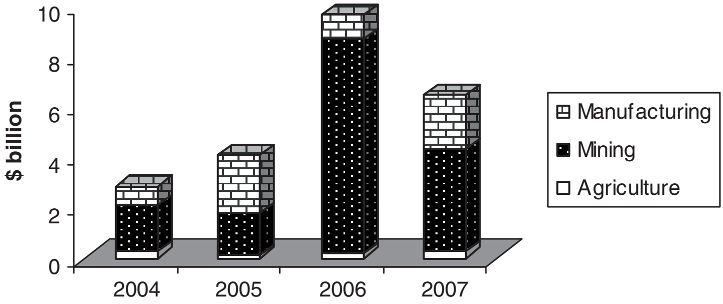

Fig. 3.3. Chinese outward FDI flows: Manufacturing, mining, and agriculture

Source: Chinese Ministry of Commerce.

and overseas factories for textiles, paper, farm machinery assembly, and medicines (like Holley Pharmaceuticals). At the same time, Sudan, Iran, and Nigeria were removed from the list of countries where Chinese companies could receive incentives for investment in oil, while Niger, Ecuador, and several new countries were added.[29] This move was widely perceived as political in nature, given China's image problems in Sudan. However, others believed it to be a practical response to an oversupply of Chinese companies in some countries, and a desire to encourage diversification.

About the same time that China's state ramped up encouragement for its winning firms to expand overseas, they also began encouraging the labor-intensive, less competitive "mature" industries (such as textiles and leather goods) to relocate to other countries. China's government acted to *anticipate* restructuring, not hold it back. They understood that forward momentum involves "creative destruction," the label given by the renowned economic historian Joseph Schumpeter to the forward march of innovation that brought the automobile, but left the makers of buggy whips high and dry. They also figured that markets for buggy whips lasted a bit longer in parts of the world where buggies (figuratively) were still being used.

Creative Destruction

For months in 2007 and 2008, the *Washington Post* that landed each day outside our door brought story after story focused on industrial pressures inside China, all with the same message: *China's outsourcing appeal diminishing*. Until prices fell in the global recession that began in late 2008, high fuel costs had tripled the price of transport across the Pacific. In the crowded areas of the Pearl River delta near Hong Kong, reported *The Economist* in January 2007,

> office rents are soaring, industrial land is in short supply and utility costs are climbing. Most significant of all are rocketing wages. In spite of the mass migration of workers from China's vast interior to the coast, pay for factory workers has been rising at double digit rates for several years.

A labor law that came into effect in January 2008 increased wage costs by another 10–15 percent. "Everyone should be aware," a member of Hong Kong's legislature commented, "that China has changed."

China's very success at creating new firms had led to problems of overcapacity. Fierce business competition drove margins razor-thin and made it hard for new businesses to get their foot in the door. A 2005 survey commissioned by the World Bank from Peking University economists Yang Yao and Yin He reported that of Chinese companies with plans to invest in Africa, more than 90 percent listed "markets" as the most important factor in their decision.[30] This helps explain why, like their US counterparts, most Chinese investors targeted Egypt, South Africa, and Nigeria, Africa's three most populous countries. The financial crisis that began in 2008 only intensified the pressure to look outward for new markets and lower-cost production sites.

Chinese leaders have also woken up to the environmental legacies of their headlong sprint through the early stages of industrialization: the infamous Beijing pollution and the poisoned rivers that snake through China's heartland. The five-year plan unveiled in 2006 emphasized a more environment-friendly growth path. This is also a factor in the growing interest Africa holds for some Chinese companies. In 2007, South Africa's deputy President Phumzile Mlambo-Ngcuka raised eyebrows in her country when she commented, "China needs to send some of its polluting industries elsewhere because it is choking on them," adding quickly that she believed South Africa had the capacity to manage emissions.[31]

In 2005, as Figure 3.3 demonstrated, China's outward investment in manufacturing *exceeded* that for mining. As Chinese industrialists start to put down roots in Africa, their path will in many cases have been smoothed by a Chinese state that is now encouraging the low end of Chinese industry to move overseas.

Beijing has continually adjusted the mix of incentives and costs to push forward restructuring. On the one hand, new incentives were put in place. In July 2006, for example, the Ministries of Finance and Commerce established a special fund Chinese textile companies could draw on to encourage more of them to move offshore.[32] On the other hand, costs were increased for those who stayed. For example, China has a system where firms that export can get rebates on the taxes they pay domestically. In 2007, this benefit and others were removed for companies in China exporting high emission (chemicals, smelting) and labor-intensive products (plastics, textiles).[33] While I was in China that summer, *China Daily* announced yet another change for the worse in the tax rules for low-tech exporting firms. "Tens of thousands of Hong Kong enterprises will have to give up their labor-intensive production, move out of familiar coastal bases," the newspaper concluded, "or upgrade their technology and product quality quickly."[34]

Two of the tools announced at the November 2006 FOCAC Summit – the China–Africa Development Fund, and support for the new overseas economic zones – are part of the restructuring plan. In 2007, the vice-governor of China Development Bank, Gao Jian, told *Caijing*, an independent Beijing magazine focused on finance and economics, that the China–Africa Development Fund was intended to help push Chinese companies to relocate their more mature factories offshore. "Chinese firms have faced overcapacity and upgraded their production methods in recent years, while Africa has a shortage of supply in consumer goods," Gao explained. "This should complement both economies," he added.[35]

Before we look at those two tools, let us put China's engagement in active restructuring into comparative perspective. The West gives very little assistance for manufacturing in Africa, the kind of medium-to-large factories that would create thousands of jobs. Between 2002 and 2007, World Bank loans for industry and trade combined came to less than 5 percent of all loans made to sub-Saharan Africa. The traditional donor countries allocated less than *1 percent* of their aid to industry.[36]

The World Bank's private equity arm, the International Finance Corporation, makes equity investments in African companies. But in the 1990s only about 10 percent of IFC investments went into manufacturing, while half financed projects in mining and oil. Although a broad swathe of IFC equity goes into African banks or equity funds, which might lend to manufacturers in their region, the IFC itself has averaged only around four manufacturing projects a year in Africa since 2000.[37]

What about the private sector in Europe and the US? Just like the official donor community, they have shied away from investing in African factories. European manufacturers started to wind down their factories when Africa's prolonged economic crisis began to bite into their profits. A third of British companies with manufacturing investments pulled out in the first decade of Africa's prolonged economic slump, including Leyland Trucks, Unilever (soaps, foods), Raleigh bicycles, and Boots and Wellcome (pharmaceuticals). By 1994, a mere sixty-five British companies still had equity investments in African manufacturing.[38] This pattern is only now slowly starting to reverse. US companies have been equally reluctant to invest in Africa, aside from the lucrative petroleum and mining sectors. Only 11 percent of US investment in Africa went into manufacturing between 1995 and 2007, and South Africa received nearly half of this.[39]

The United States government has tried in other ways to foster more investment in Africa. In 2000, the US launched AGOA, the Africa Growth and Opportunity Act. AGOA was intended to boost African exports to the US, but also to help boost US investment in the region. Three years after AGOA took effect, Stephen Hayes, president of the Corporate Council for Africa, told Congress: "As a tool for Americans to invest in Africa, AGOA has been an abysmal failure."[40] Susan Schwab, head of the office of the US Trade Representative, admitted to the annual AGOA Forum audience in 2008 that although investment by US companies was now higher, they were still heavily concentrated in natural resources.

And, of course, there is no official support in places like the United States for assisting industrial restructuring by helping "mature" industries relocate across the border or overseas. The relocation of these sunset industries follows a pattern known as the "international product life cycle," the name Harvard professor Raymond Vernon gave to a familiar trajectory. Over time, Vernon explained, the production of a product such as textiles, or radios, or computers will typically shift offshore to lower-cost locations. This happens in distinct (if stylized) phases. First, a country imports the product (unless it is something they invented). Second, they begin to produce it themselves for domestic use, using imported components: "knocked down" kits assembled locally. Third, they increase the "backward linkages" by producing some of the components locally. Fourth, they start to export it themselves, and, finally, facing pressure to restructure due to higher labor costs and/or pollution problems, they export the production process itself.

The inexorable workings of the international product cycle are highly political in wealthy countries. We call it "outsourcing" or "going offshore." During the 1992 American presidential election, candidate Ross Perot famously called it the "giant sucking sound" of jobs being pulled to Mexico by NAFTA, the proposed North American Free Trade Agreement. Communities and labor unions lobby hard to stop the product cycle from working its way through, to protect the mature industries (textiles, shoes, steel, electronics, automobiles) that are under pressure, to stop jobs from leaving for Mexico, and now China.

In 1994, the US Congress imposed a regulation (known as "PD 20") that prohibits the US Agency for International Development from funding any activity (such as helping a developing country attract US investment) if it was "reasonably likely" that it would lead to *any* jobs being lost in the US.[41] This ensures that aid from the US will not be used to help poor countries attract our sunset industries. China has no such restriction. They find aid and other tools, like the China–Africa Development Fund, useful precisely for this purpose.

China–Africa Development Fund

In May 2007, the China Development Bank launched the first phase of the China–Africa Development Fund (CADF), an equity fund that is expected over time to provide $5 billion in finance for ventures launched by Chinese firms. Three months later, in Beijing, I met with Gao Jian, vice-governor of the CDB and head of the fund, to ask him about his plans. We sat in a plush reception room, the perimeter lined with overstuffed velvet armchairs, the walls with delicately brushed Chinese paintings. An aide brought hot tea. Gao Jian sat beside me in the center of the room facing the door, his arms resting on either side of the chair. A small entourage of senior aides sat diagonally across from us.

Gao told me that the fund will encourage joint projects between state-owned or private Chinese firms, and African (or other nationality) companies. The fund will invest on commercial principles, he continued. "We're not seeking high profits from this fund, but just asking that we don't incur losses." He turned to look directly at me, and nodded slightly to emphasize the next point. "We regard Africa as entering already a new era. They have gotten rid of some of the problems: tribal problems, apartheid struggles. They are concentrating on economic development."

"This is not aid; it's a market-based fund," the fund's CEO Chi Jianxin commented later, explaining some of the thinking behind the fund. "The African market is very new and many companies are not familiar with it so they need to share the risk with other investors. Most Chinese companies don't have much experience in risk management." He pointed out that the China–Africa Development Fund would have a longer time horizon than most equity funds. "We think we will stay in a project for five to eight years, but if some need a bit longer we can do that."[42]

The fund planned to invest between $5 and $50 million for each project, in minority shareholdings. "We are interested in partnering with European countries," Gao Jian told me. "Many European countries have relationships with their ex-colonies. They may have developed a plan to invest in infrastructure, but they haven't raised the money. We can use these plans. We would like to join their efforts. We would like to have joint projects."

China Development Bank moved quickly to get the fund up and running. By the time the China–Africa Development Fund was launched in June 2007, the bank had already sent twenty teams to Africa to set up temporary offices, build relationships (as Gao described it), and scout out investment projects in agriculture, manufacturing, electricity, transportation, telecommunications, urban infrastructure, and resource exploration. The first few projects funded included a glass factory in Egypt, a gas-fired power plant in Ghana (a joint venture with a Ghanaian firm), and a chromium processing plant in Zimbabwe.

By my next visit more than a year later, the team running the fund had moved into posh new quarters in China's financial district. The CADF's board had approved funding for twenty projects worth about $2 billion by the end of 2008 and were evaluating more than one hundred other proposals.[43] At our meeting around a business-like rectangular table, Willie

Chao, the new fund manager, told me that his board had decided to allow the fund to invest in projects proposed by African entrepreneurs without any Chinese participation.

Although Africa equity funds have been launched by private firms in industrialized countries, the China–Africa Development Fund has no real counterpart in the efforts by governments of industrialized countries to foster economic development in Africa. During a trip to South Africa in 2008, French President Sarkozy announced that France would launch a 250 million euro ($368 million) investment fund for Africa. However, the French will purchase shares in other funds and not offer equity directly to companies. The US supports equity investment by American firms in Africa through the Overseas Private Investment Corporation (OPIC). But OPIC also provides no equity, only loans, political risk insurance, and other kinds of guarantees.[44] The British Commonwealth Development Corporation probably comes closest. It offers equity investment, but its total assets amount to $4 billion, and it has been around since the 1940s.

China's fund was criticized at first because participation was restricted to Chinese companies and their African joint-venture partners. But the Chinese listened, and decided to open the fund. At a dinner for a visiting delegation from the China–Africa Development Fund, China's ambassador to Liberia, Zhou Yuxiao, told Liberians that the fund's interest in Liberia might be a "turning point" in the two countries' economic relations. At the moment, ties were based mainly on aid, but foreign investment could be a shortcut to development. It's like "borrowing a boat to go to sea" instead of having to build it yourself. This worked well in China, he added.[45]

Tariff and Quota-Free Entry

At the Addis Ababa ministerial meeting of FOCAC in 2003, Chinese leader Wen Jiabao promised to give zero tariff treatment to an unspecified number of exports from Africa's least developed countries. The list of commodities and degree of local content stipulations ("rules of origin") were negotiated during 2004. The full list of 190 products was announced in each country in early 2005. At the Beijing Summit in November 2006, the Chinese pledged to increase the list to 440 commodities. This went into effect in July of 2007.

What impact is duty-free entry likely to have on Africa? The West has two similar programs. Europe's "Everything But Arms" (EBA) program generally allows duty-free and quota-free entry into the European Union for all goods from the least developed countries, except armaments. Entry for politically contentious crops – bananas, rice, and sugar – was to be phased in more gradually. The United States' Africa Growth and Opportunity Act allowed duty-free entry of most commodities, as long as countries were certified as having met a number of economic, political, and rule-of-origin conditions. Independent analyses of the Everything But Arms and AGOA programs have reported a range of effects for participating countries, from generally positive to somewhat disappointing.[46] The disappointments came mainly from the complex rules of origin that often limited duty-free access to products made from inputs that *also* came from the region. Under strict rules of origin, garments exported from Africa would generally have to be made using African cloth, buttons, zippers, even the lining for the pockets. Worse, for AGOA, the rules of origin were constantly changing, as Congress continued to modify the legislation. There were also problems on the supply side: it takes time to respond to new incentives, and potential entrepreneurs were not sure how long the incentives would remain in place.

China's program was said to cover almost all the exports from the least developed countries; however, a list of goods was not easy to obtain and this made it difficult to evaluate the potential development impact. China's Minister of Commerce Chen Deming commented that the program removed import tariffs on "farm products, stone materials, minerals, leather and hide, textiles, clothing, electric appliances and machinery and equipment," from thirty-one of Africa's least developed countries. He said that between 2006 and 2008 the program had transferred $680 million in tariff exemptions to the thirty-one countries.[47] This was quite a bit higher than estimates made by Adam Minson at the South African Institute of International Affairs, who obtained a list of products. Minson estimated that the economic value of the preferences was modest, only about $10 million per year, with the highest returns coming from things like sesame seeds, cocoa beans, leather and skins, copper, and octopus.[48] However, Minson's analysis relied on the value of export figures from previous years, and did not account for possible increases stimulated by the program.

As we saw above, Chinese companies have a set of separate incentives for agricultural and natural resource investments. Together, these incentives have stimulated new investment not only in copper (as in the Democratic Republic of the Congo) but in crops. Chinese entrepreneurs have begun to plant sesame seeds in Senegal to export duty free to China, for example. Minson also pointed out that although China was continuing to protect its cotton farmers by not allowing duty-free entry of raw cotton, cotton *products* from the least developed countries were being allowed in duty-free. If this were better publicized, Minson noted, it could "serve as an incentive to African producers to process raw materials locally before exporting them."[49]

Between 2006 and 2008, according to an analysis by Mark George, an expert at the Beijing office of the British Department for International Development, the value of exports from Africa to China increased by an average of 110 percent. Thirty-two countries in Africa showed an increase in earnings from exports to China, while exports from the remaining twenty had either decreased, or shown no change.[50] We can expect that the global financial crisis will roll back many of these increases, at least temporarily, reflecting the slump in Chinese import demand, and the related fall in prices of many African commodities.

Overseas Zones: Going Global in Groups

"Why did we develop so fast?" Li Qiangmin, China's ambassador to Zambia, said to me when I met him in the Zambian capital of Lusaka in 2008. "We had four special economic zones. *This is a shortcut for development*." In 2006, China's Ministry of Commerce announced that overseas economic zones would become a key platform in the "going global" program. China would support its companies to establish *fifty* overseas economic zones in countries around the world.[51]

China's new overseas zones are similar (but not identical) to China's own model. In one of Deng Xiaoping's first major experiments, China set up Shenzhen and three other special economic zones in July 1979. These were intended to attract foreign investment by countries eager to enter China's markets or to move their own mature industries overseas (Hainan Island was added later as a fifth zone). In 1984, fourteen coastal cities carved out smaller areas as industrial and technological development zones, similar in concept but often targeting clusters of firms in different sectors. Over three decades, Chinese cities set up more than a hundred industrial and technology zones along the coast and eventually around the country.[52]

Export processing zones have at least as many critics as they do fans. Unions dislike them because they often operate with fewer labor restrictions and lower wages than the rest of the formal economy. They can be enclaves without any development connection to the rest of the country. Yet in places such as Ireland, China, Taiwan, Mauritius, and the Dominican Republic, special export zones are widely deemed responsible for a large chunk of each economy's initial industrialization success.

China's new overseas zones were *not* only about export processing, however. They could be for a range of activities, including services. Their one signal innovation was that they were to be *built and operated by Chinese enterprises* as profitable ventures. As the Chinese put it, the overseas zone model was company-centered and business-based. Companies would propose locations where they hoped to open a zone (or had already started one), put their own capital on the line, and compete with other Chinese companies for Beijing's support.

Although proposals for these zones would be *selected* purely on competitive market principles, the winning proposals would then be eligible for a range of supportive policies in classic East Asian "developmental state" fashion.[53] Companies could receive help with feasibility studies, land rents, and infrastructure. The Ministry of Commerce pledged to make up to $25 million in grants and up to $250 million in long-term loans available. Half of the expenses for Chinese enterprises moving into the zones could be reimbursed, and companies could get export tax rebates and easier access to foreign exchange in China's strict capital control system. In addition, the cachet of being selected as one of the sponsored zones might make policy banks such as the China Development Bank or China Eximbank look more favorably on companies' applications for finance or equity participation. And Chinese embassies would provide diplomatic support in negotiations with the host government over land, tax incentives, or work permits. The Ministry of Commerce even put a special team together to help push the Mauritius zone forward.

Why did Beijing select this unusual method of promoting Chinese investment overseas? The obvious answer, yet again, is that it fits with

China's own domestic experience – an experience they believed was a useful model. As in China, these zones would allow other developing countries to create a "protective bubble," a place where they could experiment with new approaches without having to change national-level policies. Moving production overseas also allowed the Chinese to ease some of their "trade frictions." But for China the overseas zones also provided a partial solution to two pressing domestic dilemmas.

First, more restructuring was clearly underway in China, and these zones provided an orderly way to transfer mature industries abroad rather than just letting them "creatively destruct." The focus of the zones was supposed to be on mature industries where China had excess production capacity (textiles, light industries, machinery, appliances, construction materials, pharmaceuticals, etc.). Each zone was supposed to include no more than three major industries, and ideally would present a cluster of related industries. In Pakistan, for example, the Haier-Ruba zone was specializing in home appliances; the Ethiopia zone would concentrate on textiles, leather goods, and building materials; and the Zambia zone at Chambishi on a cluster of metal processing factories, while its extension near the city of Lusaka would concentrate on electronics assembly.

Second, many of the industries that were unable to compete were small and medium-sized. MOFCOM promised to support the efforts of the winning companies to attract small and medium-sized companies into their zones. For Chinese companies unused to foreign investment, the zones provided a framework where much of the uncertainty and risk were mitigated. Fu Ziying, from China's Ministry of Commerce described the strategy succinctly in a speech at China's Financial Forum in 2007: "It is a way to support the Chinese companies to 'go global' in groups." This strategy "reduces anxieties" about foreign investment, and it can provide economies of scale, former Minister of Commerce Bo Xilai noted.[54]

As with all of China's major initiatives, there had been earlier experiments. Fujian Huaqiao Company built an industrial and trade zone in Cuba in 2000. In 2004, China Middle East Investment and Trade Promotion Center and Jebel Ali Free Trade Zone joined together to construct an enormous, $300 million trade center that could host 4,000 Chinese companies in the lively Arabian Gulf port city of Dubai. That same year, Tianjin Port Free Trade Zone Investment Company and the United States Pacific Development

Company began construction of a Chinese trade and industrial park in the South Carolina city of Greenville. By 2008, a dozen Chinese companies had set up production, logistics, and trade companies in the Greenville zone.

But the Chinese firm Haier, the world's fourth-largest appliance manufacturer, was a key pioneer. Haier built its first industrial complex outside of China in 1999: a 46-hectare industrial park in Camden, South Carolina, about 115 miles from Greenville where the Tianjin province project would later be located. Two years later, Haier and a Pakistani company, Panapak Electronics, constructed a joint industrial park near the Pakistani city of Lahore.

Haier's experience in Pakistan, knowledge of the local market, and familiarity with Pakistan's policy regime put Haier in a good position to win the first of China's officially sponsored overseas cooperation zones. In November 2006, Chinese President Hu Jintao dug a shovel into the Pakistani soil to launch construction of the zone, a joint effort by Haier and Ruba, a private Pakistani company.

Haier's proposal was one of eight selected in the first round of what the Ministry described as a "fair, just, and transparent" bidding system. The system worked as follows. First, the Ministry's branch offices were asked to promote the idea and the proposal guidelines among enterprises in their region, and help them to apply. In the first round held in 2006, more than sixty companies submitted detailed expressions of interest. About half of these were asked to submit formal proposals, documenting the market potential, the support offered by the host country, and its investment environment. The government's primary emphasis was on the likely profitability of the project, but the projects also needed to be given the green light by the Ministry of Foreign Affairs.

Twelve companies were invited to Beijing as finalists to appear before a panel of outside experts, and eight were finally selected. In the second round in 2007, the government raised the bar a little higher. More than fifty companies applied, twenty were allowed to submit formal proposals, and eleven companies had their proposals selected. At the end of 2007, China's Ministry of Commerce had signed off on *seven* official overseas economic zones in Africa (these are pictured in Figure 9.1, on p. 250).[55] "This is good for our own industrial upgrading," a Chinese analyst asserted. "We cannot always remain as 'the world's workshop' and stick to low-end manufacturing."[56]

The First Two African Winners

China's first two zones in sub-Saharan Africa were announced in Zambia and Mauritius, and both were sponsored by companies with substantial investments in each country. In Zambia, China Nonferrous Mining Group (operator of the copper mine where Zambians and Chinese have repeatedly clashed over labor and safety issues) began in 2003 to implement plans to develop a metallurgy industrial cluster on the large concession of land it held in Chambishi. The Zambian government was at the same time working out a legal framework for multi-facility economic zones (MFEZ). "So these two things came together," explained a Zambian government official. The Chinese company signed a letter of intent in December 2005.

China Nonferrous Mining Group aimed to develop a cluster of firms that would pull some of the industrial chain back to Africa by producing bars, wires, cables, and so on from raw copper, nickel, and other metals mined in Zambia and the region nearby. This would be Zambia's opportunity to finally add local value to the raw materials it had been exporting since British times. "The Chinese want to start manufacturing...in Zambia instead of just importing raw materials," Commerce and Trade Minister Felix Mutati told *Reuters* in 2007.

In Lusaka, I sat with Roy Kapembwa of the Zambian Development Authority in his new office across from a government complex built by the Chinese. Zambia's MFEZ regulations, he told me, required a minimum investment of $500,000 to be able to take advantage of government incentives, but there was no prohibition on Zambian firms or other foreign investors at Chambishi. He showed me the glossy, bilingual promotional materials produced by the Chinese for the zone.[57] The Chambishi zone promoters hoped to "bring in Zambian strategic investors with good performance and reputation." By 2011, they aimed to have forty Chinese companies and at least ten from other countries (hence the bilingual materials). And they added a "green" pledge: the operators of the Chambishi zone would apply to have its environmental management certified at the International Standards Organization's ISO 14000 global standard.

The proposal submitted by Shanxi province's Tianli Group for an economic zone in Mauritius was also one of eight selected in the first round. In June 2008 I visited Mauritius again. Although the farmers who had protested the terms of their removal from the land had by then agreed on a compensation package from the government and been resettled peacefully, some Mauritians continued to express worries.

"It is a voluntary colonization . . . a danger for our security," Anil Gayan, former Minister of Foreign Affairs and opposition member of parliament, had written in a January 2008 op-ed in a local paper, *L'Express*. "This is money from the People's Republic of China. The Chinese state, Beijing in fact, will decide the contours and the content of the project. What were their intentions, their strategic designs, when the Beijing authorities chose Mauritius?" he wondered, darkly.[58]

In fact, Beijing probably had little *strategic* interest in the Mauritius project, which had been initiated as a business proposal by the Tianli Group. And the content of the project was decided not in Beijing, but through negotiations with the Mauritius government. Later, Tianli hired a Shanghai firm, Wang Strategy Consultants, to create an overall design for the zone.

I met with an official from Tianli and two Mauritian officials at the government's Board of Investment in Port Louis. Before we started to discuss the project, the Mauritian officials played a promotional DVD prepared by the Shanghai firm. The ideas for the zone had changed radically over the past two years. They were very different from the Chambishi zone, and I was astounded at the new design.

Tianli had first envisioned an industrial hub producing for export, perhaps focused on textiles, along with a trade and distribution center for east and southern Africa to take advantage of the free port in Mauritius. But as the Tianli official, William Guo, told me, "We had a lot of meetings with the government here to find out what they wanted for the future of the country. The plan changed away from industry." The Chinese economic counselor stressed this point in a meeting I had with her later: "We are not doing the zone of twenty years ago. It is a *must* to do this in an environmentally friendly way. The company has realized this point. They are not going to be moving the polluting industries to Mauritius."

The promotional DVD showed a modern, airy city with boulevards of *filao* trees and garden apartments with views of the Indian Ocean. The zone (to be built using *feng-shui* design principles) would now be positioned as an "i-Park," emphasizing "intelligence, innovation, incubation, interaction."

There would still be some light industry, but Tianli was aiming to build something more like Dubai. They were now going out on a limb to attract higher value-added investors, along the lines of the vision Mauritius had for its service-oriented future.

Tianli hoped Chinese companies active in Africa would locate their regional headquarters in the zone. There would be a logistics center, two hotels, an international conference center, a state-of-the-art medical center, wholesale and retail shopping centers, an informatics tower, and a bilingual Chinese–English boarding school for the children of executives stationed in other parts of Africa. New employment, direct and indirect, would almost certainly expand beyond the several thousand in the original estimate, and many of them would be Chinese.

Tianli had wanted Mauritians to be able to invest in the zone, but the Mauritian government decided that the first phase at least should be only foreign investment. "We want these new jobs to be truly additional, from new companies," Finance Minister Rama Sithanen told me. "We want to avoid diverting Mauritian investors into the zone who would be investing anyways." In April 2008, Gao Jian visited Mauritius with a delegation from the China–Africa Development Fund. How did they like the plans, I asked. William Guo smiled broadly. "They *loved* it." The China–Africa Development Fund had decided to invest.

Jean-Noel Wong, a Mauritian partner at Kemp Chatteris Deloitte, chosen by Tianli to be its local consultants on the project, gave his overview of the project: "Mauritius was selected because we can be a platform between China and Africa. There is also the quality of the infrastructure, the good communication and telecoms facilities, and economic, political and social stability. If the project succeeds, as we think it will," Jean-Noel Wong added, "it will certainly have a snowball effect."[59]

Crossing the *Ocean* by Feeling the Stones

Bo Xilai, the former Minister of Commerce, described the "going global" policies as a new phase of Deng Xiaoping's familiar experimental strategy: "we are now crossing the *ocean* by feeling the stones." China's overseas economic zones and the $5 billion China–Africa Development Fund are attractive to many in Africa because they are a striking alternative to the aid business as usual. They represent China's twenty-first-century efforts to build on its own domestic experience. And they embed some of the lessons China learned in its aid and economic cooperation experiments of earlier decades.

These programs have some parallels in the West, but *not* on the gigantic scale envisioned by Beijing. They are particularly interesting in view of former Mozambican President Chissano's call for aid to be leveraged together with resources from the private sector, to promote domestic entrepreneurs in Africa. And they help explain the comment Roy Kapembwa of the Zambian Development Agency made to me, leaning across the large desk in his Lusaka office: "We are trying as much as possible to focus on China because they are ready. Where there are opportunities, they will take them. We need to move the country up the value chain."

Above all, these programs reflect the lessons of all the experiments since Mao died, the spirit of China's 1995 aid reforms, and the continued emphasis on aid as a lubricant for mutually beneficial cooperation. The $10 billion in preferential finance promised at the UN Summit in 2005 would target turnkey infrastructure projects but it would also be available, Hu said, for promoting cooperation between Chinese enterprises and those in developing countries. The Millennium Development Goals and China's own plan to "go global" came together in this pledge. It underlined the enormity of the resources available in China's coffers, and it was a wake-up call for the traditional donors. China, they could now see, was a player in the global system of aid and development finance. But, as we shall see in the next chapter, the mysterious new player with the large pot of money was not necessarily going to be playing by the traditional rules.