CHINESE MNES IN SUB-SAHARAN AFRICA: OWNERSHIP AND LOCAL LINKAGES

Roseline Wanjiru
Newcastle Business School, Northumbria University, United Kingdom
roseline.wanjiru@northumbria.ac.uk

Abstract

This paper argues that as peripheral African economies become increasingly integrated into global production and business networks from which they have traditionally been excluded, there is a need to engage with the complexities of the different contexts within which this international business occurs. Specifically, there is need to explore the nature of interactions between new Chinese investors into African industry and local actors.

Against a background of new flows of Chinese investment locating in a typical Sub-Saharan African economy, the paper explores the extent to which the ownership of FDI matters for African economies and the varying impacts of this on African domestic firms and local economies. Drawing upon the case of export zones in Kenya, the paper argues that despite the presence of export zones, there remain severe limitations in the ability of Sub-Saharan African economies to deviate from low-cost and labour-intensive production activities, which thereby perpetuates disadvantaged and marginal integration into global production and business networks.

This contribution links into ongoing debates on the contested merits of Chinese FDI flows into African industry via economic zones, and the potential for such investment flows to catalyze economic upgrading and development.

Keywords
FDI, economic zones, China, Sub-Saharan Africa
Chinese Multinational Enterprises (MNEs) in Sub-Saharan Africa: ownership and local linkages

Contemporary processes of globalisation have intensified their spread around the world and now increasingly incorporate formerly isolated economies in peripheral regions into global economic and financial networks. These processes are especially apparent in the increased integration of distant African economies and firms into international trade and financial flows, with the adoption of technological developments facilitating speedier communication and transportation, as well as rising levels of interconnectedness within and beyond the continent. Developments drawing attention include the rapid adoption of mobile telephony into everyday banking and commercial transactions seen in the M-Pesa revolution in Kenya, South Africa and Tanzania (Thomas 2012), and the new multimillion-pound investments into undersea fibre optic cables to facilitate e-business and link a traditionally marginalized region into the global economy (Graham, 2010). These changes have reduced the time and costs traditionally associated with conducting business with African firms in globally integrated markets.

A notable feature of the increased pace of international integration has been the attention paid to special economic zones (SEZs) in Africa as a revision of the free trade zones and export processing zones (EPZs) operated earlier in specific countries. Such zones are used by governments to attract foreign investment to particular locations utilizing infrastructural and preferential policy incentives. Industrial or export zones are designed for export-oriented and custom-free manufacture, enjoying preferential regulations and government incentives compared to domestic firms. The expected contribution of such zones towards employment creation, export performance, SME growth and access to international markets are some of the underlying drivers for this particular form of government intervention. Recent SEZs established in Africa are based on Asian and particularly the Chinese models. The successes of such zones towards attracting foreign direct investment (FDI) and catalysing economic development are arguably linked to the economic transformation of the so-called Asian ‘tiger’ economies and notably China. While economic zones had their heyday in Europe in the 1970s and 1980s, these waned in popularity here even as they were widely adopted around Asia and Latin America. Recent shifts, (for example the UK government’s re-introduction of enterprise zones and the establishment of 12 new zones in England in 2012) indicate a revival of interest in the zone concept, arguably in response to the evident success of Chinese and Asian industry in global markets, predicated on similar policy interventions.

For countries at the extreme peripheries of the global economy, such as the developing economies of Sub-Saharan Africa, these shifts offer significant insights into the policy options and frameworks supportive of firm growth, industrial development and subsequent economic growth. In a region where economic performance has lagged significantly behind that of comparable developing regions, the need to leverage investment and develop linkages from FDI into the domestic economy for the generation of positive spill-overs is especially paramount. The transformation of China from a developing economy to a global powerhouse has challenged orthodox thinking on economic development, and presents new opportunities, while posing new challenges for African business and industry.

The rise of China as a dominant global economy has seen a reorganisation of African industry in line with shifts in global socio-economic relations. Recent policy reorientations towards SEZs in

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1 See related work at the University of Oxford Internet Institute.
African economies have been undertaken in hope of attracting foreign direct investment (FDI) flows and potentially catalyzing economic growth rates similar to China’s.

This paper interrogates the idea that economic successes achieved elsewhere can be replicated in Africa simply through the establishment of Special Economic Zones. Drawing on primary and secondary data gathered on export zones in Kenya, the paper presents the case of export zones within a typical developing economy in order to draw attention to the less-than-successful experiences in Africa, where export zones have not generated the expected benefits realized elsewhere. It is further argued that notwithstanding the increased integration of African economies into global networks of business and production, there remain severe limitations in the ability of Sub-Saharan African economies to deviate from low-cost and labour-intensive production activities favored within these zones. These limitations thereby perpetuate their disadvantaged position and marginal integration into global production and supply networks.

The findings contribute to enduring debates on economic growth and the impact of multinational enterprises on host economies, particularly in the developing world. The business environments within which zones can contribute to wider economic development through firm growth, employment and technological upgrading, particularly in peripheral regions of the world, is an understudied topic. The general failure of such zones to generate desired positive spill-overs outside of particular social, political and economic contexts is of interest to academic literature and for policymakers involved in bargaining with multinational enterprises (MNEs) in the global competition for scarce foreign investment flows.

Africa and the international search for investment

The literature on FDI within African economies tends to be associated with critical views on the impacts of such FDI on economic development. The logic of internalization which is associated with multinational enterprises tends to contrast with the desires for upgrading that many developing African countries seek through localised externalization of MNE ownership advantages (Phelps, Stillwell and Wanjiru, 2009).

Concerns exist that the successful Chinese economic transformation may be ‘crowding out’ other developing countries from export markets in manufactured goods, particularly the more vulnerable ones in Sub-Saharan Africa. The rapid dominance of Chinese exports into global markets over the last two to three decades has had the effect of shifting the structure of the global economy, with dire consequences for weaker African economies struggling to keep up.

In line with these concerns, debates have arisen informed by fears over China’s growing economic influence around the world. These debates tend to portray China as the next imperial power in a region that has traditionally been scrambled over by external colonial forces. Such debates are countered somewhat by the more optimistic hopes that Chinese investment can be the new force for development in the region.

Informing these views has been the steady rise in investment flows from China into new destinations in Africa. While the quantity of these flows have been the focus of much attention, there is a need to disaggregate these views further as different categories of investment present diverse opportunities and challenges. Alongside the significant investment flows controlled by Chinese state-owned enterprises, there are substantial financial flows from private Chinese MNEs establishing subsidiaries and branch-plants in African economies. Additionally, a third category is that of investment flows from independent Chinese entrepreneurs establishing new
businesses in Africa. These different groupings of Chinese investors and the activities they engage in are explored later within the paper.

African economies face significant hurdles in their search for scarce foreign investment flows, as reflected in the marginal positions they occupy within the global economy. The business environments in numerous countries are challenging, due to a variety of locational influences on productivity and productivity growth (Porter, 2000) affecting competitiveness. Widespread challenges in form of macroeconomic and political instability, deficient tax systems, corruption, weak policies on domestic competition, trade and foreign investment all affect local productivity and present binding constraints to national competitiveness. The latest Global Competitiveness Report 2012-2013 showed SSA economies scoring poorly on basic competitiveness requirements, such as well-functioning institutions, developed infrastructure, health and primary education and stable macroeconomic environments (WEF, 2012).

By 2011, total FDI flows to Africa were on a decline due to falls in the large shares going to North African countries such as Libya and Egypt which experienced political and social instability. This trend was reversed in 2012 as FDI flows to Africa rose even as global flows fell. According to the World Investment Report 2013, Africa was the only region where FDI increased in 2012, rising by 5% as FDI flows slumped elsewhere. Within Sub-Saharan Africa, flows increased from $29.5 billion in 2010 to $37 billion in 2011. Most FDI to Africa goes into primary resource extraction (oil, minerals, natural gas, agriculture) with a small but rising share going into some manufacturing (UNCTAD 2012; 2013).

Multinational enterprises from emerging economies are increasingly active in Africa and explain some of the FDI increases seen. China, India, Malaysia and South Africa are leading sources of FDI within Africa, as traditional sources from developed economies have shrunk. Rates of return to investment tend to be high in natural resources, processing and extractive industries, placing Africa and the transition economies at the top of the UNCTAD global ranking, as shown in the table below:

<table>
<thead>
<tr>
<th>Region</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>7.3</td>
<td>7.2</td>
<td>7.7</td>
<td>5.9</td>
<td>6.8</td>
<td>7.2</td>
</tr>
<tr>
<td>Developed economies</td>
<td>6.3</td>
<td>6.1</td>
<td>4.6</td>
<td>4.0</td>
<td>4.6</td>
<td>4.8</td>
</tr>
<tr>
<td>Developing economies</td>
<td>9.7</td>
<td>9.8</td>
<td>9.7</td>
<td>8.7</td>
<td>9.0</td>
<td>8.4</td>
</tr>
<tr>
<td>Africa</td>
<td>10.0</td>
<td>13.4</td>
<td>15.8</td>
<td>10.8</td>
<td>8.9</td>
<td>9.3</td>
</tr>
<tr>
<td>Asia</td>
<td>9.5</td>
<td>9.1</td>
<td>8.9</td>
<td>8.8</td>
<td>9.8</td>
<td>8.8</td>
</tr>
<tr>
<td>East &amp; South East Asia</td>
<td>9.7</td>
<td>9.3</td>
<td>9.1</td>
<td>9.2</td>
<td>10.5</td>
<td>9.2</td>
</tr>
<tr>
<td>South Asia</td>
<td>14.2</td>
<td>12.9</td>
<td>10.6</td>
<td>8.6</td>
<td>8.5</td>
<td>8.8</td>
</tr>
<tr>
<td>West Asia</td>
<td>3.9</td>
<td>3.8</td>
<td>6.7</td>
<td>5.4</td>
<td>4.9</td>
<td>5.1</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>10.2</td>
<td>10.3</td>
<td>9.9</td>
<td>7.6</td>
<td>7.1</td>
<td>7.1</td>
</tr>
<tr>
<td>Transition economies</td>
<td>14.5</td>
<td>12.0</td>
<td>16.5</td>
<td>10.7</td>
<td>10.8</td>
<td>13.0</td>
</tr>
</tbody>
</table>

Source: UNCTAD, based on data from IMF Database, World Investment Report 2013

While natural resources continue to dominate the FDI flows going into Africa, rises have recently been recorded in FDI flows going into manufacturing, predominantly towards consumer related industries servicing an emerging African middle class (UNCTAD, 2013). Alongside rising incomes
and the emergence of a growing middle class fuelling demand, the IMF has predicted strong economic growth forecasts for the region as shown in the table below.

### Table 2: Strong economic growth forecasts for African economies

![Graph showing economic growth forecasts for different regions.](image)

**Source:** International Monetary Fund, *World Economic Outlook Database, April 2013*

**FDI and industrial upgrading through economic zones in Africa**

Current debates on economic development posit that African economies lack manufacturing competitiveness due to an over-reliance on natural resource endowments and attributes related to geography; a so-called ‘spatial economic advantage’ based on location characteristics and factor abundance, rather than on skill upgrading or innovation. Earlier debates on the international division of labour argued that FDI going into developing countries had minimal spill-overs or externalities in form of indirect employment or knowledge transfer (Streeten, 2001). However, as traditional MNEs move away from simple manufacturing, there could emerge opportunities for previously left-out African countries to penetrate these international networks (Phelps, Stillwell and Wanjiru, 2009).

It is interesting to note how the organizational dynamics of local African industry have swung to reflect shift in global socio-economic influence, particularly the emerging links with Chinese and Asian emerging economy firms. Of interest has been the adoption of special economic zones as vehicles for industrial development based on the Chinese model. Globalisation is characteristically a geographical phenomenon, with reconfigurations of places, spaces and time occurring due to changes in technological, economic and political processes (Dicken 2004; 2007). Within developing African countries, the key drivers of these shifts have included expanding multinational enterprises (MNEs), national governments and influential international institutions such as the World Bank and the International Monetary Fund which play particularly significant roles in national policymaking through their financing of development projects.

Previous models of export processing zones (EPZs) which were introduced in Africa during the 1980s were funded by the World Bank, drawn from templates that had succeeded in Europe.
This model was informed by a pro-market, neoliberal ideological grounding with minimal government intervention in directing foreign investment.

The International Labour Organization notes the increase in export zones from 79 zones in 25 countries in 1975, to over 3,500 zones in 130 countries by 2006. Export zones involve the offshoring of labour-intensive stages of production to cheaper locations overseas for assembly. They are utilized by governments to attract FDI, increase exports and generate employment. Using such zones, competitive economies make use of infrastructural and policy incentives to attract foreign direct investment and leverage it for the generation of exports, job creation, the enhancement of local skills and technology. The linkages between FDI and economic growth have been the subject of intense academic debate from multidisciplinary perspectives, to explain the rise of emerging economies such as China and India (Dunning, 1993; Bhagwati, 1994; Buckley et al, 2002; Yao and Wei, 2007; Fernandes and Tang, 2012).

Within African economies, however, the performances of zones at promoting exports or industrial upgrading have been mixed. A few successful African zones, for example, in Tunisia or Mauritius, do not mask the generally poor performance of other African zones. Since 1990, zone adoption has remained slow and patchy within Sub-Saharan African economies which tend to function at the extreme peripheries of the global economy. Some ‘successes’ have been realized in Mauritius, Kenya, Madagascar and Lesotho, but by 2011, Sub-Saharan Africa had only 4% of all zones in the developing world, compared to 30% in Latin America, over 40% in East and South Asia or the 15% located in Europe and Central Asia, 10% in the Middle East and North Africa (Farole, 2011, Stein, 2009). Over half of the Sub-Saharan African zones were located in Kenya.

Revived interest in new zones has been buoyed by rising investments into Africa by Chinese MNEs. New zones have been established within Africa funded by China, for example the new Chambishi Economic Zone set up in Zambia, the Lekki and Ogun Free Trade Zones established in Nigeria, the Jin Fei Zone established in Mauritius or the Oriental Zone established in Ethiopia.

The new special economic zones currently being established in Africa are informed by the Chinese experience, where successful zones benefit from special regulatory regimes governing either pure-assembly or import assembly production (Feenstra and Hanson, 2005). China has been one of the world’s largest users of special economic zones for export and employment, with over 900 zones and employment of around 40million workers. By 2011, China had overtaken the USA as the world’s largest producer of manufactured goods, in the process managing to double its GDP per capita within a decade. This is an astonishing achievement that took the United Kingdom over 150 years to achieve (Stein, 2009; Eloot et al, 2013).

The rise of the new special zones could therefore signal a new chapter in African upgrading prospects. It is however important to understand some of the background and challenges that could affect the zones’ contribution to industrial upgrading.

**Chinese MNEs and the question of ownership in African industry**

Henderson et al. (2002: 441) draw attention to the role of ownership in domestic and multinational enterprises participating in different global production networks. The logic of MNE ‘internalization’ in international business literatures in various ways reflects the experiences and specificities of traditional Western MNEs operating in Africa. However, recent empirical realities have focused attention on the new organisational forms of Chinese and East Asian MNEs which do not rely on ‘internalization’ to the same extent in their expansion into African economies. Not
much is known about these multinational enterprises as drivers for industrialisation outside of their home markets, or beyond their regional settings. Even less is known about these MNEs’ forays further afield into the peripheral regions of Sub-Saharan Africa (Jenkins and Edwards, 2006; Kaplinsky and Morris, 2009).

The presence of foreign investment holds positive and negative prospects for developing economies. Foreign firms tend to be positively associated with increased exports or sales performance, and may be more productive compared to local firms, leading to positive spill-overs in form of technology and managerial know-how. In addition to job creation and exports development, spillovers can be generated through the formation of backward or forward linkages into the local economy, or vertical and horizontal linkages. In the context of local development, backward linkages are especially useful in generating meaningful positive domestic spillovers.

The literature on FDI within developing economies tends to be associated with critical views on the impacts of such FDI on economic development. The logic of internalization which is associated with multinational enterprises tends to contrast with the desires for upgrading that African developing countries seek through the localised externalization of MNE ownership advantages (Phelps, Stillwell and Wanjiru, 2009). Secondly, the relationship between knowledge spillovers and different forms of FDI is complex, and different forms of FDI ownership tend to give rise to varying levels of knowledge spillovers. Smeets and Val (2006) found that the degree of ownership is related to the level of knowledge spillovers into the local economy, alongside the absorptive capacity of local firms or the level of subsidies that MNEs receive from the authorities.

China’s rise based on export-oriented manufacture has altered the organization of world trade and challenged orthodox perspectives on economic development. Its broad dominance of world exports in labour-intensive goods has significantly impacted on the development prospects of other developing economies, particularly those in Sub-Saharan Africa which have traditionally used labour-intensive manufacture as a launch pad towards an industrial upgrading trajectory.

Alongside the optimism that increased investment presents new opportunities for African development, there are concerns that Chinese investment in African natural resources has taken on the exploitative trends experienced before with traditional Western investors that informed the colonial period of the last century. China’s new economic power and influence within Africa has not been welcomed across the board, both externally from former Western investors side-lined in the mineral and infrastructure deals signed with African leaders, as well as internally, by Africans questioning the nature of engagement with Chinese investors. Concerns over Chinese investment within Africa have also been variously expressed by domestic African traders unable to compete with Chinese businesses within the local economies, as well as by non-governmental organizations questioning the hands-off ‘purely business’ approach that China is pushing, which is argued to lack transparency and serves to entrench unaccountable and corrupt African regimes unpopular with their citizens. These emerging anti-Chinese sentiments raise significant concern and underline the need to understand the dynamics in new international markets for foreign investors.

**Chinese phases of engagement with Sub-Saharan African economies**

Alongside the ancient historical trade links between China and Africa, over the past century certain distinct and overlapping phases of Chinese engagement with Sub-Saharan Africa can be identified. An early phase of Sino-African engagement in the 1950s saw China partnering with ideologically-compatible African countries against a background of the US-Soviet Union Cold War. As part of ‘third world solidarity’, China provided political support and limited military aid,
and invested in projects such as the TanZam (Tanzania-Zambia) railway line in the 1970s linking Tanzania to Zambia. A second phase can be recognized from the 1990s to date, characterized by new waves of investment as part of China’s search for natural resources found across Africa. This second phase featured the entry of large state-owned enterprises (SOEs) acting as investors within Sub-Saharan Africa. These SOEs are large multinational enterprises controlled through various government agencies and act as subcontractors to Chinese government-aided projects in Africa including infrastructural projects, such as roads, railways, stadiums and public buildings. To date, SOEs continue to be the largest current form of Chinese investment in Africa. A third, overlapping phase has been the entry of privately-owned Chinese small and medium enterprises operating in China and expanding across Sub-Saharan Africa (Kaplinsky and Morris, 2009; Mohan and Kale, 2007). These operate across a variety of industries and sometimes feature former employees within the large state-owned enterprises or new Chinese migrants starting up new ventures. This category includes new MNEs entering Africa as a first step outside their home markets as part of a staged internationalization strategy.

Over the last decade, trade and economic links between China and Africa have been on a dramatic rise. Bilateral trade has increased nearly twenty-fold in the period and passed the $90billion in 2009, while China provided over $20billion of cheap loans to Africa in 2012. In 2006, China released the Africa Policy Paper which outlined new terms of engagement with Africa based on five principles of coexistence, as well as projecting an integrated African approach, a so-called One China Policy. In 2012, President Hu Jintao noted that China would be Africa’s “good friend, good partner and good brother” (Cropley and Martina, 2012). Concurrently, African countries continue to engage with China on an individual basis rather than through a coordinated, clear regional response. Efforts by the African Union to organize a continental response to the rapid shifts in the global economic influence of China are still at an early stage and are hampered by the lack of effective regional cooperation.

As part of China’s ‘going abroad’ policy from 2002, its outward foreign direct investment flows have been on the rise. The table below shows China’s outward FDI between 2002 and 2010.

**Chinese Outward FDI 2002 - 2010**
The percentage of these flows which have gone to Africa have been low as a proportion of total FDI, but these have also been on the increase as shown. The table below shows the share of Chinese FDI going into Africa between 2004 and 2009 as a percentage of its total outward FDI.

<table>
<thead>
<tr>
<th>China FDI in Africa (% of China’s total FDI)</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>China FDI in Africa (percentage of total Chinese FDI)</td>
<td>4.3</td>
<td>2.8</td>
<td>2.9</td>
<td>5.9</td>
<td>9.8</td>
<td>2.5</td>
</tr>
</tbody>
</table>

Source: MOFCOM

As shown in the table, Chinese investment to Africa reached a high point in 2008, accounting for almost 10% of total outward FDI. By 2012, most of the flows were directed to natural resources within five African countries: Nigeria, Algeria, South Africa, Democratic Republic of Congo and Niger.
Chinese MNE investment in Sub-Saharan Africa

Alongside China’s substantial focus on oil and natural resources in Africa, there has been a steady rise in Chinese MNEs operating across a variety of African industry sectors, including telecommunications, power generation, construction and infrastructure. By May 2005, there were 674 officially registered Chinese multinational enterprises in Africa increasing to over 800 in December 2006 (Corkin, 2007).

Chinese investment within infrastructure has been especially welcomed in Sub-Saharan Africa, as this is an area where Africa experiences its largest gaps in competitiveness, alongside significant constraints to financing. New investment has gone into the construction sector (hospitals, stadiums, ports, public buildings), the energy sector (hydro, thermal and coal power generation), transport infrastructure (road, rail, bridges, airports) and telecommunications. Alongside the Chinese state-backed firms which receive loans from the Chinese Export-Import (EXIM) bank, other Chinese MNE firms engaged in African infrastructural projects will often negotiate payment back in form of natural resources. Over 70% of African trade with China comprises oil, followed by Chinese imports of other natural resources, such as minerals and raw materials.

A World Bank report found that Chinese investments in infrastructure within Sub-Saharan Africa shifted from around $500 million annually in 2000 to approximately $1.9billion in 2004-05 and later rose to $7billion in 2006 (Foster et al, 2008).

Within the African telecommunications industry, Huawei Technologies and ZTE (Zhong Xing Telecommunications Equipments Company) are the two largest Chinese players. By 2010, they had operations in 50 African countries supplying telecommunications equipment and building national ICT infrastructure, for example, in Ethiopia, Angola and Ghana. A third significant player is ASB (Alcatel Shanghai Bell), which is a French-Chinese joint venture. In Ethiopia, Chinese investment helped set up a new national communications infrastructure including fixed line and mobile line coverage (over $1.5billion project), and similarly in Ghana, Chinese investment to expand and rehabilitate the fixed line telecommunications infrastructure.

Within the energy sector, Chinese enterprises have made significant investment within Sub-Saharan Africa. CNOOC (China National Offshore Oil Corporation) has expanded in Nigeria as well as signing exploration and oil-sharing contracts in Uganda, Kenya, Equatorial Guinea, Democratic republic of Congo, Algeria and Gabon, alongside other countries. Chinese Sinopec and the Angolan state-owned Sonangol formed a joint venture (SSI) in 2006 to develop new refineries in Angola, while in Sudan, CNPC (China National Petroleum Corporation) invested in oil production projects yielding an estimated 200,000 oil barrels per day (Corkin, 2007; Foster et al, 2008). China has also invested in coal and gas fired thermal stations as well as hydropower dams in Sudan and Nigeria.

Within construction, Chinese SOEs upgraded the Benguela and Tanzara railway infrastructure which transverses Angola, Tanzania and Zambia. Over $1billion was invested in Nigeria’s Abuja Rail Mass Transit system as well as another $2.5billion invested on the Lagos-Kano line which extends over 1,300 kilometres. To facilitate the transfer of iron ore from Gabon, Chinese investment has gone into the Belinga-Santa Clara railway (over 560 kilometres). Similar rail investment was undertaken in Mauritania to link the mineral-rich Bofal region to the capital Nouakchott.
Alongside the large state-backed enterprises, newer Chinese multinational enterprises are engaged in a range of African industry sectors including retail and manufacture. As a result of intense regional competition within China, oversupplies in particular sectors and products have led to companies seeking new markets abroad. This is sometimes necessary for survival as the Chinese domestic environment undergoes significant change. Expanding to new markets within Sub-Saharan Africa is therefore seen as a practice run, a testing ground where companies gain international experience by entering the less competitive and relatively less protected markets in Africa prior to entry in the more protected and more competitive markets of Europe and the United States. These Chinese small and medium-size international businesses, comprising the third phase of Sino-African identified earlier, tend to identify and service neglected market niches that larger, traditional MNEs have ignored. They can source cheaper product lines and lower-end, more affordable equipment versions, which is preferred in the African context of lower incomes, leading to their capturing larger shares of the domestic market.

Chinese investment and local linkages
Emerging forms of engagement between China and Africa have the potential to benefit both Chinese businesses and local African industries, particularly in accessing affordable products and services, as well as the upgrading of skills and technology transfer. However, the entry of Chinese investors within particular contexts has led to social and political tensions which have the potential to affect the future prospects for China-African business.

Despite being relatively recent, concerns are raised over Chinese investment and the lack of local linkages into the domestic economies within which they operate. In particular, there is the lack of understanding of the African social and political contexts, leading to criticism that Chinese investment is exploitative and informed by transient, short-term perspectives. Anti-Chinese sentiment is increasingly expressed within and beyond the continent, as illustrated in the case of Zambia where the failure to regulate Chinese investment or generate spillovers generated an intense domestic backlash. Chinese investment within Zambia’s copper mines brought benefits for only an elite few, while failing to generate wider benefits for the local communities. Lucrative mining deals were negotiated in secrecy and investors were unregulated, against a background of corruption and complicity with weak, local government officials. Criticisms over these abuses were linked in to concerns over low pay and poor working conditions in the Chinese-managed mines, leading to calls for ‘Zambia for Zambians’ and the election of Michael Sata, a presidential candidate running on a strong anti-Chinese stance (Spilsbury, 2012).

Resistance to Chinese investment has also been expressed across other SSA economies, where domestic African traders increasingly find it difficult to compete with Chinese businesses within their local markets. The newcomers are seen to benefit from preferential regulation as foreign investors, and have access to much cheaper imports of clothes, electronics and other consumer goods which local traders do not. Recent incidences of attacks against Chinese investors have been reported in the press, for example, reports of physical violence and killings of Chinese traders in South Africa, Malawi, Zambia, Ghana, Angola, which all raise concern and reveal the need to understand the social and political tensions evident in the new markets abroad.

In countries with high unemployment levels, the practice of importing unskilled Chinese workers to perform roles that unskilled Africans can perform (for example digging trenches during road construction) has led to concerns from locals that the Chinese are taking away their jobs. Additionally, low pay and poor working conditions in certain Chinese-owned enterprises raise tensions, which are further exacerbated by communication and cultural differences.
Local governance and local resources shape the national and sub-national context within which international business occurs. Within SSA, significant weaknesses in states’ regulatory and institutional environments mean lie at the heart of the generalised failure to realise wider economic developments from FDI. Contrasting the role of the state in, for example, the competition or the (neo)-liberal state model of the United Kingdom and the US (e.g. Cerny, 1997), the developmental states of Northeast Asia (e.g. Wade, 1990), the transition states of former Eastern Europe, the so-called ‘vampire’ state in parts of Sub-Saharan Africa (Frimpong-Ansah, 1991) and the command-led type of state involvement evident in China, can reveal significant divergences in capacity. Within Sub-Saharan African economies, the role of the state in business, and the specificities of the national and sub-national institutional environment play a key role in the outcomes that FDI can help realise. Many African governments lack the capacity to regulate investors, or effectively guide investment towards development objectives realized through technology transfer or skills development. Such constraints, when taken together with the significant barriers to growth and infrastructural deficiencies affecting competitiveness, therefore limit the potential contribution that Chinese FDI, as well as all other investment, could make to local economic development.

FDI and local linkages: lessons from an African economic zone

The next section considers lessons drawn from previous African attempts towards industrialisation based on manufactured exports, through the lens of earlier models of export zones in a typical African economy. Similar to most developing economies in Sub-Saharan Africa, Kenya does not benefit from the vast mineral or oil reserves that attract the largest FDI flows to Africa, and it depends on agricultural produce and tourism for development. The country has a reasonably developed manufacturing base relative to the African region and has attempted to upgrade through export zones, hosting a significant proportion of all African export zones.

Export processing zones were introduced in Kenya in 1990 as part of a World Bank-funded Export Development Programme (EDP) aimed at orienting the economy away from earlier import substitution strategies that had led to declining performance. The aim was to adopt an outward-oriented, export-led development strategy in response to globalization challenges. Following a slow start, export earnings initially rose from 13% of GDP in 1992 to over 25% by 2008. Table 4 below shows selected performance indicators of the Kenyan export zones between 2000 -2009.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gazetted Zones (No.)</td>
<td>16</td>
<td>23</td>
<td>31</td>
<td>37</td>
<td>41</td>
<td>43</td>
<td>39</td>
<td>41</td>
<td>38</td>
<td>41</td>
</tr>
<tr>
<td>Operating enterprises (no)</td>
<td>24</td>
<td>39</td>
<td>54</td>
<td>66</td>
<td>74</td>
<td>68</td>
<td>71</td>
<td>72</td>
<td>73</td>
<td>83</td>
</tr>
<tr>
<td>Exports (Kshs. millions)</td>
<td>3,636</td>
<td>5,962</td>
<td>9,740</td>
<td>13,812</td>
<td>23,047</td>
<td>20,036</td>
<td>22,893</td>
<td>27,400</td>
<td>19,986</td>
<td>21,788</td>
</tr>
<tr>
<td>Investment Kshs. million</td>
<td>6,108</td>
<td>8,950</td>
<td>12,728</td>
<td>16,716</td>
<td>17,012</td>
<td>18,682</td>
<td>20,320</td>
<td>19,027</td>
<td>20,549</td>
<td>20,056</td>
</tr>
<tr>
<td>Total Employment (no)</td>
<td>6,620</td>
<td>13,758</td>
<td>27,148</td>
<td>39,111</td>
<td>38,560</td>
<td>38,851</td>
<td>37,416</td>
<td>34,957</td>
<td>29,395</td>
<td>29,959</td>
</tr>
</tbody>
</table>

Source: EPZA data (various), Author data
As shown in the table, zone exports increased more than six-fold between 2000 and 2004, later reaching a peak of Kshs.27.4 billion in 2007. Investments also rose as new zones were gazetted to a peak of 41, generating over Kshs.20 billion. Much of the foreign investment went into clothing manufacture, as Kenyan firms became part of globally dispersed, fragmented clothing production networks which transferred the labour-intensive assembly production to cheaper locations overseas. Employment rose from a low base of 6,000 in 2000 and had stabilised at over 38,000 directly employed workers between 2003 and 2005. A gradual decline in total employment within the zones has been recorded since 2005, but still remains significant in a country with high unemployment levels.

The declines in Kenyan zone employment seen after 2005 are partially explained by changes in the global economy, particularly changes within international trade regulation within the international clothing and textiles industry. This was previously operated under a system of tariffs and quota restrictions, provided for within the multilateral trade regime under the Multi-Fiber Trade Agreement which came to an end in 2004. The global clothing industry then transferred to the General Agreement on Tariffs and Trade (GATT) rules governed by the World Trade Organisation (WTO) which China joined in 2005.

China’s entry into the WTO changed the nature of this globally competitive industry, and its subsequent dominance through sheer volumes and efficiency has been to the detriment of less competitive, developing countries. An additional factor for Sub-Saharan African economies has been the uncertainty and time-lag involved in negotiating bilateral trade agreements, such as the drawn-out negotiations over the renewal of the United States African Growth and Opportunity Act (AGOA), which stall new investment, as well as lead to divestment by existing enterprises seeking preferential market access (Gereffi et al, 2005; Phelps et al, 2008; 2009).

**Challenges affecting the performance of African zones**

The performance of economic zones around Africa has been underwhelming on the whole and despite isolated successes, many have failed to meet their initial expectations of attracting significant investment or job creation (Farole, 2011; Stein, 2009, FIAS, 2008). FDI flows to manufacturing within African export zones have remained low in the face of limitations within the global and local environment, while the rate and quality of employment created within the zones remains disappointing.

Within the Kenyan export zones, despite initial rises in the stock of employment generated, concerns persist over the quality of employment generated, which tends to be low-skilled, low-waged positions on insecure terms of service. Direct production workers are engaged on temporary or casual contracts to facilitate easier lay-offs. A large proportion of the workers engaged in the zones are young, female workers who are largely un-unionised and have few bargaining rights. Concerns are regularly raised over poor labour and working conditions and very low pay within the zones. Closely related to this are concerns over the nature of production work, which comprises repetitive, labour-intensive assembly tasks requiring low skill levels. Industrial disputes over unrelentingly high production targets which are enforced through unpaid overtime and/or enforced lock-ins have been the subject of media and consumer campaigns.

A second group of concerns relate to the level of financial incentives offered to investor firms by the African governments and their affordability for poor countries, leading to a ‘race to the bottom’. The table below outlines some of the incentives on offer to foreign firms locating within Kenyan export processing zones.
Table 5: Incentives available to investors in Kenyan Export Processing Zones

<table>
<thead>
<tr>
<th>Incentive</th>
</tr>
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<tbody>
<tr>
<td>10 year Holiday on Corporation tax</td>
</tr>
<tr>
<td>10 year Holiday on Withholding tax</td>
</tr>
<tr>
<td>100% Exemption from Stamp duty</td>
</tr>
<tr>
<td>Full Investment Deduction of the entire initial investment costs</td>
</tr>
<tr>
<td>Full Exemption from duty and VAT on inputs including capital equipment, intermediate goods, motor vehicles and spare parts, office equipment, packaging, diesel and fuel oil.</td>
</tr>
<tr>
<td>Subsidised infrastructure, reduced regulation and fast-track processing of permits and approvals</td>
</tr>
<tr>
<td>Unrestricted repatriation of profits</td>
</tr>
</tbody>
</table>

Source: EPZA data (various), Author data

The incentives provided in Table 5 are financially significant, particularly within cash-strapped economies persistently dependent on external aid and loans to plug budget deficits. While governments will justify the costs of incentives to attract investment in terms of spillovers to the local economy, the prudence of such significant incentives in the face of high poverty levels and lack of development financing has been questioned. The dilemma is that these incentives mirror those offered by neighbouring African countries competing for foreign investment in the so-called ‘race to the bottom’. It is this competitive use of un-costed financial incentives by poor African countries against each other to attract investors to their respective zones which is criticised for attracting highly footloose investors, with minimal linkages to particular locations. Such investors relocate upon expiry of their holiday periods in search of better incentives on offer. Weaknesses within design and zone management are now recognised as a key contributor to economic under-performance, and similar experiences in Kenya, Ghana, South Africa, Tanzania and Lesotho may explain the emerging trend towards new zone reforms.

The lack of linkages to domestic industry, through failure to develop forward and backward integration of foreign investment into the local economy is a key weakness of zone policy in Africa, limiting the potential for FDI generating local development through direct and indirect spillovers. Phelps’ (1993) study of subsidiary manufacturing firms in the North East of England noted the challenges of locally embedding firms into regional economies through spatial processes of externalization and localized linkage formations. These challenges, it was argued, reflect the further integration of peripheral regions into increasingly international spatial divisions of labour. The logic of externalization and linkage formation is therefore central to debates on the potential for economic development in African economies.

There are significant concerns over the sustainability of the investment and employment created within previous export zones or the new special economic zones. Similar to other SSA economies, much of the foreign investment and manufacturing employment has been within the garment industry, which is linked to preferential trade access arrangements principally the US AGOA (US African Growth and Opportunity Act) arrangement. Enacted in 2000, the Act grants preferential market access to eligible Sub-Saharan Africa countries into the US market for a variety of products. Initially set to expire in 2008, the Act has been extended severally and is now due to expire in 2015. The specific provision granting use of third country fabrics within exports has been of particular importance to SSA economies which lack competitive domestic textile industries, but delays over renegotiating this clause recurrently leads to uncertainty and stalled investment decisions (Phelps et al, 2008: 2009) which inevitably shape the character and nature of forward and backward integration of FDI within African clothing industries.
A broader question exists over whether the general shift from EPZs towards SEZs is evidence of another policy volte face, yet another bandwagon for poorer economies to garner favour with a new donor that could potentially replace the World Bank /IMF duo in the context of indebted dependence.

Policy reversals in Africa are nothing new; recent history is littered with stalled reform efforts and abandoned policy experiments. The neoliberal reforms imposed on SSA economies as part of the World Bank structural adjustment financial programs of the 1990s were broadly unpopular in Kenya and compliance was often enforced by suspension of aid and loan disbursements, further eroding the business and policy environments upon which the attraction of desired foreign investment was dependent. Export zones in Kenya were a by-product of this fraught relationship, and their underperformance can be traced to the particular institutional and social contexts within which these external models were applied. Drawing insight from debates on hegemony, unequal power dynamics are therefore at play when ‘dominant groups are seen to impose particular practices to their advantage, or when ... their models of particular relationships are adopted as the ideal or desired model on the rest of society or even on societies that are not yet under direct control’ (Swyngedouw, 1997). In the current context, therefore, these policy shifts merely reflect the entry of new actors into an unaltered relationship, and may well be criticised for masking and in some measure perpetuating the vulnerabilities that trap poorer economies in disadvantaged positions of diminishing control. Related concerns may underlie the current debates over the potential role of ownership and the contributions of specifically Asian drivers of economic development in Sub-Saharan Africa (Kaplinsky & Morris 2008; Jenkins & Edwards 2006; Kaplinsky, McCormick & Morris 2006; Power, Mohan & Tan-Mullins, 2012).

Ultimately, there exist severe limitations in the ability of African economies such as Kenya to deviate from the low-cost, labour-intensive activities carried out within export zones. There is need to upgrade the local regulatory and legal frameworks to encourage innovation, upgrade the capacity for skills absorption and formation of technological linkages. Export zones are currently delinked from the domestic economy and do not integrate centrally within national development strategies. Left unchanged, the situation reinforces vulnerability in bargaining with highly mobile global capital, and relegates weak economies to the more disadvantaged positions within global networks.

In conclusion, it is highly doubtful that the zone model as currently formulated within African economies, or the envisaged special economic zones modelled on China, can be relied upon to catalyze widespread African economic growth. Limitations within national and sub-national institutional contexts, alongside shifts in the international trade and investment environment pose significant challenges to general economic growth for countries at the periphery of the global economy. Within these countries, the isolation of foreign firms within export zones and their lack of backward and forward linkages into the domestic economy significantly limit their potential to generate the desired direct and indirect spill-overs that FDI should bring.

Therefore, despite the increased integration of African economies into global networks of capital and production, and the adoption of special economic zones as policy instruments to attract new investment, severe limitations persist in the local ability to upgrade from low-cost and laborious production activities favoured within these export zones. These limitations reduce the potential to upgrade and innovate, and left unaddressed, will entrench African economies’ disadvantaged and marginal positions in global production and supply networks.
References


EPZA (various) Annual Reports, Export Processing Zones Authority EPZA: Nairobi, Kenya


