

Chinese FDI and Zambian Development:
A Critical Evaluation of the its Relevance through key
Socio-Economic and Political Indicators

by
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Declaration

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Abstract

Since 2000, Chinese FDI in Zambia has steadily increased. Focused predominantly on resource extraction, China is now the third largest investor in Zambia, after only the United States and South Africa. As the title suggests, this FDI is recognized as relevant to Zambia's developmental discourse. However, with general development indicators, there is challenge in establishing immediate causality between (Chinese) FDI and development. To address this, this study employs Capability Approach development theory, which utilizes a framework to evaluate social and political realities. Utilizing this framework, key indicators are used to look more deeply into the discussion around China's FDI for Zambia's development. There has been a great deal of speculation as to potential costs and/or benefits Chinese FDI may offer Zambia. As China offers Zambia a partnership of non-domestic interference, unique from Zambia's traditional western syndicates, debate is raised as to what influence it will have on Zambia's developmental progress.

With challenges including limited information, numerous potential indicators to utilize, and a large number of contributing voices, the debate thus far lacks a means for evaluating the substance of claims made within the context of national trends. This study reviews and evaluates the debate within the framework of seven key socio-economic and political indicators. While within economic growth and infrastructure expansion Chinese FDI are shown to indicate a conduciveness to development, FDI is not shown to be conducive for market diversification, challenging corruption, or strengthening institutions. The study therefore shows that trends of Chinese FDI's relevance to Zambian employment and state dependency to be mixed and that assessments will need to disentangle various Chinese activities and will also need to consider contradictory effects.

Opsomming

Sedert die jaar 2000 het Chinese direkte buitelandse belegging (DBB) in Zambië stelselmatig begin toeneem. Die groei is hoofsaaklik gekonsentreer in die hulpbron ontginnings sektore. China is tans die derde grootste belegger in Zambia naas die Verenigde State van Amerika en Suid Afrika. Soos die titel van die tesis aandui, word DBB beskou as relevant tot Zambië se ontwikkelings dialoog. Aangesien die oorsaaklikheid tussen DBB en ontwikkeling nie maklik vasgestel kan word nie, word sleutel aanwysers gebruik om dieper in die gesprek rondom Chinese DBB ten opsigte van Zambiese ontwikkeling in te kyk. Tans is daar 'n groot mate van spekulاسie aan potensiële risikos en/of voordele van Chinese DBB vir Zambië. China bied Zambië 'n vennootskap sonder inmenging in binnelandse beleid, anders as Westerse finansiering wat gekoppel word aan voorwaardes, en dit is wat die vraag lig; wat gaan die uiteindelijke invloed en effek wees op Zambiese ontwikkeling in die toekoms.

Met uitdagings soos beperkte inligting, vele moontlike aanwysers en 'n groot aantal opinies, kort die debat tot dusver die vermoë om die waarde van argumente te evalueer binne die konteks van nasionale tendense. Hierdie studie evalueer die debat binne die raamwerk van sewe sleutel sosio-ekonomiese en politiese aanwysers. Chinese DBB word bevind om bevorderlik te wees ten opsigte van ontwikkeling in die infrastruktuur ontwikkeling- en ekonomiese groei sektore; dit word egter nie bevind as bevorderlik in terme van mark-diversifikasie, die teenkating van korrupsie, of in die versterking van politieke instellings nie. Chinese DBB se invloed op indiensneming en op die afhanklikheid van die Zambiese staat toon gemengde resultate, en dat assessering verskeie Chinese aktiwiteite sal moet ontrafel en ook teenstrydigge effekte in gedagte moet hou.

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ACRONYMS AND ABBREVIATIONS

BGRIMM	Beijing Research Institute of Mining & Metallurgy
BTI	Bertelsmann Transformation Index
CLM	Copper Mine of Luansha
FDI	Foreign Direct Investment
FNDP	Zambia's Fifth National Development Plan
FOCAC	Forum on China-Africa Cooperation
GDP	Gross Domestic Product
GNI	Gross National Income
HDI	Human Development Index
HIPC	Heavily Indebted Poor Country
IFI	International Financial Institution
IMF	International Monetary Fund
LDC	Least Developed Country
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MFEZ	Multi Facility Economic Zone
NEPAD	New Partnership for Africa's Development
MNC	Multi-National Corporation
NGO	Non-Governmental Organization
ODA	Official Development Assistance
PF	Patriotic Front
PRSP	Public Reduction Strategy Paper
SADC	Southern African Development Community
SAP	Structural Adjustment Policy

SEZ	Special Economic Zone
SNDP	Zambia's Sixth National Development Plan
TAZARA	Tanzania-Zambia Railway
TI	Transparency International
UN	United Nations
UNDP	United Nations Development Program
UNZA	University of Zambia
WTO	World Trade Organization
ZCCM	Zambia Consolidated Copper Mines Limited
ZDA	Zambian Development Agency

CHAPTER ONE: Research Design

1.1 Introduction

For developing countries, Foreign Direct Investment (FDI) is an essential form of capital mobilisation. It holds potential for increasing employment, infrastructure, and providing skills training to its population. Furthermore, FDI gives developing countries the opportunity to reduce its reliance on foreign aid, thereby boosting the state's autonomy from donor policies. The potential socio-economic and political gains are recognized, and bring much state interest in attracting FDI. Chinese FDI into Zambia and other African states has increased steadily over the past decade. However, its policies and procedures are scrutinized and questioned to determine whether China's FDI is encouraging development, or merely producing macro-economic growth figures, which in itself is not necessarily sustainable. Using the Capability Approach Developmental Theory this thesis will evaluate the claims and debates set around Chinese FDI and its relevance for development in Zambia.

1.2 Preliminary Study and Rationale

1.2.2 Literature Review

The Chinese government worked over the past decade to promote ties and partnership with African states through the establishment of the Forum on China-Africa Cooperation (FOCAC) (Le Pere & Shelton, 2007: 210; Alden, 2007: 30). FOCAC has nine principles to standardise overseas investment required by Chinese owned companies that hold their companies to domestic laws and policies intended to standardize their work and bring confidence to the states they work in (Ndulo, 2008: 139). By using new forms of interstate relations the Chinese government's relations with Africa are meant to expand its geopolitical influence for its own future economic growth (Le Pere, 2006: 13). While this strategy is explicitly meant to benefit China itself, rather than Western approaches to Africa that takes on a more altruistic rationale, there is great potential for this partnership to also benefit Africa in regards to development according to Le Pere (Le Pere, 2006: 13).

China's Approach to Development and Partnership

As a developing country, the Chinese government's policies brought 200 million people out of poverty in the 1980s and 1990s. Chinese successes in poverty reduction are recognized to be partly due to the US \$600 billion invested from foreign governments and businesses in the country since 1978. This possibly seems emphasizes economic growth's close ties to FDI (Bernstein, 2010: 250). The Chinese government is looking for partnership to secure the growing needs and goals of the Chinese economy, and the government is doing so with a similar approach to the one that has brought China herself to development. Government policy in Beijing defies the notion of a close link between democracy and development. Instead, China is rapidly developing, despite still being a semi-authoritarian regime with human rights violations (Bernstein, 2010: 7, 250; Mawdsley, 2007: 407).

The Chinese economy's unprecedented need for natural resources for its rapidly growing economy drives its foreign policy (Raine, 2009:36; Vines, 2007: 214). The Chinese government's agenda in Africa is seen to be driven by the desire to gain access to key raw materials, consumer market access, and a greater role in international politics (Shelton, 2006: 103). The Chinese government is encouraging investment in a wide scale of sectors and industries, which is essential for fostering private-sector growth in Africa (Alves & Draper, 2006: 23). In its pursuit of South-South solidarity, China sees and seeks similar trends in Africa to its own development path including privatisation, opening up to international trade, and reform based on bilateral and multilateral trade agreements. However, it is not focusing on democratisation or governance reforms that are often demanded by Western institutions (Williams, 2004: 92).

The Chinese government's alternate approach to partnership with African states is founded on basic principles of sovereignty and self-determination. This is (allegedly) attractive to many African governments, because it reduces pressure stemming from the West's interference and involvement in domestic matters (Meyeresson et al., 2008: 2; Miguel & Beuret, 2009: 25). China is finding inroads to Africa unprecedented by Western governments or business interests. Due to western avoided constraints of expected structural adjustments, accountability, or high standards against corruption, or negative anti-colonial sentiments, China is investing at rates

inexperienced for many African states (Raine, 2009: 40; Gu & Humphrey, 2007: 5). To encourage investment, the FDI of Chinese enterprises is encouraged by the Chinese government and complimented with aid and loans, and it has been warmly accepted by a number of African governments (Obiorah, 2007: 36 – 39). For these developing countries, foreign investment is needed for economic growth, which thus far has been largely unavailable from the Western world. Because China is providing investment at higher levels and with less interference or supervision of African domestic affairs, many African leaders see great potential for development from their partnership with China (Bernstein, 2010: 14).

While some analysts are optimistic about the potential positive developmental impacts of China's role in Africa, others are highly critical. A number of observers see China's goals for acquiring natural resources, and for complicit partners in the international system to have little interest in reducing levels of corruption or debt, or safeguarding human rights and environmental standards. The lack of conditions and stipulations, as well as Africa's (cannot use the word Africa so broadly) own lack of planning, are argued to cause further harm, exacerbating these problems (Brautigam, 2009: 13; Collier, 2007: 86; Wrong Model, Right Continent, 2006; Rocha, 2007: 16). Raine (2009:55) observes that China's approach could be a race to the bottom, looking for the lowest standards and responsibilities. This is matched by recognition that the expected effects of Chinese FDI including better labour wages, improved services, or a correlation between growth and poverty reduction have yet to be seen (Van der Lugt et al., 2011: 60). However, for developing states with few options, limited by the restrictions of poverty, China is at least offering investments to countries needing FDI (Bernstein, 2010: 7, 10; Alves & Draper, 2006: 19).

From an alternate perspective on the role of the state, others argue that it is not China's duty to promote good governance or broad human rights, and that the opportunities they bring are valuable for African countries to use to their own interests (Taylor, 2009: 171; Hutchison, 1975: 199; Obiorah, 2007: 45). Some see it as valuable to the Chinese government's goals for African states to develop for long term stable partnerships, and that Chinese approaches could alter a course towards sustainable considerations that would be beneficial to the African states (Alden, 2007: 5; Michel & Beuret, 2009: 7). Studies and analysis of this FDI-motivated approach to

development, as offered to many African states by China differs from traditional development models and leaves analysts and states to surmise as to whether these trends of economic growth will ultimately translate into development.

Due to the fact that China's primary motives are thought to be resource-based, the most substantial levels of interaction are through (FDI), particularly in resource extraction (Davies, 2008:45; Meyersson, Miquel & Qian, 2008:1, Mawdsley, 2007: 405). China's partnership and business-focused approach is apparently different from the traditional Western approach taken towards African states. With these significant partnerships being forged between China and most African countries, many question whether it will be relevant to the development of African states (Herman, 2010: 1).

Western governments and international bodies often view Africa as a continent in need of help, with disease, poverty, corruption, ethnic division, and conflict as key plagues of the continent (Ndulo, 2008: 139). Western responses to the continent is formulated on propagated 'aid' considerations and (often externally imposed) stringent strategies argued to be needed to develop African states. Furthermore, while western FDI is limited to many African states, humanitarian concerns and public pressure place a demand on investors to operate to Western standards regarding issues of human and labour rights, environmental considerations, and with consideration to 'uplift' the states and populations (Gu & Humphrey, 2007: 2; Williams, 2004: 45; Thomas, 2004: 188; Ndulo, 2008: 139).

Alternatively, China, a developing country itself, claims to act in a manner of partnership for a mutually beneficial situation, it does not shy away from expressing that it seeks its own benefits in the cooperation. It claims that through the strategies laid out in FOCAC, economic growth and development will come for both sides (Michel & Beuret, 2009: 14). Its unique approach with regards to investing in Africa bring significant question to whether it will benefit the continent and provide a more successful means to development compared to Western approaches.

This strategy for partnership stresses the value of state autonomy and a traditional understanding of sovereignty. It thereby claims to allow for states to bring their own short and long term interests and plans to the table; China's growing amounts of FDI,

encouraged through packages with aid, operate with the interest of both sides, the Chinese government states (Michel & Beuret, 2009: 9). While for many partnering African countries China and its global demand for resources stimulate economic growth, question remains whether this will translate into sustainable development (Grimm, 2011: 20). The task to create the plans, policies, and legislation to maximize any benefits and mitigate any risks and make the most of the partnership is arguably up to the African states themselves; they are the key responsible actors for development (Alves & Draper, 2006:25).

Development is understood as more than basic Gross National Income (GNI) figures, and will have to look at sustainable improvement and state capacity building as the transition from poverty and dependency, as will be discussed in this study. While a more detailed conceptual clarification of both economic growth and development will follow in the second chapter, a working definition of development is *the improved capacity of a society to meet its own needs and sustain economic growth, reducing its dependency on other states while improving its own structures and capacity of its populace to live autonomous lives* (Todaro et al., 2009:14, 18; Prah, 2005: 10; Moss, 2007:2; Lietaen, 2001:105; Schuurman, 2003:5; Morris, 2002:2). Amartya Sen's development theory The Capability Approach outlines critical components that development needs to include for it to be actualized and sustainable. These include real individual freedoms, resources being transformed into valuable activities, a balance of materialistic and non-materialistic factors in human welfare, and the distribution of opportunities in society (Sen, 1988; Clark, 2003: 2; Robeyns, 2003: 4). Development claims for Chinese FDI in Zambia will be evaluated on the basis of the achievement or diminishment of these qualities in this study.

The Case Study of Chinese FDI in Zambia

Zambia, one of the earliest and highly valued African partner countries of China, provides a quality case for study of realized development impacts of FDI (Davies, 2008:46; Ndulo, 2008: 139). Its copper extraction-based economy has been bringing economic growth during the past decade as Chinese FDI has helped to re-open old mines and open new mines whilst funding the construction and maintenance of infrastructure. An estimate of over 160 Chinese companies work in Zambia, large amounts of Chinese products are sold in the country, and there is a growing Chinese

immigrant base (Mohan & Tan-Mullins, 2009: 1; Brautigam, 2009: 5). By 2010, the Chinese government announced it had invested US \$2 billion in Zambia, established 300 Chinese companies, and employed over 25,000 Zambians (FOCAC, 2011). There remains a gap in the literature examining the capacities built and diminished by Chinese FDI, and a subsequent analysis of the general development potential beyond HDI indicators, which remain limited in their causality.

Zambia is one of the few states that have a lower HDI today than it did in 1970 (UNDP, 2010a: 16). Its meagre economy has been highly dependent on natural resource extraction, influenced strongly by fluctuating markets (UNDP, 2010a: 42; Alves & Draper, 2006: 20). The Zambian government plans to use the country's natural resources for economic development to diversify into other economic sectors (Zambian Ministry of Finance and National Planning, 2011: 11). China has been integral to getting the copper mines and smelters functioning after a decade of disuse, which now constitute significant exports (Alden, 2007: 3). China has invested in the infrastructure and mining sectors of Zambia, and is increasingly becoming involved in other sectors (Rocha, 2007: 22-24). Its involvement is in the forms of FDI supported by trade, loans, grants, and aid, which generally come together in packages, as part of an organization's physical financial investment in establishing enterprises in an economy other than its own (Van der Lugt et al., 2011: 17).

While China's aid to Zambia is relatively small, its FDI is paramount to Zambia's current economy, purportedly aimed for Zambia becoming self-reliant (Davies, 2008:46). The creation of Special Economic Zones for Chinese investment can be regarded as an indicator for the country's long-term involvement (Davies, 2008: 49). This can be viewed as a positive sign of commitment, which would indicate a logical interest of the Chinese government in seeing development occur in Zambia (Bernstein, 2010: 2). However, parts of Zambian society have not always looked favourably towards Chinese involvement. Protests and viable political opponents have challenged the government's allowance of low labour standards, intense competition hurting the domestic manufacturing sector, immigration, and high (allegedly unfair) competition in the market caused by Chinese FDI (Taylor, 2009: 169). Nonetheless, Chinese investment has continued to come, and the Zambian government continues to

support and condone Chinese FDI. ¹The University of Zambia (UNZA) completed a study in April 2011 concluding that Chinese FDI in Zambia was conducive to development (Centre for Chinese Studies, 2011: 12). Beyond this reporting by the Centre for Chinese Studies on the study, however, the UNZA paper itself was unavailable.

The Chinese partnership does impact on the social, economic, and political spheres, including elements like training professionals, constructing hospitals, and schools, and state buildings (Manji & Marks, 2006: 2). Nevertheless, as development benefits have yet to be realized from economic growth, there is uncertainty as to whether Zambia will be able to develop from the relative economic prosperity it is currently experiencing and what future course should be charted by the Zambian government in regards to Chinese partnership (Van der Lugt et al., 2011: 60). For development to be recognized it will require Zambia to take proactive steps towards consolidated planning, political change and economic adjustment (Alves & Draper, 2006: 24).

The Role of FDI in Development Processes

Economic growth is necessary, but is not a sufficient precondition for development on its own. The Chinese government is said to be interested primarily in Africa's natural resources to fuel China's own economy. For African states, exporting natural resources is shown to have short-term positive effects on economic growth (Meyersson et al., 2008: 19). However, FDI is discussed as only leading to economic growth if FDI inflows are managed well to encourage further growth (Van der Lugt et al., 2011: 20). There is also a risk of a resource curse, where dependence on natural resources for a large percentage of a state's GDP results in inflation, which restricts other economic sectors (Alves et al., 2006: 26; Rocha, 2007: 31). While economic growth does not need to correlate with improvements in health and education, it is still an essential precursor for development to take place (Bernstein, 2010: 275; UNDP, 2010a: 17). This opens up the possibility that Africa's natural resources could be

¹ Recently elected President Michael Sata comes with a stance of planned control over Chinese investment. In a speech with the Chinese ambassador, Zhao, Yuxiao, emphasized that Chinese companies would not be getting preferential treatment (News24, 26 September 2011, *Obey rules: Zambia tells China*)

essential for fighting poverty and underdevelopment of states, though cannot be assumed on their own to show development within a state (Rocha, 2007: 30).

Beyond economic growth, development is understood as a reduction of inequality that would lead to eradicate poverty (Todaro & Smith, 2009: 16). Development is about sustainable social, economic, and people-centered capacity building while improving the circumstances of large numbers of people to remove dependency from others for the basic welfare and capacity of the state (Brautigam, 2009: 11; Bernstein, 2010: 260; UNDP, 2010A: 19). Economic growth from FDI can play a significant role in this. Furthermore, when political and social conditions are adequate, societal progress and development can follow (Bernstein, 2010: 250).

FDI has a role in development. International companies can create innovation, employment, training, and other social benefits making them potential key actors in development. This makes them a viable alternative to traditional aid strategies (Bernstein, 2010: 12). However, in cases of resource exploitation, companies are given a bare minimum focus of extraction until depletion, which negates development in its process. It is here where government regulation is essential for creating economic diversification and quality labour expansion through this form of FDI. Aid in Africa, on the other hand, is argued to be the least effective in the world, and unsustainable. Few projects remain operational after aid is terminated (Williams, 2004: 55). With the (critical) debate on aid's ineffectiveness there is greater interest and need to see what FDI can achieve.

The relevance of FDI can be seen within the socio-economic and political spheres of a state. With regards to socio-economic indicators, FDI can encourage economic growth by adding capital and business investment into the host economy (Moyo, 2008: 47; Todaro et al., 2009: 16). Secondly, FDI focused within construction can advance infrastructure expansions within a state. These provide capacity for further economic growth and potential for better delivery of critical infrastructure to a population (Broadman, 2007: 2; Davies, 2008: 48). Thirdly, economic diversification is critical to move states away from reliance on raw resources for their survival and removal from dependence due to the volatility of prices, and limited employment

opportunities created (Meyerrson et al., 2008: 19). Finally, in terms of employment, the capacity for FDI to employ locals, training them and investing in companies, transferring skills and knowledge makes it relevant for a country's development. Employment figures alone however do not indicate development, as labour exploitation may occur from firms disinterested in a more educated workforce (UNDP, 2010a: 17).

FDI is relevant to development within the political sphere in several key areas. With potential increase in a state's budget through taxes, FDI can increase the national budget with potential for reducing the host's debt and reliance on foreign aid (Moyo, 2008: 47). Depending on how foreign investors operate within the legal framework of the country can come into play with issues of state transparency and corruption. Whether or not investors uphold domestic laws, or alternately utilize methods of graft to maintain their operations matters to the domestic governance system they are operating within (TI: 2007: 1-4). The strength of institutions is critical for the creating and upholding legislature essential to strengthen the state structure to encourage further foreign and local enterprise through the provision of legislation and regulation, guarding the interests and rights of corporations and their locally employed labour (UNDP, 2010a: 19; Mwanawina, 2008:5). It is essential that a country's leadership and institutions ensure that economic growth and investments serve the populace, strengthen institutions, and take profits to invest in the state's future and accumulated capacity (TI, 2007: 1-4; Zambian Ministry of Finance and Planning, 2011: 10; Todaro & Smith, 2009: 15, 23).

1.2.2 Problem Statement

Chinese FDI is significant for Zambia's economy, most notably in intense mineral extraction. While indices show this to be having an influence on economic growth patterns, it is yet to be seen whether Zambia's economic growth will actualize into development.

This thesis asks the question *what is the relevance of Chinese FDI to Zambian development?* This question will explore the relationship of how FDI influences Zambia through key socio-economic and political indicators as explored through current debate and assessed through a developmental Capability Approach lens. As

such it will explore the current academic debate around this topic, critically evaluating the strength of arguments on both sides. It will utilize national trends as a context for the argument. Looking into the relevance of FDI for development will also require us to clarify the question of *how is FDI relevant to development?* This question will be examined from a theoretical approach, identifying key socio-economic and political indicators relevant to both FDI and development in light of the tenets of Sen's Capability Approach theory of development. These indicators will be assessed from arguments made by researchers, analysts, government officials and institutions relevant to the debate. From this, the current state of research on the indicators will be evaluated as to their substantiation of claims regarding their conduciveness to development and regarding the current discussion on Chinese impact on each of the indicators.

1.2.2 Contribution to Field

The aim of this study is to assess the debate around the relevance of Chinese FDI on national development in the case study of Zambia. Chinese FDI is increasing substantially in Africa. The effects of this increase, however, remains controversial amongst analysts who cite possible risks and benefits for recipient countries due to the distinct nature of Chinese FDI in comparison to traditional Western approaches to developing states. At present there are only economic growth guidelines and speculative attitudes to evaluate impacts of Chinese FDI on development. This study aims to contribute to the study by critically evaluating the arguments made within key socio-economic and political indicators. This is to disaggregate the debate before collectively (re) integrating the components for a summative analysis of the relevance of these indicators used, and the substantiation of argument indicating overall levels of conduciveness. For this exploratory qualitative study, data will be collected through a variety of primary and secondary sources, articles, reports, and documents focused on Zambia, China, and the larger contexts of each within their relations to Africa. The case study of Zambia is one of the best documented in Africa making it a prime case to review.

1.3 Research Design

1.3.1 Research Design and Research Methodology

This study will evaluate the relevance that Chinese FDI has towards development in Zambia through four key socio-economic factors, and three political factors. These factors align FDI to development capacity, and are able to offer insight into the categories established by Sen in *The Capability Approach* theory to development (Clark, 2003: 3). Within each factor, a general diagnostic of Zambia will be reviewed, followed by available reports, claims, and evidence that give context to conceptualizing the influences that Chinese FDI have on each factor. These indicators need to be understood and valued individually. This thesis will not provide sweeping conclusions on whether Chinese FDI is conducive for Zambian development. Rather, the factors will be broken into the two categories of socioeconomic indicators and political indicators. Socio-economic indicators to be studied are economic growth, infrastructure expansion, market diversification, and labour and employment. Political indicators to be studied are political dependency, transparency and corruption, and strength of institutions.

Data sources for this study will come from a conglomerate of sources including national statistics, government and intergovernmental reports. This thesis still provides value in offering a critical evaluation of the influence of Chinese FDI on Zambia's development through the critical lens of *The Capability Approach*. It offers insight and analysis to the claims made on all sides, structuring and evaluating the debate.

1.3.2 Limitations and Delimitations

This study is complicated by the fact it requires data from multiple fields over a ten-year period. As Zambia has been studied more extensively in regards to its development and relations with China, there is a wide range of data and debate surrounding this issue. Deliberation has also been taken in selecting relevant variables that can be researched as offer relevant insight into the field of study. The use of Capability Approach theory also is limited in that it does not provide a clear framework for variables in assessing development through its lens. However, the relevant theoretical grounding it provides gives flexibility to the adopting of the relevant indicators used in this study, making it a valuable tool in critiquing the information presented through debate and national development indicators.

This study is also limited in that it cannot offer final conclusions about the benefits or costs brought to Zambian development by Chinese FDI. As links of unequivocal causality cannot be established between FDI and overall country development, this study was required to look at the debate around potential trends and conduciveness provided. This study has required finding some linking aspects between the two, and is limited to providing observations about the discussion on the conduciveness of Chinese FDI for encouraging development.

While reviewing the debate, this study did not utilize in-field research and can thus not make contributions to broadening the empirical basis of our understanding of discussed effects. This study does not intend to fill the lack of up to date and accessible data available. Rather, its aim was to identify the conclusiveness or otherwise of a debate that is ongoing and thereby provides indications of where further research would be needed.

1.3.3 Chapter Overview

This first chapter serves as an introduction to the study of the relevance of FDI to development, and the value of the case study of Chinese FDI in Zambia. The problem statement and the significance of this study are also addressed in chapter one. This chapter also offered the literary review, which shows gaps in the critical determination of the relevance of Chinese FDI to Zambian development in light of *The Capability Approach* Theory of development. Chapter Two will deal with conceptualisation and operationalization of the terms used in this study, and a theoretical approach to the key variables of the socio-economic and political indicators that will be utilized. It will also break down Sen's *Capability Approach* theory to development. Chapter Three will provide the context of Zambian development, the Chinese approach FDI within partnership, and its context within traditional western FDI and involvement in Zambia. Chapter Four will then breakdown the debate within each socio-economic and political. This will lead to Chapter Five, which will review the findings and evaluate their relevance, offer concluding remarks.

1.4 Conclusion

With the increase of Chinese FDI into Zambia, it is important to study its relevance to development. Gaps in the literature show that despite much argumentation on both sides regarding the costs and benefits received by Zambia through partnership with China, there remains dispute regarding how to fully measure and evaluate the socio-economic and political influences it has. Using Sen's Capability Approach this thesis aims to assess and evaluate the debate.

CHAPTER TWO: Theoretical Approach

2.1 Introduction

This chapter deals with the conceptualisation of terms used throughout the study. It also reviews the approach taken to establish the theoretical base and relevance of FDI to development. The terms to be conceptualized include ‘FDI’, ‘development’, ‘developing country’, and ‘economic growth’. It will also break down the indicators to be focused on in this study, arranged in socio-economic and political categories. These will then be discussed in light of development Capability Approach theory. This chapter will conclude with an explanation of some key theoretical and methodological challenges faced in the study.

2.2 Key Conceptualizations

Conceptualizations of the key terms in this study provide more than a definition. They will explain the characteristics and operationalize socio-economic and political indicators of development and thereby contextualise the academic debate on development. This will allow establishing the indicators to better recognize and analyse the case study found in Chapter Four.

2.2.1 Foreign Direct Investment

Foreign Direct Investment (FDI) is conceptualized as the investments made within a state by foreign actors, whether private or state-run (Todaro & Smith, 2009: 824). Unlike portfolio investments, FDI goes beyond taking a stake in an enterprise, but rather including direct interest in its management. Because it requires an investment and expansion in corporations within a new state it is more than a basic flow of capital (Gallagher et al., 2005:16). Since FDI assumes that Multi-National Corporations (MNCs) invest in the host country with long-term objectives and strategies, it is assumed to be less volatile than portfolio investment, and presumably has interest in seeing the state’s markets succeed.

For this reason, FDI is recognized to have a unique set of potential benefits to a country and can contribute to its development (Chudnovsky et al., 2007:74). It can enhance the international competitiveness of the host country by introducing or reinforcing local competition, provide jobs, technology, and finance. While MNCs involved in FDI focus on profits, states are interested in larger economic goals beyond mere GNI growth. Arguing normatively, their focus should be in the interest of maximizing the welfare of their citizens (Chudnovsky et al., 2007:74). FDI cannot be assumed to always have positive implications for a state. As potential costs, FDI may lead to an outcompeting effect, in other words as an effect decrease local employment, focus itself into one basic sector such as mineral extraction with too high of risks. Alternatively lacking skilled workers and infrastructure for manufacturing or service exacerbates the challenges. FDI is relevant to socioeconomic and political development, as it offers tools and funds to both sectors that are required for developmental purposes. Subsequent to these funds, there are also subsequent policies, partnerships, and trade agreements that will influence the state (Zarsky, 2005: 5; Schuurman, 2003: 106).

2.2.2 Economic Growth

Economic Growth is conceptualized as the increase in value of the total economic activities within a state. It is measured by economic indicators including GNI, levels of trade, and government surpluses (Chudnovsky et al., 2007:101). It is distinguished from development based on its critical influence on internal and external factors. These include markets, investment, and support from state and non-state actors and its irrelevance to impact on the populace or state sustainability. It is an important factor and support for state development. While economic growth is not always sustainable, it is an essential precursor to development according to Zarsky (or some other qualification) (Zarsky, 2005:1).

2.2.3 Development

There is no overall consensus on what ‘development’ means (Moss, 2007:2). The generation and sustenance of an annual increase of Gross National Income (GNI) at rates of five to seven per cent by a national economy with an initial more or less static economic condition traditionally defined development (Todaro et al., 2009:14). This early definition aligns quite closely to present understandings of economic growth.

Since the 1950s, it has been built upon to include the larger realities of development that extend beyond this definition (Goklany, 2002:21; Andreasson, 2010:4) and to incorporate the more holistic process of changing social and economic, structures and national institutions (Todaro et al., 2009:14; Prah, 2005: 10). These structural changes are to work alongside an acceleration of economic growth, the reduction of inequality, and the eradication of poverty. A narrow definition of raising incomes to make people less poor is inadequate because of its overlooking of the context development is situated in (Moss, 2007:2). This narrow definition only encapsulates one precursor to development; economic growth.

Economic growth will not necessarily translate into development, depending on its interrelation with a number of socio-economic and political factors within the host state (Todaro & Smith, 2009: 18; Lieten, 2001:105). As both domestic and foreign investment within itself does not necessarily support sustainability and equity, signs of economic growth in a country cannot automatically be linked to development. GNI indicators therefore do not serve as a sufficient or adequate measure of development. As economic growth is not synonymous with development, its indicators are unique to those of development (Andreasson, 2010:4). While economic growth can occur without development, the reverse is unlikely. Economic growth is still seen as essential for development, even if it not sufficient on its own (World Bank, 2000:15). Development is more than financial inflow. Growing levels of national income might allow for but do not necessitate improvements in health, education, or a reduction of national poverty (Goklany, 2002:21). Nor do they necessarily precede improvements in governance, or in national capacity for sustenance of growth. Thus it is important to note that there is a differentiation between development and economic growth.

Development is a broader concept for the overall improvement of the lives of the poorer population groups in a country. The Human Development Index (HDI), developed by the UN encapsulates the education, and health of a population alongside its Gross Domestic Product (GDP) per capita (Moss, 2007:2). An even further expanded conceptualization of development however, requires consideration of the conditions within development needs to take place. This conceptualization gives insight into the issues causing the lack of development, rather than just citing key indicators. Development does not occur from a neutral starting line (Schuurman,

2003:5). States experiencing high levels of poverty and absence of development are recognized to be working to develop from a place of ‘underdevelopment’ or a ‘poverty trap’ (Cheru et al., 2005: 11; World Bank, 2000:12). These two terms both indicate an underlying disadvantage and larger context needing to be addressed by development.

The poverty trap experienced by most lesser developed countries (LDCs) very commonly include the interrelated issues of high levels of absolute poverty, hunger, unemployment, lack of education, gender inequality, and disease (Bloom et al., 2007: 105-106). Elements that further exacerbate the poverty trap are identified as low savings, low tax, low foreign investment, lack of infrastructure, violence, debt, reliance on aid, brain drain, poor governance, rapid population growth and environmental degradation (Nwonwu, 2008: 13). These poverty traps explain that developmental programmes must work to address the interconnectivity of a multitude of issues. This broad approach is essential for a country to gain capacity to support itself.

Development is conceptualized here as the improved capacity of a state to meet the needs of its population and continue economic growth in its territory, reducing its dependency on other states while improving its own structures and capacity of its populace to live autonomous sustainable lives. This definition encapsulates the empowerment of the socio-economic, and political sectors to gain the capacity to address the larger set of needs and issues of the state. Sustainability refers to the ability to meet the needs of the present without compromising the ability of future generations to meet their own needs (Morris, 2002:2).

2.2.4 Developing Countries

With a comprehension of development, it is important to understand the general pre-existing conditions of a state seeking higher levels of development. Developing countries are conceptualized here as those that come from a state of poverty with general disadvantage in the international system needing to find means to sustain growth and development to gain capacity to meet their own needs (Todaro & Smith, 2009: 16). It is important to note that a developing state is not one that is necessarily achieving development or even economic growth. Instead it refers to a state faced by a

number of the aforementioned developmental issues, without the capacity to adequately address them.

Impeded by poverty traps and underdevelopment, developing states require extenuating circumstance to move, which require economic growth either through aid, investment, or the exploitation of natural resources (Lieten, 2001: 12-13). The context of states working towards development requires the coordination of socio-economic and political factors that together can utilize economic growth. In this sense, FDI, though not as directly aligned in purpose to development as aid, can play a pivotal role towards development (Van der Lugt, et al., 2011:5).

However, while providing economic growth, if the state's actors and process overlook or negate the required socio-economic and political features of a country, development efforts can be overturned. The impacts to be had by FDI are largely in the hands of the state's government, responsible for managing FDI (through regulation and/or incentives) to the benefit of the country. However, these can be limited in light of international competition and externally imposed requirements. The result of this would be to leave the state with little developmental progress. If structural changes and the framework conditions are not adequately addressed, FDI could further leave the state with similar levels of dependency on aid, FDI, and natural resources. In that case, economic growth would remain unsustainable and society would not necessarily benefit from the FDI, nor would the economy necessarily diversify. As developing states are vastly different they should not be clumped as one. Nonetheless, there are general trends present that should be recognized (Schuurman, 2003:11).

Socially, a developing state is one reliant on low wage employment at basic tasks requiring minimal training, reflected in lower levels of education, often matched with gender inequality. These issues of poverty increase susceptibility to its markets remain small, with domestic corporations (Prah, 2005:8). Development needs to address a multitude of issues including levels of unemployment, and provision of social services so that a community can gain the skills to enhance its own markets and begin to address its own issues sustainably (Lieten, 2001:110).

Economically, developing states have some overlapping similarities. Developing states often rely on unprocessed foods and natural resources for export whether oil, minerals, timber, crops, or other raw resources as the major commodity. With these commodities, state authorities in developing countries plan on contributing to economic growth and national development plans through international support or partnership, trade and/or aid in order to subsequently gain more autonomy (World Bank, 2000:10-12). Lacking infrastructure can remain a barrier to efficiency and investment. For development in the broader sense as defined above, market diversification is essential along with the improvement of infrastructure to make the economy more competitive, and a producer of higher product goods, which is essential for improving the autonomy and sustainability of the state's economic growth (Lieter, 2001:99; Chudnovsky et al., 2007:74).

Politically a developing state is understood to be working towards the autonomy and capacity to govern whilst providing services for its citizens. It is also to be aspiring towards creating the framework conditions and structures necessary to produce conditions that are conducive for development. Often governments operate with relatively high levels corruption and graft, limiting the effectiveness of the state and, in fact, thereby questioning the goal of servicing the people (Prah, 2005:14). A state's reliance on aid, foreign investment and debt obligations can leave it limited in its capacity to handle its own affairs. With limited capacity to address the socio-economic challenges facing the state, the governance of a developing state is pressed to offer what is needed (Chudnovsky, 2007:75). For sustainable development to be realized in the socio-economic factors, in other words inducing structural change instead of rent-seeking behaviour, the state needs to become transparent, challenging graft, while establishing its own clear socio-economic policies (Morris, 2002:2). It further needs to strengthen its institutions to keep all levels of the state and foreign investors accountable to the direction needing to be taken.

2.3 FDI and Capability Approach Developmental Theory

Most theories of development emphasize and measure growth by indicators of wealth, health, employment, or literacy. Sen's theory of Capability Approach emerged as a

leading alternative to standardized frameworks used to measure development. In distinguishing between other theories of development, Capability Approach looks at the overall enhancing of functioning capacity of society (Sen, 1988: 8; Todaro et al., 2009: 17). Instead of seeing a population as a means to development, it also looks at them as ends to any progress (Clark, 2003: 6). One of the key strengths of this framework is its flexibility and how it allows for researchers to develop and apply it in many different ways (Clark, 2003: 5). As such, Sen does not put forth specific categories that need to be discussed and established as ‘objectively correct’. It is meant to be used to study the larger structures and trends set in place that are relevant to the capabilities of the population and government. In this, there is relevance for utilizing this theory in assessing the overall trends set in the aforementioned factors in their regards to development (Clark, 2003: 5).

The theory is critiqued because of its lacking a framework with coherent set of capabilities. However, it can be defended on the grounds that there are no set characteristics that can go into defining development. To address this, in this thesis, key socioeconomic and political factors are selected in which Sen’s broader components to development can be evaluated. Firstly is the importance of real freedoms, which is understood through their capabilities to make choices with autonomy. Secondly is the ability to transform resources into valuable activities. Thirdly Sen looks for a balance of the materialistic and non-materialistic factors surrounding human welfare. Finally, the concern for the distribution of opportunities within society is addressed. All of these are pertinent in various lights to the socioeconomic and political factors that will be studied in China’s relationship through FDI with Zambia. Overall, this development theory evaluates policies and practices according to their impact on people’s capabilities (Robeyns, 2003: 7). FDI will be analysed in its role as an ‘Agent’, in terms of the capabilities it provides change to the capabilities and functioning’s of the Zambian population and government in achieving development. The capabilities of individual citizens will be evaluated in the socio-economic sphere, and the capabilities of the Zambian government in the political sphere.

2.4 The Relevance of External Actors to Development

Aid exists as an attempt to contribute to development in Africa through donated funds (Moss, 2007:117). In order to prevent, or at least reduce rent-seeking behaviour, aid is usually tied directly to the fight against global poverty and its numerous surrounding issues (hence the use of so-called 'conditionalities'). For numerous developing countries, particularly in Africa, aid is the largest single source of state financing (Moss, 2007:117). As aid focuses directly on socio-economic issues in development, its indicators and measurements can be linked directly to broader development challenges. The Millennium Development Goals (MDGs) are the primary international focus of foreign developmental aid. They are focused on key targets in poverty reduction, health, gender equality, education, and environmental sustainability to be met by 2015 (UN Millennium Project, 2005; World Bank, 2000:14). Health, education, income, infrastructure, and levels of democracy are each measurable and can be used to reflect the impact of aid projects.

Arguably, and similar to the directly established link between aid and development, FDI can be directly linked to economic growth. Financial flows coming with FDI are immediately linked to some macro-economic indicators. Indicators of economic growth remain straightforward due to its direct linkage and measurement through GNI, GDP per capita, taxation, employment, and levels of investment (Goklany, 2002:21). However, FDI cannot be linked as immediately to development. In regards to FDI, levels of its developmental impact cannot be based upon the same indicators for development as used by aid. The implications for a country's FDI within a developing state cannot be joined directly to levels of health or education; the line of causality is actually more indirect and thus longer. Absolute figures of employment created through a certain investment activity can be measured against the size of overall employment. Yet, this cannot be used to judge whether the overall impact on development is positive or not, as other factors interfere in the longer chain of causality of FDI's effect on development.

The purpose of FDI differs from aid, in the sense that the intent of its key actors is to increase profit through the expansion of markets into new countries. Though the impacts had on a state's development are secondary, it does not mean that FDI cannot have a significant impact on a state's development (Olukoshi, 2009:9). For this reason, specific linkages need to be determined between development and FDI in

order to study the relevant trends, figures, and qualitative reports to determine the nature of a relationship of a state's FDI in another.

2.5 Framework and Indicators: Relevant Connections between FDI and Development

FDI on its own accord does not directly influence the capacities of a populace directly in many of the areas recognized to improve the lives of citizens as traditional aid efforts may or may not at least aspire to. This study needs to assess the critical areas that FDI does have a relevant influence in, specifically areas and structures established for state development that would in turn be used for development measures in the more traditional sense of health, education, and GDP per capita (Zarsky, 2005:2). While FDI does not have an immediate, direct connection to key indicators of development, such as those utilized by the MDGs or by the Human Development Index (HDI), its connection to a host state goes beyond mere economic growth. FDI does impact a state's development trajectory at the socio-economic and political levels and it thus does have the potential for either contributing to actualizing development or doing harm to developmental efforts (Olukoshi, 2009:10; Chudnovsky et al., 2007:75-76). However, it remains difficult to make quantitative conclusions about the influence FDI may have on a state's development (Chudnovsky, et al., 2007: 101). The analysis will need to be broken down to a more manageable and smaller range of indicators.

This study namely looks at FDI's influence on labour/employment, economic diversification, and improved governance as the critical areas where FDI can be channelled beyond offering just economic growth, and rather contributes to achieving sustainable development. That said, a study around key areas that FDI is recognized to have an impact under these three variables will give insight into the overall influence and trends FDI is having upon a developing state. Table 2.1 overviews the key factors under each sector that link between both FDI and development. By assessing these factors with available qualitative and quantitative data, conclusions can be drawn on the effects that FDI has on key elements of development. An analysis of each factor will utilize available data from a ten-year period to review the trends in each factor, to

provide indicators for the influence in FDI. As Chinese FDI in Zambia has risen dramatically since 2000, this should offer insight into the relevance of Chinese FDI for Zambian development.

Table 2.1 Breakdown of Indicators relating FDI to Development

Socio- Economic Indicators	Political Indicators
<ul style="list-style-type: none"> • Economic Growth • Infrastructure Expansion • Market Diversification • Labour and Employment 	<ul style="list-style-type: none"> • Dependency • Transparency and Corruption • Strength of Institutions

(Source: own compilation, based on arguments developed in Zarsky, 2005:2; Chudnovsky et al., 2007: 95; World Bank, 2000:2; Lieten, 2001:106; Agosin, 2007:43; Krugmann, 1995:136; Prah, 2005:14; Mugabe, 2005:77-78; Moss, 2007: 8; Afoku, 2005:24-25)

2.5.1 Socio-economic Indicators

The influence of FDI can be particularly felt by specific sectors of society. Particularly those employed by MNCs, the standards of labour and treatment they employ, and the potential of skills and technology all have a transformative power within society (Lieten, 2001:105). These factors have the potential for empowering a workforce for enhancing domestic firms with capacity for improvement, and the uplifting of those employed, substantiating development at the social level. However, MNCs also have the capacity to offer poor working conditions, little or no opportunity for transference of skills, and can rely on immigrant labour rather than develop skills in the national work force (Zarsky, 2005:2). This potential influence may have positive results in some areas, with mixed, negative or inconclusive results in others. Socio-economic relevance will be analysed through four key indicators in this study:

- a. Economic growth,
- b. Infrastructure expansion,
- c. Market diversification, and
- d. Employment

will be studied through both qualitative reports and figures for analysis (Agosin, 2007:43; Chudnovsky, 2007:95).

Economic Growth

While economic growth is a central factor considered for a state to encourage FDI, there are additional critical economic implications that need to be considered. As discussed earlier, economic growth alone cannot assume to bring about or even propel development on its own. Sound economic foundations need to be established for any growth to convert into development (World Bank, 2000: 51). As an initial gauge of the country's economic direction, analysis of trends of economic growth is measured GDP and GDP per capita. Economic growth provides the necessary, even if not sufficient basis for the remaining socio-economic factors (Chudnovsky et al., 2007:101). Investment is acknowledged to be the driving force behind economic growth, with great relevance attached to the linkage between FDI and economic growth (Lieten, 2001:107).

Infrastructure Expansion

Infrastructure in developing states generally remains a detriment to development (World Bank, 2000:4). FDI and growth can be delayed or obstructed by degraded or lacking infrastructure, such as roads, electricity, water, and communication systems (World Bank, 2000: 17). Investment in infrastructure – physical, financial, and information – is essential for development, and is tied to FDI both in terms of attracting investments, and in the potential infrastructure they will bring into the country (World Bank, 2000: 28). While FDI does not necessarily involve infrastructure expansion, this remains a moderately relevant indicator, and the relevance of Chinese FDI for infrastructure expansion in Zambia will need to be looked at more closely as it pertains to the capabilities of society's economic activity.

Market Diversification

For developing states reliant on natural resources or raw materials, FDI can either further cement its economic dependence on these resources or it can foster economic diversification. Economic diversification entails the market expansion into broader manufacturing and service sectors, while increasing the value added of traditional exports (Krugmann, 1995:136). This step is critical for sustainable development to occur making it a highly relevant indicator. It can produce an economy that is able to produce higher quality goods, rather than raw materials. This structural change would lead to a reduction of international dependence (including on aid, and it might increase traded values) thereby giving the state the capacity to better meet its own

needs (Chudnovsky, et al. 2007:95). The diversification effects or otherwise of FDI, particularly from China, will be reviewed in this indicator as it pertains to capabilities for a diversified market and is measured through economic sector trends.

Employment

FDI may result in an increase of domestic jobs, competing with the foreign MNCs (World Bank, 2000:2). For developing countries with large proportions of the populace engaged in small-scale agriculture, FDI has the potential to undermine livelihoods and bring migration to urban areas without providing the needed employment (Zarsky, 2005:4). It may also result in outcompeting (nascent) industries and thereby reduce pre-existing domestic jobs. Through intense competition and an influx of immigration, official or otherwise, FDI may have negative implications for a state's domestic labour (Chudnovsky et al., 2007: 95). Analysis beyond numbers can explore the value added from employment including the transfer of skills and technology and influence on the competition of domestic markets. For developing countries, MNCs can provide technology, and skills that are lacking domestically, which will stimulate industry growth (Lieten, 2001:106; Zarsky, 2005: 1; Chudnovsky et al., 2007:95). Skills provided include managerial skills, and technical training. For developing countries, training its populace is essential for the strengthening of its workforce's capabilities and capacity and a highly relevant indicator within the study (World Bank, 2000: 27). It will thus need to be explored if a linkage between Chinese FDI and one of the described effects can be established for Zambia.

2.5.2 Political Indicators

A central determinant for how socio-economic factors play out in regards to FDI is based on domestic political influence. Regulated governance of FDI for developing countries began in the 1990s, as a measure to safeguard sustainability and development (Agosin et al., 2007:4). As reflected in the discussion above, the capacity for FDI to translate to development requires political intention. This can be analysed through several political indicators that all illuminate a government's ability to coordinate its efforts for the needs and interests of its citizens through comprehensive strategies for development, and capacity to follow that plan (World Bank, 2000: 64). Key indicators to review are

- a. Trends of state economic dependency,

- b. Corruption and transparency, and
- c. Strength of institutions (Araya, 2005:62; Zarsky, 2005:4-5).

It is important to note that national indicators for these factors can only provide context for this study. The relevance of a particular state as a source of FDI would be only one of many contributing influences on each of these factors and cannot be given credit for the overall direction being taken by a state in any one of these areas. Instead, national trends must be recognized in light of specific reports and case studies relevant to each indicator as available. Capability Approach theory pertains to the overall capacity of government to work autonomously, and effectively, at addressing the needs of the state.

State Economic Dependence

Both national debt and reliance on aid further a developing country's government's limitation to directing its own developmental course. Governments of developing states become reliant on aid, being one of the significant detriments of aid-based development strategies (Prah, 2005:14). FDI has the potential to reduce dependence, bringing about autonomy of the state to be more selective with its partnerships and impositions of foreign states or bodies on their development strategies (Lieten, 2001:102; World Bank, 2000:5). Aid and debt minimize government control over a budget. Overall levels of aid are funded by numerous donors, often coming with fragmented projects and requirements that can weaken a state's institutional capacity (World Bank, 2000:25). Debt also potentially leaves to dependence on external assistance that can come with a development agenda set by donors, as recognized in the great impediments to development left by the IMF's Structural Adjustment Policies (SAPs) (Chudnovsky, et al. 2007:94). FDI is not as intimately tied to this indicator; FDI does not lead to debts, but might come only in some sectors and not in others. Positively speaking, FDI might provide funding *beyond* aid and thereby reduce dependencies. This study will look at the receiving state's ability to move from dependency of aid and loans, as influenced by the foreign state investments (Mugabe, 2005:77-78).

Transparency and Corruption

Levels of corruption in a state can be highly detrimental to development through the deference of funds from proper allocation, and the ability for those with power or money to work around the laws intended to bring about development. If MNCs attempt to use corrupt channels it can overthrow government efforts for socio-economic development, making it a pertinent factor to be considered in the impacts of FDI on development. Levels of corruption also translate into decline of the rule of law and transparency (World Bank, 2000: 64; Moss, 2007: 8). This factor will utilize the indicators and reports from Transparency International (TI) to gage levels of corruption throughout the state. Furthermore it will need to rely on reports of graft and court cases to discern whether the FDI from a particular state – and our interest here is focused on China – is having any influence on graft within the recipient country. Similar to state economic dependence, this indicator is limited in its correlation to development and is determined to be moderately relevant.

Strength of Institutions

The strength of institutions looks at a government's ability to respond to new demands by building capacity, and empowering citizens (World Bank, 2000: 64). The capability of a government to meet the demands of its citizens through key institutions including the judiciary, the bureaucracy, and as a platform for open discussion all can be measured to indicate the direction of a state's development (Afoku, 2005:24-25; Chudnovsky et al., 2007:74; TI, 2007: 1-4). Furthermore the policies of a state need to offer a comprehensive direction for development, offering socio-economic direction and support (World Bank, 2000: xi). Laws and their enforcement are to keep MNCs, domestic society, and the government itself in check and accountable (Lieten, 2001:112). This study will analyse the support or challenges presented to a state by the MNCs and other foreign government towards its institutions, beyond rhetoric and into specific cases and statements for pertinent insight. Levels of MNC compliance to the state's laws, and the legal capabilities of the state to exert its authority over MNCs comes into play, as well as the external state's support for the host state's mandates (Araya, 2005:62; Zarsky, 2005:1). In light of FDI, and if tainted towards the investing company or source state, the relationship may hinder a government's capacity to respond to the overall social, economic, and environmental needs within its host state (Chudnovsky et al., 2007:74). This is particularly so if the MNCs and external state discourage or impede a government from pursuing its policies geared towards national

development. As a government's capacity for responsiveness to its state offers much of its perceived legitimacy and stability, this remains a strong indicator in a study of the relevance of FDI for development (World Bank, 2000:50); Chinese FDI might play a specific role in this context and will be analysed accordingly.

2.6 Conclusion

As Chapter Two has argued, FDI differs in nature from aid and traditional measures and indicators cannot be relied upon for assessing the impacts or relevance of FDI on the development of a recipient state. In distinguishing economic growth from development, relevant indicators leading to sustainability and capacity of a state to better handle its own continued advancement needed to be established. This chapter has established the relevance of key indicators used in the debate of assessing the relevance of FDI for development. Through the lens of Capability Approach, relevancy is shown between FDI's agency and the capabilities and functioning's of the societal, economic, and political spheres of Zambia. Using this methodology to assess the relevance FDI plays allows for critique and assessment of the various claims put forth in chapter four. Through an overall assessment of specific reports, statements, and cases relevant to the proposed factors, the overall influence of a state's FDI on a receiving state can be understood (Agosin, 2007:39). The value of this information can be utilized for the improvement of strategy and comprehension of the relationship between a foreign investing state and its MNCs through a larger established partnership (Agosin, 2007:39-40). This in turn can be used for improving the relationship for the improved actualization of sustainable development plans. Chapter four will utilize the indicators discussed in this chapter to analyse the relevance and trends between Chinese FDI and Zambian development specifically, assessing the debate surrounding this topic. Before, however, we will take a look at the context conditions for development in Zambia in the following chapter.

CHAPTER THREE: The Context of Zambian Development

3.1 Introduction

This chapter provides an overview of the context and key influences on Zambian development progress as background to the discussion on Chinese FDI to Zambia. It begins with a synopsis of the history, socio-economic, and political realities of Zambia. In order to assess the overall relevance of FDI to the country, this chapter then gives an overview of the main avenues of financial flows to Zambia: aid, trade, and FDI. It will first review the financial flows from Western states and bodies, which have been the traditional major investors in Zambia. This is then compared and contrasted to the nature of financial flows from China. Each section reviews the predominant motivations to involvement with Zambia, the potential benefits and risks it poses to Zambian development, and highlights of the Zambian response to the financial influences from each body.

3.2 Zambian Country Background

Formerly a British protectorate called Northern Rhodesia, Zambia became an independent state in October 1964. At independence, Zambia had a small population, dependent on copper exports, and with hostile neighbours (Legum, 1966: 67; Kopinski et al., 2011(b): 183). At Zambia's inception, Mozambique and then Rhodesia (now: Zimbabwe), as well as Angola were each ruled by minority white leaders who opposed the black rule in Zambia. As Zambia supported black liberation movements within these three countries, it was vulnerable to economic destabilisation needing support for its survival and growth (Mutesa, 2010: 167). The landlocked country at the time had exports worth US\$130 million per year, and a per capita income of around \$700, which was close to that of poorer European nations (Grant, 2009:159). At independence, despite some political opposition, Zambia's prospects for development, supported by its natural resources, were judged to be bright (Mutesa, 2010: 167).

Political Sphere

As for many African states, independence with an optimistic outlook faced considerable challenges alongside growth within the recently formed country. Kenneth Kaunda ran the country from his election in 1964 until 1991 under the socialist United National Independence Party (UNIP). From 1972 to 1991 he maintained a one-party state under his personal control, using privatisation of previously nationalised state assets to fund his neo-patrimonial style rule (Kopinski et al., 2011 (b): 183). He specifically built on the copper industry as the economic backbone of Zambia and managed to politically unite the ethnically diverse country while maintaining peace with neighbours, though his style of rule had several significant problems. Kaunda's time in control is assessed as having seen patronage and self-interest weakens the state, recognized as poorly managing his post (Taylor, 2006: 171). After an attempted coup and continued riots his twenty-seven year rule ended through mostly peaceful elections after which Kaunda acknowledged defeat through the ballot box.

A switch to a multi-party system saw Frederick Chiluba elected president in 1991. President Chiluba, originating in the trade union movement and governing with his Movement for Multi-Party Democracy (MMD), presided over a rise in social-economic growth. His government began to redress some of the structural issues left behind by Kaunda, liberalizing the economy and privatising most parastatals. While this was positive for the state revenue, the MMD government was regarded as unable to effectively fight high levels of corruption. Public funds were used as political slush fund, as some observers concluded. A strong civil society including trade unions has existed in Zambia. The trade unions were critical for the ending of Kaunda's one party rule, and prevented Chiluba from running for office for a third term (Kopinski et al., 2011(b): 182). In 2007, President Chiluba and 19 others were found guilty of defrauding the Zambian government of more than \$41 million (TI, 2007: 4; Grant, 2009:148). The corruption in state, established since President Kaunda has had detrimental costs to the country.

From 2002, Levy Mwanawasa, the third president, ruled the country until his death in 2008. Within his relatively short rule, his focus was on fighting corruption and increasing the standards of living. Since his death, the previous vice-president Rupiah Banda has taken over the presidency, and has maintained a stable political

environment (Van der Lugt et al., 2011: 59). During his presidency, Zambia has seen a boost in economic growth above five per cent, attracting FDI, and cutting foreign debt, but having a reduced focus on corruption. In September, 2011, Michael Sata, leader of the Patriotic Front (PF) won the national elections over Banda (Times of Zambia, *Zambia: Sata is President*, 23 September 2011). Sources report that Sata's focused desire to get rid of corruption in Zambia was what won him the election (Times of Zambia, *Zambia: President Sata makes maiden National Assembly entry*, 15 October, 2011).

As a multi-party democracy, Zambia is relatively stable and peaceful. Politically, all four leaders have maintained outward attempts for state interest, and transitions of power have followed democratic procedure. However, while these realities have been a positive mark for the country, the political structure has still had issues needing to be addressed. Zambia has retained a high level of corruption since the rule of President Kaunda throughout all subsequent administrations (TI, 2007: 1). This has been a key issue hindering economic progress, and is partly to blame for the socio-economic issues facing the country today. While the political sphere has remained relatively peaceful since inception, it developed a system prone to corruption and an interest in maintaining state control where possible. These themes run through current evaluations of state development for Zambia, and highlight key issues needing to be addressed by the government (Ndulo, 2008: 144; World Bank, 2000: 64).

Socio-Economic Sphere: The Need for Investment in Zambia

Since independence, copper has maintained a critical role in the Zambian economy, offering benefits and challenges alike. President Kaunda once used the saying that Zambia was born with a copper spoon in its mouth (Kopinski et al., 2011(b): 183). At the time, Zambia was the third largest copper miner in the world, after the USA and Russia (Mwanambuyu, 2011; Mutesa, 2010: 167). While this brought revenue for the state, it came with high dependence on the world market prices for this single commodity. Four fifths of the population still lived on subsistence farming, lacking skills and support to enhance their own economy (Grant, 2009: 159). While the country began its independence as a market economy, President Kaunda moved towards state control in the mining sector (and thus the core of the formal economy) in 1973, creating the Zambian Consolidated Copper Mines (ZCCM). With this move,

the Zambian government was taking greater control of the economy and limited outside investment (Kopinski et al., 2011(b): 183). Immediately before this time, Zambia's employment through mining reached its highest level, employing 62 000 workers at its peak.

President Kaunda's taking control of the economy resulted in a severe reduction in foreign investment. This was simultaneous to a reduction of international demand for copper due to the Oil Crisis in the same year (Mutesa, 2010:173). Lacking further investments, the state-owned mines were faced with technical problems that greatly impacted productivity. These factors together caused a major financial crisis for the state of Zambia that depended on copper revenue (Mutesa, 2010:173; Kragelund, 2010: 209). The government at the same time had to subsidize local industries and needed to borrow heavily to finance them. By 1980, its debt reached \$3.26 billion (IMF et al., 2000: 6; TI, 2007:4).

By the mid-1980s, the Zambian government controlled around 80 per cent of the economy (TI, 2007: 3). The collapse of global copper prices in the 1980s sparked a depression in Zambia; the economy shrunk by a third. Zambia's economy additionally suffered from waves of refugees from Angola and Mozambique (UNDP, 2010A: 42) during the civil war in both countries (fanned by the racist Apartheid regime in South Africa). Facing a severe lack of capital and a need for external support, President Kaunda began reversing his policies and started to release state control of the economy. 1985 saw the economic transitions away from state control. The national financial crisis forced the Zambian government to ally with international financial institutions (IFIs), namely the International Monetary Fund (IMF) and World Bank, i.e. policy prescriptions of these institutions trumped national policy convictions. The IMF and World Bank imposed price controls and Structural Adjustment Policies (SAPs) that aspired to ease direct control of the economy out of the president's hands (Kopinski et al., 2011(b): 183). The SAPs required that for Zambia to receive the much-needed loans and finance, it had to reform its economy and open its doors to external trade and investment. ZCCM was split and was subsequently sold off to investors from Canada, Britain, India, Switzerland, South Africa and China (Kopinski et al., 2011(b): 183).

The SAPs assigned the state a minimal role, which ultimately crippled the productive sectors of African economies, retracting government control over policy and strategic options (Cheru et al., 2010: 2). This, in consequence, restrained the state's ability to create or maintain its own development strategy (Ikome, 2007: 178). The economic liberalisation programme prescribed by the IFIs followed a clearly 'liberal' paradigm and was intended to allow for the private sector to 'kick-start' the Zambian economy (Kragelund, 2010: 209). This liberalisation was believed to entice FDI by making the Zambian economy more attractive, stable, and accessible. SAPs became a requirement for the Zambian government to receive its much-needed loans. By 1991, Zambia's debt reached \$7.36 billion. After the change of government, President Chiluba continued to privatised parastatals and further liberalized the economy (IMF et al., 2000: 6; TI, 2007: 4).

While this policy indeed opened up Zambia's economy, it failed to 'kick start' economic growth. The country was left with less control over its economy and little benefit to speak of (Cheru et al., 2010: 2). Debt also had a crippling effect on the country's capacity to govern itself and pursue its own agenda. Since the 1970s, Zambia's export performance has worsened. Africa overall diminished to only attracting 2-3% of FDI of the entire developing world (Alves et al., 2006: 20). In 2003, for example, Zambia was required to pay an estimated \$325 million to the IMF, World Bank, and the Paris Club states, even though it was experiencing famines (Williams, 2004: 54). These issues have augmented Zambian response to Western donors and external plans for development, looking for alternatives to what many Zambians considered a 'neo-colonial' effort (Kopinski et al., 2011(b): 184). This economic and political situation has further encouraged exploration into partnership with China for aid, trade, and FDI (Cheru, 2010: 6; Gu et al., 2007:5).

Zambia's economy is still dominated by the exploitation of natural resources. Copper provides 70.3 per cent of Zambia's foreign exchange earnings, and 8.5 per cent of its formal employment (Zambian Ministry of Finance and National Planning, 2011: 34). Despite its mineral wealth, compared to its neighbours, Zambia attracts less foreign investments than most sub-Sahara African countries and has experienced a scarcity of capital (Ndulo, 2008: 142; Le Pere et al., 2007: 253).

Copper mining constitutes the majority of the economic efforts; it offers a potential area for attracting FDI, and for providing employment. Copper is a strategic metal, which globally is becoming harder to find, thereby raising its world market value. Zambia's economy has significant challenges, though seen to have enormous economic potential due to its natural resources, increases in FDI, and proposed plans (The World Bank Group in Zambia, 2008: 3).

Despite these optimistic claims, the country has a long way to go in achieving economic growth to meet the country's developmental needs. 5.5 million of Zambia's current 11 million population are unemployed (Michel et al., 2009: 233). Economic challenges and high unemployment have contributed to Zambia becoming one of the world's poorest states. Two-thirds of the population live below the poverty line with a Gross National Income per capita is \$1,359 per annum (Kopinski et al., 2011(b): 183; UNDP, 2010a: 154). 17.8 per cent of the population is at risk of multidimensional poverty (UNDP, 2010a: 154). Zambia's education services are limited. While pupils on average receive seven years of education, 30 per cent of the population are deprived of education (UNDP, 2010a, 172). Consequently, Zambia's workforce is still seen to be predominantly unskilled and focused in manual labour (Kopinski et al., 2011(b): 182). Health, however, remains a central issue with high prevalence of HIV/AIDS and malaria. Zambia has the fifth highest HIV prevalence rate in the world). This has severely impacted the country's life expectancy, which holds at 47 years (UNDP, 2010a: 42). The socio-economic challenges facing Zambia are the context within which the government has created its development plan.

Developmental Focus of the Zambian Government: Where Should Investments Go?

Overall, socio-economic and political challenges directly link to each other, leaving Zambia in a poverty trap that affects a great percentage of its population. This not only hinders economic growth, but also prevents sustainable development, limiting Zambia's options for resolving its issues nationally. The extremity of its socio-economic challenges give the Zambian government less capacity to be selective about which external actors become involved in aid, trade, and FDI. It also leaves Zambia in a place where its policies are so focused on first and foremost *attracting* financial flow that the *regulation* of those flows towards development-conducive policies are significantly limited (Van der Lugt et al., 2011: 59).

While Zambia's goals are relatively straight forward, it faces a number of challenges in achieving the economic growth and development it aims for. International bodies and states are aware that Zambia is less likely to turn down foreign investment because of its great need and limited alternatives (Raine, 2009: 39). Few if any options for Zambia appear to be free of risks or costs; turning to external actors comes with its own risks as they maintain their own self-interests in involvement in Zambia. Furthermore, there is no clear evidence that the Zambian government has a well-elaborated framework for foraging economic relations other than opening its borders to those willing to give aid, loans, or investment (Mutesa, 2010: 168).

Zambia's current development strategy is to focus its foreign policy towards the economic issues. The government is focused on promoting positive interventions and attracting FDI (Mwanawina, 2008:5). The Zambian Ministry of Finance and National Planning (2011) has developed National Development Plans to guide Zambia's development, focusing on economic and social development, and governance. Currently, Zambia is utilizing its Sixth National Development Plan (SNDP, which is focused on wealth and job creation through citizen participation and technological advancement (World Bank Group in Zambia, 2008:1).

The Zambian government has targeted increasing FDI as a key strategy for increasing financial flow to encourage development and reduce its national debt. It is pursuing a liberal trade policy to increase GDP exports from 35% to 40%. The Zambian Development Agency (ZDA) mandates a focus on promoted exports to create wealth, jobs, and enhance economic development (Van der Lugt et al., 2011: 54).

To further attract foreign investment as per its economic plans, the Zambian government has recently created several special economic zones (or areas specifically designated for foreign investment) (Giannecchini, 2011: 10). In 2007, three Multi-facility Economic Zones (MFEZs) were launched. These are to allow for companies in these zones to have access to incentives including duty-free imports of raw materials, capital goods, and machinery. Two of these MFEZs are Chinese: one in Chambishi, and one east of Lusaka. The third special economic zone is Japanese (Kragelund, 2010: 211). The Chambishi MFEZ was expected to create an estimated

50,000 new employment opportunities for Zambia by 2010 (Mutesa, 2010: 171). While estimates place the Chambishi mine's copper reserves to last until 2032, the MFEZs have yet to produce the employment levels expected (Mutesa, 2010: 174). While these strategies offer great potential for increases in FDI, there are still limitations. Economic growth at large is hampered by poor infrastructure, low quality of human capital, high costs of financial services, inefficiencies in public expenditure management, and limited access to land (Ministry of Finance and National Planning, 2011:9).

The World Bank (amongst others) has urged Zambia to develop other sources of revenue, particularly agriculture and tourism to better diversify its economy, and the government is following suit (World Bank, 2008: 225; Zambian Ministry of Finance and National Planning, 2011:9). Manufacturing has become the central focus of the government's economic plans, attempting to reduce dependency on mining (Kopinski et al., 2011(b): 185). The economic climate still remains quite liberal, though it maintains several stipulations on employment (Kragelund, 2010: 211). In regards to FDI, there are no present stipulations on local content, technology transfer, equity, employment, or use of subcontractors for foreign investors and it allows for investors to repatriate any capital investments and profits freely (Kragelund, 2010: 10-12). Creating this attractive climate has seen FDI and GDP increase in Zambia within the past decade (SOAS et al., 2007: 34).

3.3 Western Actors

Since independence, many Western states have continued to hold political, social, and economic interests in Zambia. These have dominated over any of Zambia's own goals or interests in the relationship, positioning Zambia as the weaker partner in its relations with Western countries (Ikome, 2007: 177). While the West's approach to partnership has held altruistic elements and attempts to faster development in Zambia, development successes have not been realized. Whether this is due to failed national (or internationally driven) developmental strategies, or due to an insufficient amount of investment and support in reducing dependency and lack of focus on national

poverty is left to debate (Mawdsley, 2007: 415; Michel et al., 2007: 503; Ndulo, 2008: 142).

Key Trends and Motivations

The history of Zambia has been highly influenced and dependent on Western economic sources. From its colonial inception from Britain, and continued after its independence in 1964, the Zambian state has been highly reliant on international efforts and support for its development plans. Zambia received significant input, aid, loans, trade, and investment from Western countries and the international institutions they created. However, it has failed to develop along the schematic Western imposed plans. As of 2010, Zambia has a lower HDI rating than it did in 1970 (United Nations Development Programme, 2010: 16). Western agencies trace numerous issues to explain this decline, including unequal economic growth, corruption, and failure of aid (Moyo, 2009:29).

The West's interests revolve around several key issues. Firstly, for security reasons, it explores options of getting oil from outside the Middle East, and preventing any future threats (Vines, 2007: 215). Secondly, the West is interested in seeing development and good governance come to African states, not least so as it is argued that improved governance is a precondition for development. Western MNCs are pressured to comply with ethical conditionality, and confront or avoid corruption and lack of transparency and accountability where possible (Mawdsley, 2007:407). Thirdly, development is seen to promote stability, democracy, and prevent terrorist uprisings. Supporting Zambia and other developing nations is seen as part of security a stabilized world. The stability would also produce larger markets and remove dependency from Western states. Britain utilizes MNCs, humanitarian and developmental NGOs, and international organizations to pursue its stated policies for promoting peace, prosperity, and democracy in Africa (Williams, 2004: 41).

However, with a legacy of interventions, many Africans perceive Western intentions as a loss of sovereignty due to prescriptive policies, often regarded as paired with arrogance as national situations are felt not to be duly considered, and thus contributing to the widening inequalities. With structural adjustments, trade

inequalities, Northern protectionism, and legacies of Cold War sponsored violence and instability, diminish the integrity of Western claims of humanitarianism, justice, and fair dealing (Mawdsley, 2007: 414, 5).

Financial Flows

Western aid has played a major budgetary role for Zambia since independence. Western governments often tie aid provision to their own agendas and interests. As thus far, aid has not achieved visible development in Zambia, its value is contested. While it is still argued by some to be critical for development, it is being increasingly criticized as a problem rather than a cure for development. Because of its imposition on a government's autonomy, and seen as a factor of dependence, it is in question (Moyo, 2009: 29). However, it has played, and still plays, a critical role in African developmental strategies, and is one of the key areas of financial flows to states.

Western aid to Africa has totalled \$400 billion since 1960, without clear progress or impact. Beyond giving aid, Western IFIs have been cancelling debts to further relieve developing countries. Its impact has yet to be fully seen. In Zambia alone, the World Bank had cancelled \$2.7 billion in debt relief (The World Bank Group in Zambia, 2008: 7). However, despite lacking evidence for developmental progress, Western aid projects continue to be pursued and promoted (Michel et al., 2009: 6).

Current international efforts towards development have been encapsulated in the Millennium Development Goals (MDGs). They were signed on to by almost all world states in 2000, have been brought to the forefront of development work around the world and were developed to tackle absolute poverty by 2015 (Cheru and Bradford, 2005: 11; Todaro et al., 2009: 23). Their ambitious goal is to reverse global levels of "poverty, hunger, disease, lack of shelter and exclusion – while promoting gender equality, education, and environmental sustainability" (UN Millennium Project, 2005: 1). The strategy employed by the MDGs, however, is one based on aid, having developed nations provide developing nations with 0.7 per cent of their Gross National Product (GNP) (UN Millennium Project, 2005: 4). The MDGs, as with all aid projects, focus directly on actions directly tied to development, and are heralded as a universal effort towards development.

Trade has also been a key element in Western economic relations with Zambia. This trade has centred primarily on natural resources, particularly oil. Beyond economic interests, the public and their governments in utilizing trade and FDI as ways to promote good governance, ethical practice, and development where it can have held Western business accountable. At the time of liberalisation of the Zambian economy in the 1980s, the US, UK, and France accounted for 70 per cent of FDI within Africa (Alves et al., 2006: 20). Today, Western states are still the primary business partners in Africa. EU trade alone is marked at \$200 billion per year (Carlsson, 2010:xi). The West has had a significant impact on Zambia's trade, as the largest partners.

In regards to FDI, American and British companies have dominated Zambia's mining sector (Kragelund, 2010: 215). The mines were nationalized at independence under President Kaunda. In the following, community services provided by mining enterprises (including schools, hospitals and sport facilities) ended as they ran into disrepair and mismanagement (Michel et al., 2009: 238). While Western FDI was limited in Zambia's history, its overall results were seen to be developmentally beneficial. ENYA Holdings, a British company with a mine in Luanshya, has high corporate social responsibility standards. It offers free health care, schools, and sports facilities, and is a fair example for other Western FDI set up in Zambia to date (Mutesa, 2010: 176-178; Michel et al., 2009: 240). Western trade and FDI is said to be contingent on good policies and human rights in Zambia, even though its history of involvement has not been able to produce this (Williams, 2004: 48). While its efforts may be well intended, they have not been sufficient in strategy or size to achieve developmental progress.

Recognized Benefits and Challenges

Continued economic relations with the West hold a number of potential benefits for Zambian development. In their dealings, Western States look beyond profits in their engagements in Africa. Considerations for sustainable development through addressing economic, environmental, and social issues alongside their business, companies from Western states are often held to high accountability for the impacts they have in African states (Carlsson, 2010: xi). Concerns over human rights, democracy, and transparency influence Western FDI (Carlsson, 2010: xi).

Additionally, and regardless of intention, Western aid has the capacity to directly address a number of the issues central to Zambia's poverty trap with significant capacity and effect. While the MDGs rhetoric is similar to that of failed attempts in the past, its size and scope have the potential for furthering the capacity of Zambia's populace towards development.

However, there are issues and potential risks that need to be considered in the West's approaches to development and integration. Firstly, their efforts are not large enough to meet Zambia's economic needs on their own. The West has been reluctant in their economic involvement, and Western companies in the past have remained reluctant and small in their economic relations within Zambia. Secondly, their trade-related Investment Measures and bilateral investment treaties, as part of the WTO can reduce or stop the potential developmental benefits of financial flows by restricting Zambia's capacity to maintain sovereignty and design and implement its own policies (Kragelund, 2010: 209). A specialised, compartmentalised aid policy might not be sufficient to better these negative effects; in fact, we might see a case of insufficient policy coherence by Western states across various specialised government agencies and the business sector. The requirements of Western IFIs to control the direction and implementation of policies can be a detrimental set back to the Zambian government whose own development plans can get lost in western agendas.

In terms of a partner in development, African states overall are increasingly disenchanted with the Western world's impact. In 2000, President Chiluba stated, "[Developed countries] are not prepared to discuss the issues of justice and fair play concerning the international trade and commercial sector, which imposes considerable suffering and privation on developing countries...The existing structure is designed to consign us to perpetual poverty and underdevelopment" (Kopinski et al., 2011(b): 184). After fifty years of development assistance and cooperation it has yet to see substantial sustainable development progress. The West is seen to have used double standards with relations, aid tricks, and unfair trade practices and debt structures that only set the countries back (Cheru & Obi, 2010: 6). For these reasons, the Zambian government have been interested in exploring other economic partnerships.

On the other hand, The Zambian Ministry of Finance and National Planning (2011) is highly optimistic about the MDGs, suggesting that all the goals will be met except for environmental sustainability. While there may be criticisms of post-colonial sentiment and lack of substantial enough investment, aid is accepted. While there may be criticism, Zambia does recognize the limits of its options. It continues to accept and rely on Western finances.

3.4 China's Involvement in Zambia

China's economic relations with Zambia take a different approach than those of Western countries. With an approach that emphasises partnership and economic relations, China offers a significantly different partnership with its own potentialities and risks. As an alternative, the Zambian government has taken the Chinese government's interest opportunity to strengthen its partnership. The Chinese government has pursued a foreign policy that rhetorically emphasises the interests and needs of Zambia and other African states more than any other. Its partnership and FDI is discussed as indeed holding the potential for achieving sustainable economic development and continues to grow in size (Alden, 2007: 126-129). In Africa, China is rapidly approaching the levels of the US (Michel et al., 2009: 3) and is only surpassed by Europe if the EU is regarded as one block, combining its components. A developing state itself, China has formulated its own approach to development and has seen remarkable progress since it itself began its plans for development (Beijing Summit of the Forum on China-Africa Cooperation, 2006:224; Kopinski et al., 2011(a): 129). Its progress is leading it to become a global economic superpower (Le Pere, 2006: 13).

China has rapidly industrialized after opening up to foreign investment and has made remarkable progress during the same period that Zambia has attempted to develop. It can thus be expected that Zambia values China's policies for partnership since 2000 as an offer with great potential and shared insight. While the two countries have been politically close since Zambia's inception in 1964, the past decade (since the mid-1990s) has seen unprecedented increases in collaboration, led by Chinese production and FDI within Zambia. This partnership, complimented with interwoven trade and

aid agreements has already shown increases in economic growth. However, this growth has yet to translate into development effects for Zambia. The impact had by China with its potential benefits also carries significant risks, argued by some to be severe enough to negate positive developmental progress at all (Kragelund, 2007:213).

Key Trends and Motivation

Historically, Zambia has close relations with China. Only three days after its inception as a state, Zambia established diplomatic relations with China. It was the first African country to do so (Davies, 2001: 68). At Zambia's inception, China had a lower GDP per capita than newly independent Zambia. China soon became one of Zambia's largest economic supporters (Taylor, 2006: 165). Beyond trade, China also supported Zambia with aid, which was for Zambia more generous than the West and came at a time in which Zambia was geo-politically vulnerable in its neighbourhood.

Between 1950 and 1980 China assisted with many liberation movements and began to partner with numerous states in projects and with aid similar to that given to Zambia, totalling some 800 aid projects (Obiorah, 2007: 35). This aid strengthened the relationship between the two countries. At this time, over 40 per cent of Chinese aid was directed towards transportation (Hutchinson, 1975: 219). The Chinese government spent most of this on the building of the Tanzam railway. This railway, costing over 160 million pounds at the time, connected Lusaka with Dar es Salaam, Tanzania, so that it could improve its trade without needing to export through its hostile neighbours to the south, east, and West, which were run by white minority governments at the time. Western countries had previously refused to invest in the railway line, as they expected it to be a major failure (Hutchison, 1975: 189; Chazan et al., 1999:455). The final success of this railway, which was completed by the Chinese workers ahead of time and under budget, came to signify the value of partnership with China for Zambia, and to date has been a much-referred to symbol of their relations (Obiorah, 2007:37), also for China-Africa relations more broadly, even though TAZARA's maintenance and smooth functioning remains a challenge.

In the 1980s, South-South solidarity was weakened by the predominant policies of SAPs, and a Chinese focus on internal reforms. While the 1980s saw little

involvement or collaboration between China and Africa, the 1990s saw China return to its policies, as it began to recognize the value of African support for its own state interests. During this time, however, bilateral trade between Zambia and China was only an average of \$20 million per year (Mutesa, 2010: 170). In the early 1990s, the demise of the Soviet Union, and end of the Cold War together weakened the continent's standing in its interaction with the rest of the world.

Since 2000, however, China has increased its economic and diplomatic relations with countries in Asia, Africa, and Latin America aggressively. Coming with its own strategies, motivators, and developed partnerships, China is felt to challenge Western political and economic dominance. The government in Beijing offers its own policies and strategies for partnership, and the clout of being a rapidly developing country itself, with a population exceeding 1 billion people (Mawdsley, 2007: 405). The turn of the millennium was the beginning of the significant re-connection and growth between China and Zambia. China's 'Go Out' policy of 2001 encouraged Chinese enterprises to become internationally competitive players. Reduced overly bureaucratic procedures, tax incentives, cheap loans, subsidies, and other forms of support from various state institutions encouraged them.

In regards to Africa, China added an entire set of additional incentives for companies willing to invest. While there are high levels of independence in Chinese state-owned companies in running their day-to-day business, most established deals are handled government-to-government, giving China the ability to act on behalf of its MNCs (Van der Lugt et al., 2011: 35; Vines, 2007: 214). Yet, Chinese companies investing in Zambia do not always come according to a central government plan drawn up in Beijing, but also come individually, interested in the economic investment codes and liberal institutional set-up that opens opportunities for them (Kragelund, 2010: 213-5).

China's relationship with Zambia now fits into its much larger goals for the African continent. China founded the Forum on China-Africa Cooperation (FOCAC) in 2000, as the consolidation of China's regional diplomacy in Africa (Alden, 2007: 35). Connecting with then 44 African states, FOCAC's policies for partnership prioritize political relations, economic cooperation, international affairs, and social development. It is based on the principles of mutual respect of territorial sovereignty

and integrity, mutual non-aggression, non-interference in the affairs of others, equality and mutual benefit, and peaceful coexistence (Michel et al., 2009: 25; Kopinski et al., 2011(a): 129; Taylor, 2004: 89). FOCAC meets regularly every three years, and through it, China has steadily increased its economic ties with African states.

China's renewed interest in forging close partnerships with African countries comes for several reasons. The Chinese government changed its tactics from confrontation to cooperation, revolution to economic development, and isolation to international engagement (Mawdsley, 2007:412). China has clear state objectives in strengthening its partnership with African states. Firstly, on a much-publicized altruistic level, China shows interest in acting as a development partner looking to assist and share insights with African states. While these considerations are most vocalized by Chinese leaders at FOCAC meetings and with very visible infrastructure projects throughout the continent, there is much more at stake for Chinese interests.

Secondly, as an economic competitor its efforts indicate short term resource grabs with little account taken of local needs and concerns. For economic reasons, Chinese companies need natural resources to supply the Chinese economy (and ultimately: its customers around the world) with raw materials of which China itself is short. Access to oil and natural resources have become a central motivation for Chinese investment and partnership. China is the largest consumer of copper in the world (Taylor, 2006:179). In Zambia, with copper, nickel, tin, and uranium deposits, has been a special focus of Chinese attention. With recent discoveries of oil and gas in Zambia, interest is expected to rise further (Kopinski et al., 2011(b): 185). Chinese firms have steadily taken over Zambian firms traditionally owned by Canada, Israel, Europe, and Australia. Even during the recession of the late 2000s, China showed no signs of declining interest or commitment (The Times, '*Chinese keep low profile to cash in on the slump in Zambia*', January 24, 2009).

Furthermore, China sees partnership as an opportunity to develop markets for Chinese goods (Corkin et al., 2006:1; Shelton, 2006: 101). This is still relatively small in regards to China's overall trade reality. While China is a critical player for Africa's trade, Africa only constitutes for 3 per cent of China's overall trade (Gu et al., 2007:2). Zambia's component in this is miniscule, even though the special economic

zones run by Chinese enterprises indicate Chinese long-term economic interests in the resource-rich country (Davies, 2008: 49). Economic reasons provide a central motivator to the relationship for both sides.

Finally, China's political interests could be seen as a neo-colonizer, aimed to displace the West and lead to significant control over Africa and its resources (Alden, 2007: 5). The Chinese government wants to make a joint effort with Africa to establish a new, fair, and reasonable international economic order (Shelton, 2006: 100). Should China want to become a world power, it needs to actively strengthen and expand ties with African countries to improve its position within the international community (Deng, 2008: 239). Politically, African states also offer clout in the international arena. It requires African partners to support its One-China policy, states that Taiwan is rightfully part of China. As the incidence of the Tiananmen Square in 1989 had little impact on Sino-African relations, China recognizes that African states are more interested in meeting their development and economic growth goals than taking ideological stances (Taylor, 2006:175). As African states share China's opinions on sovereignty, human rights, and feelings of Western dominance, there is much to be gained out of these likeminded partners, politically (Deng, 2008: 242). The joining of these central motivations is shown not only in rhetoric, but also through how finances flow between China and Zambia.

Financial Flows

China's partnership with Zambia incorporates political elements, human resource development, peace and security, and economic components in its scope. This section will particularly overview the economic issues (Mwanawina, 2008:4; Africa Policy Paper 2006). The partnership between China and African states exists in an inextricable blend of aid, trade, and FDI (Kaplinisky et al., 2007: 9; Grimm, 2011: 8).

In regards to aid, China is the largest lender to, and investor in, infrastructural development in Africa (Cheru & Obi, 2010: 3). It has been involved in over 35 aid projects to date in Zambia. However, compared to other donors, China is relatively small (Davies, 2008: 62; Grimm, 2011: 3, 4). Its aid is stated to improve the capacity of African countries for self-development. Its efforts are broad in scope, covering healthcare, education, social development programmes, agricultural and basic

infrastructure construction, and protection of the environment (Forth FOCAC Ministerial Conference, 2009; Grimm, 2011: 10, 12). Of all of these, infrastructure development is the foremost effort, though it uses Chinese labour in construction products (Gu et al., 2007:10).

China's aid has been augmented by loans and debt-write offs as well. China has also offered unconditional loans to Zambia (Michel et al., 2009: 257). FOCAC has given considerable debt write-offs to Zambia, including \$3 million most recently in 2006 (Davies 2008: 61). Unlike Western aid and the MDGs, Chinese aid does not come with conditional stipulations stressing good governance or human rights, allowing African states to govern themselves (Kapinski et al., 2011:130). In this, it shows how Chinese aid is inextricably tied to its business and economic interests within these states. Its aid component to the partnership is used to earn good favour from the Zambian government, and draw attention away from its economic and political interests that may be more contestable for their impacts within the states. In its overall partnership, aid is relatively small.

China's size as a trading partner with Zambia continues to increase. Where in 2000 its trade with Africa as a whole barely surpassed \$10 billion, by 2006 it exceeded \$55 billion, and has continued to grow since then (Michel et al., 2009: 12, 13). It has passed the UK, and is now only behind the US (Carlsson, 2010: xi; Cheru & Obi, 2010: 3) if the European Union is not regarded as one block. In 2005, Africa had a \$5.9 billion trade surplus with China. This is primarily based on China's imports from Africa a large number of raw materials. However, removing oil from the calculation, Africa was left with a \$7.3 billion trade deficit. This number indicates the reliance had on raw materials, and the focus of Chinese interest (Raine, 2009: 35).

Chinese actors are arguably much more interested in trade and investment (Gu et al., 2007: 11). For China, Zambia offers resource abundance, relatively open markets for goods, and a responsive investment climate (Alden, 2007: 36). While partnership and aid between China and Zambia began in 1964, Chinese FDI into Zambia began only after the political and economic reforms of the 1970s (Kragelund, 2010: 213). The 1980s saw the Chinese launching of the Mulungushi Textile factory, funded by loans and aid. At the time, the factory produced over 60 per cent of the textiles in Zambia

(Taylor, 2006:177). Given its wealth in copper, Zambia currently maintains a trade surplus with China. In return for Zambian exports of natural resources, China exports textiles, apparel, food items, electronic goods, and automobiles to Zambia (Mutesa, 2010: 171; Herman, 2010: 1). In terms of manufactured products however, Zambia exports very little to China (Kaplinsky et al., 2007: 9). In 2002 over 80 per cent of Zambia's exports faced competition from China (Jenkins et al., 2006: 132). This challenge was primarily in way of manufactured goods, diminishing Zambian competitiveness. The Chinese government strongly encourages investment in Africa's states (China's Africa Policy, 2006). Zambia has also become a place for China to sell its cheap consumer goods, challenging Zambia's own domestic markets (Michel et al., 2009: 8).

Trade with China poses a substantial of challenges for Zambia's economy. To redress some of these inequalities in trade, FOCAC offers some duty free-treatment to encourage business on both sides. There are 452 products Zambia can export to China tariff free, though it has little ability to take much advantage of this. Zambians also have access to the Bank of China for finance and manufacturing operations for export of China (Gu et al., 2007:6; Manji et al., 2007:2). China has cost competitiveness in bidding; access to cheap capital through Chinese state-owned banks; access to low cost labour, access to cheap building materials (Corkin et al., 2006:1). All these together allow Chinese companies to make inroads more advantageous than other competitors. Zambian domestic markets are unable to undercut the Chinese production costs and prices. This negatively impacts their manufacturing industries, with a particular discussion on impacts in the textiles' market (Kapinski et al., 2011:131). Chinese companies, though given guidelines within FOCAC, are able to act on their own accord and are held to nothing higher than Zambia's own regulations and enforcement. Even Chinese state companies may work autonomously if spurred on by competition (Taylor, 2009: 168).

Chinese FDI is having a profound impact on the Zambian economy. It was through Chinese investors that the copper mines, smelters, and iron ore mines in Zambia started working again, after being idle for a generation, though this time under Chinese ownership (Alden, 2007: 3). In 1998, China's Non-Ferrous Africa Mining (NFC) re-opened Chambishi, even though it arrived with low wages for the local

workforce, Chinese workers and managers, and did not allow unionization (Michel et al., 2009: 238). This has become indicative of the following Chinese FDI in Zambia since the founding of FOCAC. China has newly taken special interest in Zambia's copper mines, as it is the largest consumer of copper in the world (Taylor, 2006:179). By 2006, 160 Chinese companies were established in Zambia (Raine, 2009: 57). In 2009, China became the fifth largest country providing FDI to Africa (Van der Lugt et al, 2011: 9). China continues to increase its metal production ownership in Zambia. In May 2011, China made an unsolicited bid of \$6.2 billion to purchase Australian owned Equinox's copper mine (Nazareth et al., 2011). It also made Zambia an official destination for Chinese tourists, offering new revenue for its tourism industry (Shelton, 2006: 115; Kopinski et al., 2011(a): 130). To date China has invested over \$1 billion into Zambia and created around 15,000 job opportunities. Close to 90 per cent of all funds have been focused on investment in mining (Kopinski et al., 2011(b): 185).

As a general rule, Chinese companies lack independence from government, and as such the Chinese government is often seen as responsible for these companies, that are often state-owned (central state and provinces). Yet, with thousands of firms being created in Africa, the Chinese government cannot control all of them (Alden, 2007:57). It is these Chinese entrepreneurs who have the largest impact on Africa (Alden, 2007: 37). Chinese Multinational Corporations (MNCs) are given competitive political advantage, since China will work with any state regardless of standards or domestic issues; competitive economic advantage through low-cost bidding and lower paid Chinese labour; and low-interest loans and grants from the Chinese government (Alden, 2007: 41).

While China has encouraged heavy FDI into Zambia, it has had several key issues in Zambia that are discussed as frustrating the Chinese efforts. High transport costs and poor infrastructure, discriminatory incentives, lack of skilled labour, limited access to local finance, labour relation laws, frequent strikes by workers, and poor local industries all are listed as weighing into the frustrations (Brautigam, 2009: 5; Broadman, 2007:21). Cultural and language barriers, and the Chinese need for fast work and long hours further frustrate business (Alden, 2007: 83), as regulation in Zambia in labour protection appears to be relatively high. Chinese FDI and trade have

also spurred at least 3000 Chinese immigrants to move into Zambia, though political party PF puts this number at 80 000 (Michel et al., 2009: 234).

3.5 Conclusion

As chapter Three has argued, from its complex poverty trap, the Zambian government has significant challenges to overcome in order to achieve development. With a natural resources-based economy, the country needs to look abroad for foreign investment that can be used towards its developmental goals. While aid, trade, and FDI have been offered traditionally from the West, whether due to inadequate size, poorly imposed strategies, or a created system of dependence, sustainable development progress was not achieved during the decades following Zambia's independence in 1964.

With the advent of rapidly growing Chinese economic relations with Zambia through its FOCAC partnership established in 2000, Zambia has been offered a partnership with different strategies and priorities. As this relationship grows substantially within Zambia, question needs to be raised as to whether the partnership will impact development within the country. While there are levels of optimism and potential for the relationship to produce the conditions and support needed for development, there are a number of significant risks presented as well. The contestability over the value and challenges offered by the unique approaches to FDI taken by western countries in comparison to the rapidly growing FDI from China raises questions. Chapter Four will analyse the debate surrounding Chinese FDI in Zambia through the key socio-economic and political indicators established in Chapter Two.

CHAPTER FOUR: Chinese FDI in Zambia's Socio-Economic and Political Spheres

4.1 Introduction

The rapid growth of Chinese FDI in Zambia has raised much debate around its relevance to Zambia's developmental progress. Between 2000 and 2010, FDI into Zambia increased by US \$878 million (Government of the Republic of Zambia et al., 2011: 5). Within this, Chinese enterprises are the fastest growing and most visible group of foreign investors in Zambia, with both political and socio-economic implications, having already invested over US \$1 billion (Kopinski et al., 2011(b): 185, 187). The inextricable blending FDI into trade and aid within the overall partnership between the two countries intensifies the potential sphere of influence (Van der Lugt et al., 2011: 15).

Arguments are made as to whether Chinese FDI offers a positive support to Zambian development, or whether it adds further challenge to the state. However, as explained in Chapter 2, where correlation between Chinese FDI and development may be highly likely, causality cannot be established. This leaves much open to argument within various indicators used within debate. As such, arguments range from seeing China as the 'best country fighting poverty' to a partner 'ripping off' Zambia and doing nothing for developmental progress (The Economist, 2011).

In a positive light, China is seen to offer insight to African development efforts based on its own experience as a developing country. The Chinese government states that it sees Zambia on the threshold of a developmental take-off, and can play a positive role in this (Le Pere, 2007:210). China contributes to the Zambian economy through FDI with infrastructure projects, loans, aid, job creation and training. Due to this, the Zambian government regards China as a top priority investor (Kopinski et al., 2011(b): 182).

On the other side of the debate, negative effects are predominantly seen with regard to governance, labour standards, and the environment, which are issues avoided by the

Chinese government (Alden, 2007: 83; Kopinski et al., 2011(a): 129). While leaders from both sides have historically declared the *Zambian-Chinese relations* an ‘*all-weather friendship*’, the past decade has seen mounting opposition (Kopinski et al., 2011(b): 184). With a long political partnership with China, Zambia appears to have the highest anti-Chinese sentiment on the continent (Michel et al., 2009: 234; Mutesa, 2010: 167). Most notably, political candidate Michael Sata has campaigned in a populist way, polemically arguing that Zambia is becoming ‘a Chinese province’ (Michel, 2009: 233). In 2006, Sata received 28 per cent of the national vote, including key seats in Lusaka and in mining areas where Chinese MNCs are most present (Alden, 2007: 74-75).² In 2011, with a toned down anti-Chinese rhetoric, Sata won the national elections and is now the President of Zambia (Times of Zambia, *Zambia: President Sata makes maiden National Assembly entry*, 15 October, 2011). The issues addressed by Sata and academics and others concerned that Chinese FDI may not be conducive to Zambia’s development have also raised votes.

This chapter will review the debate on Chinese FDI influence within the presented key socio-economic and political indicators for development. It will assess the substance of arguments and overall direction observed within these indicators and evaluated through the lens of Capacity Approach theory. This will offer an overview to some of the central trends of Chinese FDI and allow for critical analysis of the overall costs and/or benefits of the partnership. It will also provide an assessment of the debate and review the value of these indicators to the overall debate. The voices informing the debate here include the *Zambian government*, the *Chinese government*, *Zambian political runners and unions*; *academics focused on Zambian development and/or Chinese influence in Africa*. It will also include international academic reports focused on different aspects of *Zambian development*.

The assessment will begin by critically assessing various key socio-economic indicators that can offer insight towards the developmental implications of Chinese

² Michael Sata ran as head of the Patriotic Front (PF) in the 2006 election. He ran on an anti-Chinese platform arguing there was no developmental benefit to their involvement in Zambia. His platform came under fire of the Chinese government who threatened to remove completely from Zambia should he be elected. This ultimatum broke China’s own FOCAC principle not to interfere in the domestic affairs of its partners. While Sata only received 29% of the votes in the election, he won seats within Lusaka and many of the mining ridings (Vines, 2007: 219; Alden, 2007: 75; Mutesa, 2010: 173). In September 2011, Sata was elected President of Zambia.

FDI in Zambia. The economic indicators analysed here are, as identified in Chapter 2, influence on (i) infrastructure expansion, (ii) market diversification, (iii) employment creation and conditions, and (iv) economic growth. The indicators studied in the political sphere, as also identified in Chapter 2, will include the influence on (i) the Zambian government's dependency on loans and debt, (ii) pervasiveness of corruption and levels of transparency as measured in TI's Corruption Perception Index, and (iii) strength of government institutions as measured by the Bertelsmann Transformation Index (BTI) reviewing the rule of law, democracy, social integration and welfare. The chapter will then conclude with an analysis of the overall direction of the debate within these various socio-economic and likely political implications of Chinese FDI on Zambian development based on the capabilities trends emphasized through the debate.

4.2 Socio-Economic Indicators

The acclaimed building of the Tanzam railway³ has been a reiterated example for China's relations with Zambia and the potential it holds (Moyo, 2009: 104). The monumental construction of the Tanzam railway, possibly achieved two years ahead of schedule in 1976 (Ndulo, 2008: 139; Raine, 2009: 56), gave Zambia a means for exporting its resources through Tanzania, enhancing its economy and trade capabilities thereby potentially benefitting Zambia's economy. However, there were also reported limitations to the developmental effects of the project. It used 20,000 Chinese labourers to complete the task rather than indigenous workers. In this, there were significant shortfalls in transfer of technology and capacity building leaving issues with maintenance and repair. There were also issues in quality of construction, and the railway was subsequently forced into major outsourced repairs to China due to an inability to maintain it (Raine, 2009: 57). This case represents many of the recognized complexities, both beneficial and redundant that Chinese FDI presents to Zambian development experienced today.

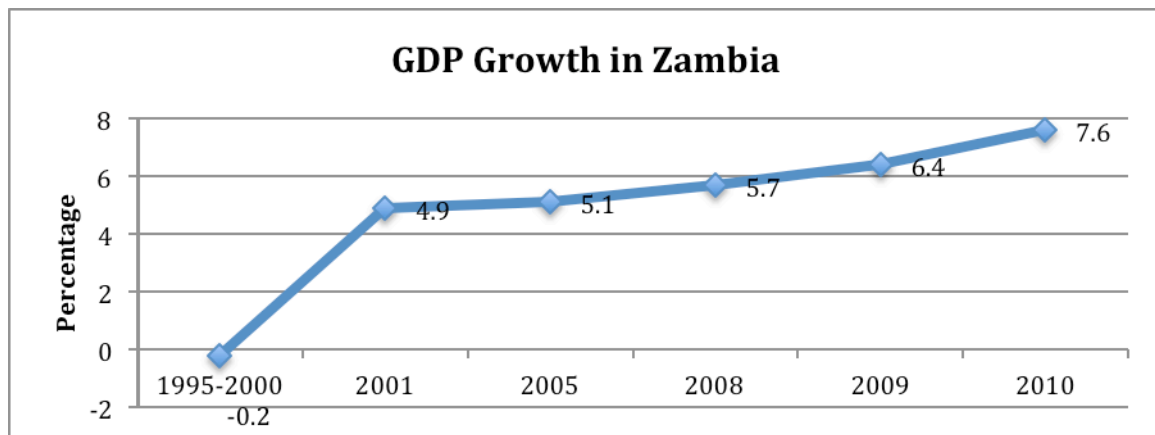
³ The Tanzam railway is alternatively referred to as TAZARA, which stands for the Tanzania-Zambia Railway. It runs between Kapiri Mposhi, Zambia to Dar es Salaam, Tanzania (Ndulo, 2008: 139).

4.2.1 Economic Growth

As a definitive precursor for potential sustainable developmental impacts from trade or FDI, indications of economic growth are critical. Though economic growth does not equate to development, as argued in Chapter 2, it is one of the significant precursors to development for a country. This indicator cannot be used on its own to determine the conduciveness of FDI for development. However, it can be used as a basis for the discussion, as economic growth offers contextualization for other socio-economic indicators. Nationally, the most common measurement of economic growth is by tracking GDP.

Economic Growth in Zambia

Historically, economic growth in Zambia has not been extensive or straightforward. Between 1961 and 2000, Zambia's economy grew at the minimal rate of an average 1.9 per cent per annum. During this time its population growth was much higher, overall resulting in a decline of GDP per capita (SOAS et al., 2007: 34). The economic decline in the late 1990s saw Zambia's economic growth retract by 0.2 per cent between 1995 and 2000 (SOAS et al., 2007: 34). Zambia's economic growth through its post-independence history remained far below the 6 to 7 per cent line needed to reduce poverty significantly (CIA, 2006). In 2001, GDP per capita growth reached 4.9 per cent. As indicated in Chart 4.1, GDP growth continually grew over the decade, ultimately reaching a growth level that held the capacity to begin to reduce poverty. In 1999, Zambia's GDP per capita was at \$756 (UNDP, 2001: 153). By 2010, it reached \$1,500, nearly doubling over the decade. While some of this can be attributed to rises in copper prices, overall structures were argued to have improved, further encouraging this growth (CIA, 2011: 1; Government of the Republic of Zambia et al., 2011: 5; Investment Tools, 2011). Furthermore, its economy remained relatively stable over this decade (SOAS et al., 2007: 34).

Figure 4.1: GDP Growth in Zambia

(SOAS & UNDP, 2007: 34; CIA, 2001; 2006; 2008; 2009; 2010)

Chinese FDI and Economic Growth

Of all indicators used in this study, economic growth is the least contested. Sources recognize that Chinese FDI is bringing economic growth and benefit (Kapinski et al., 2011: 130). Additionally, the Chinese demand for copper on the world market has resulted in the price to soar, thereby resulting in higher values in Zambian copper production, hence economic growth (Grimm, 2011:4). Economically, within the mining sector, Chinese firms expanded Zambia's capacity to export natural resources. This is having large positive effects on Zambia's economic growth and investment, both directly and indirectly. These economic benefits are much larger than those obtained from exporting to the US or any other financially invested states (Meyersson, et al., 2008: 1, 19). Chinese investment in the Zambian economy has climbed steadily during the period of economic growth. It was during this ten-year period that China's economic relations with Zambia strengthened, and it climbed to third place in terms of source country of foreign investment in Zambia, after South Africa and the UK (Kopinski et al., 2011(b): 185). Also encouraged by increased economic capacity through FDI, trade from Zambia to China increased over the decade. By 2009, China was responsible for 11.2 per cent of Zambia's exports, and 4.7 per cent of Zambia's imports (CIA, 2011: 4).

Chinese FDI is argued to have contributed to the positive trend in Zambia's economic growth experienced in the past decade (Ndulo, 2008: 41). With Zambia's economy relying so heavily on mining, the re-opening of the Chambishi mine, purchasing of

smelters, and formation of the two Chinese Multi-facility Economic Zones (MFEZs) all contributed to economic growth. Zambia's strong economic growth is said to be increasing to levels for spurring sustainable development (IMF, 2011: 3-6). Moyo (2008: 47) claim that Chinese FDI is beneficial to Zambia's economic growth. For the Chinese government, this is one of the leading indications that the partnership is beneficial. However, as economic growth cannot be equated to socio-economic development, the evidence presented to support the claim that Chinese FDI is closely aligned to Zambia's economic growth cannot be regarded as an immediate indication of developmental effects, despite high likelihood. Capacity Approach theory emphasizes how economic growth is not enough, though it can assist in addressing the transformation of resources into value, and increasing basic material needs. The following discussion of indicators such as infrastructure expansion, market diversification, and employment are all contextualized by economic growth that has been contributed to by Chinese activities, but cannot sole be tracked back to this single factor.

4.2.2 Infrastructure Expansion

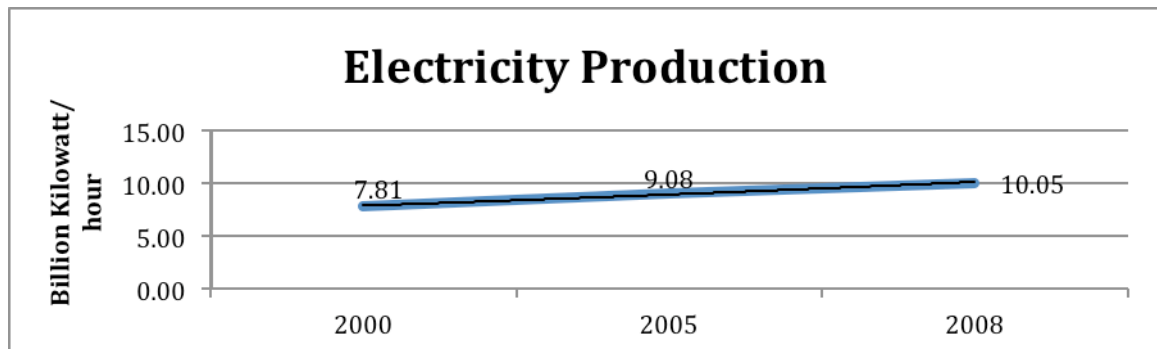
To facilitate increased capacity for continued economic growth, Zambia needs upgrading of its infrastructure. It is expected that infrastructure expansion will also offer capacity for the improvement of services to the population, and the further attraction of FDI. The Zambian Ministry of Finance and National Planning (2011: 10) recognizes that poor infrastructure remains a key constraint on economic growth and poverty reduction. Infrastructure expansion can be measured through the expansion of roads, electricity production, railways, airports, and water pipes (CIA, 2011). While Chinese FDI and aid have both dedicated efforts towards infrastructure expansion, significant debate is raised as to how the work is done and whether it remains conducive to development.

Infrastructure Expansion in Zambia

Records indicate minimal improvements to Zambia's infrastructure. Chart 4.2 indicates a slight increase in national electricity production over the past decade. However, its increases still fall drastically short of national demand. In 2008, 78.4 per cent of Zambia's population did not have access to electricity (UNDP (a), 2010: 218).

In the same year, only 50 per cent of Zambia's population were covered by mobile phone network (UNDP (a), 2010: 218).

Figure 4.2: Electricity Production in Zambia



(UN Statistics Division, 2011)

Reports from the UN Statistics Division (2011) and CIA World Factbook (2001; 2006; 2011) show stagnancy in railway and pipeline coverage of Zambia. They even indicate further reduction in infrastructure access in some areas; it is, for instance, reporting a decline in the number of airports in the country. In terms of road coverage, there have been no figures provided since studies in 2001, leaving progress studies here unavailable as a tool for assessment (UN Statistics Division, 2011; CIA, 2011). For what information is available, the lack of improvement to infrastructure leaves the structures and facilities in the state needed for growing increases in operation a significant impetus.

Chinese FDI and Infrastructure Expansion

While national indicators cannot overall convey substantial progress, the Chinese government boasts of numerous successful infrastructure projects within Zambia dating back to the Tanzam railway (Mutesa, 2010: 167). While infrastructure development is predominantly a government effort, the Chinese government in the past decade has significantly increased its aid in fields of infrastructure development. Chinese MNCs are also focused on construction and hold potential for benefiting expansions in this sector that is critical for sustaining economic growth and fostering development (Ndulo, 2008: 148). Critics argue that this is partially self-serving, in that they are improving access to the natural resources and businesses they are establishing (The Economist, 2011). Regardless, the benefits have the potential of being spread to the population at large, and being conducive to development. The

influence of Chinese MNCs offers substantial effort to Zambia's infrastructure expansion, even if not recognized in national figures due to possible lack of updated records, or because infrastructure upgrades and repair are not recognized in figures. Of Chinese FDI, 16 per cent is focused on construction (Kragelund, 2010: 212).⁴ Chinese firms have also built and rehabilitated roads towards Zimbabwe, constructed the Zamtel cell Tower, constructed a steel plant, and built the Chilanga Cement plant (Davies, 2008: 62).

China has also supported technologies that have targeted commerce, industry, mineral extraction, and agriculture in Zambia. The purchase of the smelter is of great value, costing \$220 million, and it is hoped to allow Zambia to add value to the raw copper it has been exporting (Brautigam, 2009: 100; Alden, 2007: 75). These infrastructure projects directly enhance the capacity for state economic growth and increases in investment. The main project for Chinese infrastructure efforts now is the construction of the Chambishi MFEZ (Kopinski et al., 2011(b): 186; Michel et al., 2009: 255). These projects are argued to further infrastructure progress, though there seems to be little statistical or qualitative evidence in the debate as to whether this is being achieved.

While Chinese activities offer a substantial number of projects, debate is raised as to the quality of infrastructure that has been developed. Assessment of the quality and quantity require access to prices and measures of quality control, which are not available (Grimm, 2011: 27). Critical case studies raise issue with how infrastructure projects are handled by Chinese firms. There are continual reports of Chinese infrastructure construction being inadequate, built sloppily and cheaply. For instance, Chinese-built roads from Lusaka to Chirundu, a distance of 130 kilometres, were of such poor quality that these roads were quickly swept away by rains (The Economist, 20 April 2011; Corkin et al., 2006: 2). The Chinese government and MNCs take on a number of contracts as aid, very competitively offering bottom prices for their work. Overall, an impression prevails that, enhancement of infrastructure remains stagnant; Chinese efforts, while discussed positively, are also often criticised as severely

⁴ The FOCAC meeting 2006 triggered the construction of an agricultural demonstration centre, two rural schools, a hospital, and an anti-malaria centre, and committed to continue its focus on construction in 2009 (Herman, 2010: 3).

impeded by lack of quality and rapid breakdown of projects experienced frequently (Ndulo, 2008: 139).

Infrastructure expansion remains an indicator with mixed reviews. The lack of systematic national information significantly reduces the capacity of any claims made for a desk-based study like this. Instead arguments for and against the conduciveness of Chinese FDI to infrastructure expansion are reliant on case studies that are currently available only to a limited extent at rather anecdotal level. Materialistic needs are addressed in terms of critical infrastructure, however the quality and the distribution of real opportunities it provides to society are limited.

4.2.3 Market Diversification

Market diversification explores the reliance of a country's GDP on a broader range of source of national income. The analysis of diversification is often done to explore the move away from a dominant source of state income, more often than not natural resources. For development to be sustainable, a country needs to transition from natural resources to a diversified economy reliant on manufacturing and services to balance out and prevent high reliance on natural resource prices. Market diversification would cushion the economy from external shocks, prevent the effects of 'Dutch Disease'⁵, reduce dependence on a small number of external countries for manufactured imports, expand employment, and produce the tools to increase the value of products exported (Alves et al., 2006: 26). This section will utilize Zambian economic reports that reflect the percentage of GDP revenue from various sectors in order to explore the conclusiveness of arguments of Chinese support to development in Zambia.

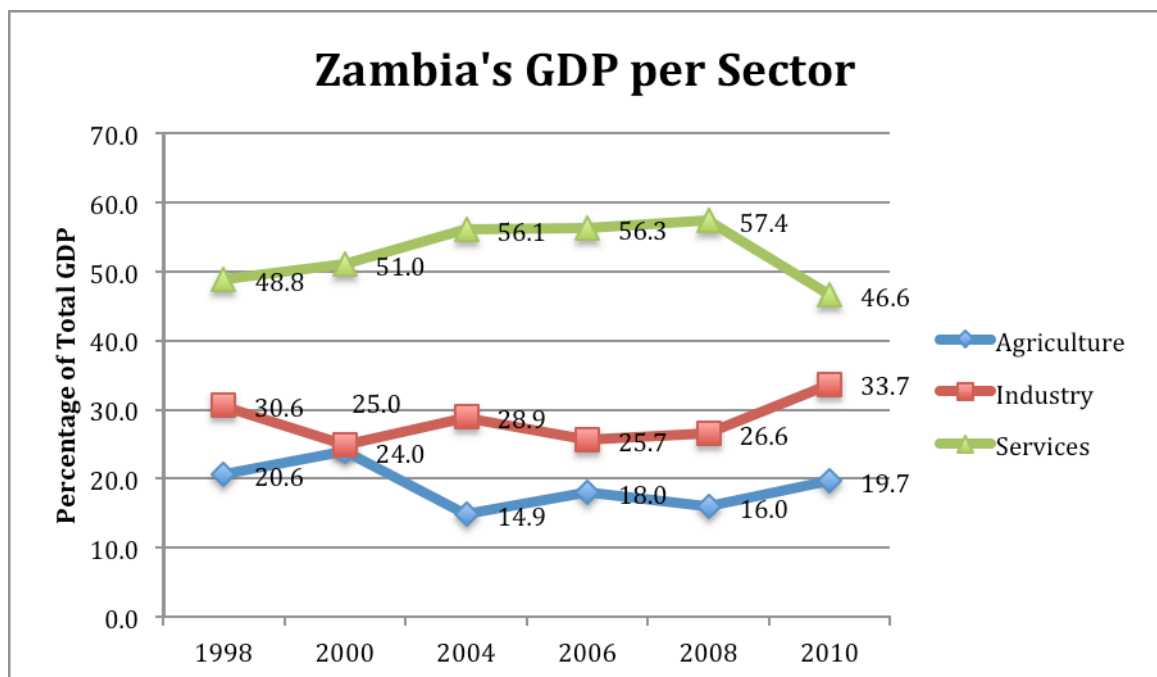
Market Diversification in Zambia

Zambia's economy is overly dependent on mining. With over 80 per cent of its export revenues coming from natural resources, the Zambian government's Sixth National Development Plan (SNDP) weighs heavily on market diversification as a critical priority (Mawdsley, 2007: 416). Copper alone accounted for 70.1 per cent of exports

⁵ 'Dutch Disease' refers to when a country relies centrally on natural resources for its GDP. Instead of the funds benefitting development, the income from the natural resources can artificially increase the currency, hurting the overall economy and further increasing the reliance on the resource (Alves et al., 2006: 26; Rocha, 2007: 31).

in 2007 (Financial Standards Foundation, 2009:7). The Zambian Ministry of Finance and National Planning (2011) recognizes that natural resources could provide an impetus to economic development, and that there is a great need to aggressively diversify the economy including agriculture, tourism, manufacturing, mining, and energy (2011: 11). These priorities for market diversification are further recognized and encouraged by the World Bank and UNDP for Zambia’s developmental progression (Bernstein, 2010: 252).

Figure 4.3: Breakdown of Zambia’s GDP per Sector



(CIA, 200; 2005; 2011)

Chart 4.3 overviews the trends of agriculture, industry, and services in Zambia. Trends towards development should show a slow decline in industry and an increase particularly in services for these efforts of market diversification to be actualized (Alves et al., 2006: 20). This has not been the case for Zambia over the past decade. Overall, industry has expanded slightly in the past decade, which is positive. However, simultaneously services have somewhat declined and agriculture has remained relatively unchanged (Alves et al., 2006: 19). However, when these trends are considered within the context of the steady GDP growth, and within the Zambian emphasis on copper and natural resources, each sector has relatively stood its ground.

The diversification of Zambia's economy will rely heavily on the needed expansion of services in order to remove dependency on natural resources.

Chinese FDI and Market Diversification

The overwhelming focus on raw materials and the subsequent threat of 'Dutch Disease' effects and reinforced dependence on natural resources is a key concern raised in criticism towards Chinese FDI in Zambia (Kopinski et al., 2011(b): 186; Rocha, 2007: 31; Ndulo, 2008: 144). As China focuses so heavily on natural resource extraction, its effects on manufacturing and service industries might be negligible or even detrimental. The strong focus on the mining industry, which is addressing one of the drivers of Chinese FDI, does hold the risk of increasing the state's dependence on natural resources if not properly acted upon by the Zambian government. China's FDI, in that case, is certainly not a force for development in and by itself. Reliance on the mining sector also exposes Zambia to significant income fluctuations (Kopinski et al. (b), 2011:186; Alves et al., 2006:24).

Even though financially most heavily weighted in the mining industry as it is a capital intensive sector, Chinese companies reportedly are involving themselves in a wide range of sectors including tourism, retail and wholesale, transport, communications, health, and education (Alves et al., 2006: 22). As Kragelund (2010: 212) reports, only eight of the 200 Chinese companies in Zambia are directly involved in mining activities. The remainder are in other sectors. 43 per cent are in manufacturing, 21 per cent in services, 16 in construction, 13 per cent in agriculture, and 2 per cent in timber (Kragelund, 2010: 212). However, the majority of those in manufacturing are related to mining, increasing mining related activities to cover at least 70 per cent of Chinese FDI. According to Kopinski, China pledged an even greater share, 89 per cent (\$5.5 billion), of its FDI between 2000 and 2009 towards the copper industry, most probably indicating primary investment interests (Kopinski et al., 2011(b): 185). The surge of Chinese FDI has maintained the economic dependence on copper. With recent discoveries of oil and gas within Zambia, Chinese FDI into natural resource sectors is likely to increase further (Kopinski et al., 2011(b): 185).

With regards to manufacturing, literature often discusses Chinese MNCs as posing a threat to Zambia's small domestic industries rather than a benefit. However, before

China's significant growth in FDI, Zambia's textile output had already shrunk considerably in the 1990s (Taylor, 2009: 168). This was due to international competition and poorly run factories such as the notable Mulungushi factory. The Mulungushi textiles factory, once fostered by the Chinese with a \$200 million loan, was forced to close. Its demise is attributed to the competition imported from Chinese textiles (Gu et al., 2007: 7; Alden, 2007: 73). Chinese made products have only further challenged this sector (Taylor, 2009: 169). For Zambia's economy to benefit from Chinese engagement, it needs to ensure that it can manufacture, assemble, and sell its own resources, as Raine argues in this context (2009: 45).

With Zambia importing China's low priced commodities, local manufacturers find it difficult to compete against cheap mass production (Kaplinsky et al., 2007: 11; Alden, 2007: 47). The goods brought by Chinese companies setting up in Zambia are highly competitive and are seen as providing 'poor quality' government subsidized goods that challenge domestic producers (Taylor, 2009: 170; Mutesa, 2010: 171). This is having critical costs to the local industries and on employment (Mutesa, 2010: 173). In 2007, opposition politician Michael Sata accused Chinese firms of purchasing supplies from other Chinese mining firms rather than locally. This, he argued, prevented an encouragement of local business and improved enhancement of the local economies beyond employment in mining (Mutesa, 2010: 173). While China was regarded as 'flooding' Zambia's markets, other than natural resources, there is little reciprocal flow to China (Broadman, 2007:34). While Zambia exports natural resources, predominantly copper, it imports textiles, apparel, electronic goods, and automobiles from China (Mutesa, 2010: 170).

As Michel (2009:115) polemically expresses "To take a country, you don't need colonialism, you need to have competitive goods to trade" highlighting opinion that China is acting in a neo-colonial way through its creation of highly competitive business in Zambia. Selling products in Zambia at a fourth or fifth of the regular price with long shop hours gives Chinese shopkeepers this advantage (Michel et al., 2009: 115, 117). In Lusaka, Chinese businesses reportedly halved the cost of chicken and reduced the cost of cabbage by 65 per cent, making it unfeasible for local traders to continue business negating any benefits to the population's access to cheaper goods (The Economist, April 20, 2011; Mawdsley, 2007: 416). Former South African trade

minister Dipak Patel further questions “Does Zambia need Chinese investors who sell shoes, clothes, food, chickens, and eggs in our markets when the indigenous people can?” (Alden, 2007: 49). Small-scale Chinese businesses are argued to be inadvertently detracting from Zambia’s attempts to foster its own local industry.

In defence of Chinese MNCs, some of these issues experienced over the past decade are noted to already being addressed as apparent in some notable case studies. Recently some companies addressed this, when several Chinese firms including Luansha’s Copper Mine (CLM) have made it policy to give 75 per cent of contracts involving locally sourced goods to local companies. This has reportedly increased business between local suppliers and Chinese business in these situations and is expected to have significant impact on the economy at large; where CLM employs 2,508 people, their suppliers and contractors employ over 6000 (Times of Zambia April 11, 2011). This creation of employment has the potential to encourage market diversification including industry supporting the mining, though arguably not enough to reverse trends of dependence on mining.

While in manufacturing there have been significant contested issues, the Chinese government argues to be having positive influence in services. China’s promotion of tourism in Zambia is said to be a step towards market diversification (FOCAC, 2005). The Zambian government’s official marketing within China is a recognized influence on the growth of the tourism market in Zambia, though figures could not be produced to substantiate its value (Broadman, 2007:2). While national records show tourism to have risen from 457,000 arrivals in 2000 to 812,000 in 2008 (UN Statistics Division, 2011), it is unclear what percentage of these arrivals are from China.

In sum, Chinese FDI is rather discussed as presenting a challenge to market diversification. While it is heavily focused on resource extraction increasing the size of mining capacity in Zambia, Chinese MNCs also are presenting a challenge to market diversification by outcompeting alternate sources, particularly in the manufacturing industry. This presents a challenge for the Zambian government and the economy. The debate surrounding the conduciveness of Chinese FDI to market diversification touches on numerous points. While Chinese support in the debate emphasizes positive efforts in many sectors of the Zambian economy, statistics show

a primary focus within the mining industry. Despite creating employment, substantive arguments are also made around the labour issues and competition created within the informal sector and domestic markets. These are all limiting factors within Capacity Approach theory, and would be seen as non-conducive for development. These further raise issue with Chinese FDI becoming a barrier to local business. The information substantiating these claims available for the debate remains limited. They are a mixture between national studies and specific cases that can only somewhat uphold the arguments made on either side.

4.2.3 Employment

One of the primary expectations of host countries for FDI is to gain domestic employment opportunities by international firms. National employment figures provide the most significant synopsis of the impact of the incredible growth of FDI in the country in the past decade. The debate surrounding Chinese influence on employment in Zambia explores not only the employment numbers provided by Chinese MNCs in various sectors, but also the quality of jobs, measured by the conditions for the workers. While figures of employment in the formal sector are used to substantiate the conduciveness of Chinese FDI within employment, numerous labour issues faced by those working with Chinese firms, or in competition are used to question the value of job creation in light of its realities for Zambian workers.

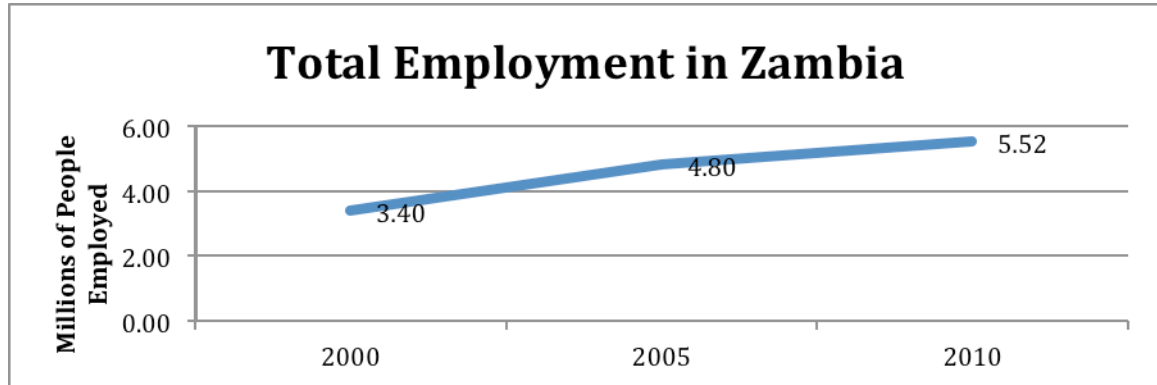
Employment in Zambia

In 1986, employment in the formal sector peaked at 556,000 people according to the Zambian government (SOAS et al., 2007: 47). This declined slightly by 1992, reaching 546,000 people partially due to declines in copper prices, despite a growing population. From 2008 statistics, records show that only 300 000 jobs exist in the formal sector with an additional estimated 4.7 million people working in the informal sector. Though UN Statistics since 2000 was unavailable (UN Statistics Division 2011), alternate sources indicated that for the population at large, this means that 80 to 90 per cent of employment in Zambia remains in the informal sector (Financial Standards Foundation, 2009: 8).

Yet, Chart 4.4 also indicates employment has increased steeply in the country in both the formal and informal sectors. This is increasingly notable as the period also occurs

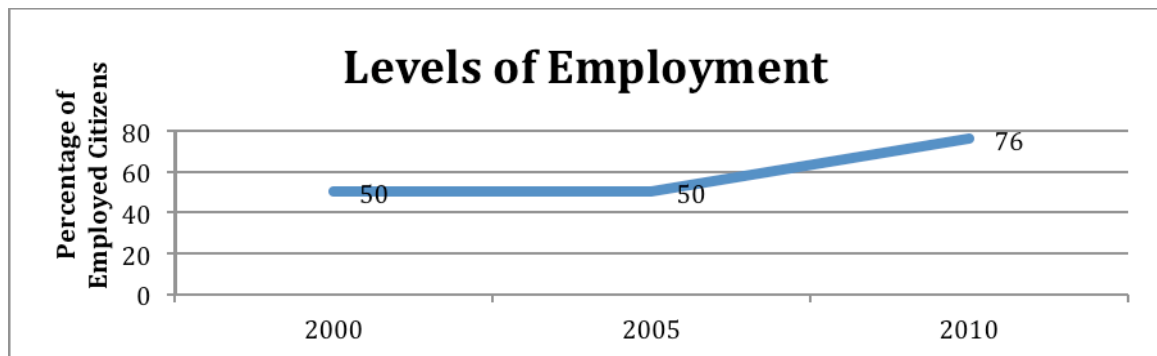
over the global recession experienced from 2008 onwards (Bertelsmann 2010: 2). Chart 4.5 indicates that there are very substantial gains in employment the country.

Figure 4.4: Informal and Formal Employment Figures in Zambia



(CIA, 2002; 2006; 2010)

Figure 4.5: Levels of Informal and Formal Employment in Zambia



(CIA, 2002; 2006; 2011)

Chinese FDI and Employment

The strongest arguments for Chinese FDI being conducive to employment in Zambia are the numbers of people employed by Chinese MNCs coming into the country; the Chinese government emphasizes the direct employment in MNC beyond thousands of workers in mining itself. Yet, there are also indirect gains by demand for copper from Zambia, which lead to a revival of the mining industry. This also created employment opportunities and higher income levels, which, in return, also will have led to higher consumption levels, again contributing to job creation. With still high levels of national unemployment, there is great need for employment opportunities within Zambia and Chinese investments indeed offer a source of employment (Raine, 2009: 44). The Chinese construction of MFEZs are intended to further increase employment

of Zambians by Chinese firms. The Chambishi MFEZ was expected to employ 50,000 by 2010 (Mutesa, 2010: 171). The MFEZ itself is expected to last 25 years (Mutesa, 2010: 174). By the end of 2011, the MFEZ is expected to have 40 Chinese companies and at least 10 from other countries (Brautigam, 2009: 101; Giannaccheni, 2011: 11-12). According to FOCAC reports, 25,000 Zambians to date are employed by Chinese firms; this is below the self-declared goals (FOCAC, 2011). Information regarding employment within the MFEZs themselves is not available. While inflated goals are not being met, Chinese FDI is nonetheless indicated as positive for providing employment.

Under the banner of aid, FOCAC 2006 provided an increase in the number of Zambian professionals receiving training in China, over a hundred government scholarships, and numerous diplomatic and bureaucratic training programmes organized by the Chinese government with a broad scope of relevant topics including healthcare, economic development, and environmental issues (Davies, 2008: 62). Beyond aid, however, there is expectation that FDI will provide the transference of skills to the domestic workforce, and bring technology and technological skill into the country that can spur on local business and capability (Broadman, 2007: 25).

While Chinese FDI *does* offer employment, there are great disputes over the conditions of employment. Chinese mining companies are usually state-owned; they are not responsible to shareholders or restricted by regulatory and reputational concerns in the same way Western companies are (Taylor, 2006:179). That said, while the Chinese government publicly states that Chinese MNCs are to uphold the local laws and standards, it has little capacity to directly manage their work. There are a number of critical issues around the conditions of employment offered by Chinese MNCs in Zambia, such as safety and labour standards. Beyond employment figures, variations in minimum wage are valuable to consider. Zambian employees and Union workers regularly are protesting for resolution of safety issues, and against alleged abuses, as well as against low wages in Chinese MNCs (Mutesa, 2010: 172; Taylor, 2004: 99). At some mines, unions have been banned, in violation of Zambian

legislation⁶ (Alden, 2007: 74). China is said to have low mining health and safety records, with issues of lacking corporate governance and responsibility (Taylor, 2006: 178).

In 2008, the minimum wage in Zambia was set at US \$52.19 per month, though increased to \$70 by 2010, showing a beneficial increase in support for workers (Financial Standards Foundation, 2009: 4; Mutesa, 2010: 171). Allegedly Chinese companies, however, pay Zambian employees wages significantly below minimum wage without repercussion; cases mentioned in this context are Chinese run Chambishi and Collum mines and BGRIMM (Mutesa, 2010: 171). This is being discussed as having influenced a downward pull on wages worsening conditions, and creating a disparity between Chinese and Zambian workers at the same task (Mutesa, 2010: 171). Furthermore, mine workers are often left with unsatisfactory safety conditions as well. Employees are reportedly expected to work for two years before receiving safety helmets. Additionally, ventilation in the mines was said to be poor quality and accounts for deadly accidents a numerous (The Economist April 20, 2011).

While jobs are being given to Zambians, and employment is being created, more might be done, as Mutesa argues. Mutesa (2010: 173) claims that long with challenging employment levels, Chinese firms bring unskilled, semi-skilled, and skilled Chinese labourers to do things that Zambians could do. At the Chambishi mine, of the eleven members on the senior management team, only one is Zambian (Mutesa, 2010: 174). Zambian employees appear to remain at basic levels, thus making the argument of transference of skills more questionable. The benefits in terms of the transference of skills to Zambian workers through Chinese FDI – and thus on the *quality* of employment – appear to be minimal (Kragelund, 2010: 209, 211).

There have also been noted riots at mines where workers express frustration with underpay, unsafe working conditions, and the banning of trade unions (Alden,

⁶ China does not allow for independent trade unions on its own territory. Thus investors are facing an unfamiliar – and arguably uncomfortable – situation of having to negotiate with unions (Wei et al., 2009). The freedom to form unions, however, is one of the key rights in a democracy, including Zambia.

2007:74). In 2008 the Chambishi mine experienced a riot of 500 workers because of unfair contracts, safety concerns, and low pay. At the Beijing Research Institute of Mining & Metallurgy (BGRIMM), allegedly the lack of safety precautions led to the death of 50 Zambian employees; as casual workers were affected, no compensation schemes were offered (Mutesa, 2010: 176; Gu et al., 2007: 7). These claims translated into voting records in 2006 already, where Michael Sata, running on his anti-Chinese platform won all seats in the Copperbelt region, where locals declared the Chinese were ‘ripping them off’ (The Economist, 20 April 2011; Raine, 2009: 138). Michael Sata has since won the election in September 2011 and has become President of Zambia.

The debate around the conduciveness of Chinese FDI to employment emphasizes that quantitative figures alone cannot adequately reflect the situation, backed by substantive evidence. While Chinese FDI *does* provide employment for Zambians, the issues raised by unions, protesting Zambian workers, and political leaders such as Sata give context to the debate. National figures indicate a rise in employment, and Chinese MNCs are arguably providing employment for thousands of Zambians. Yet, the qualitative issues accompanying this employment raise considerable question as to whether the employment provided actually is contributing to development. In light of Capacity Approach theory, while employment in general is advantageous for the addressing of basic materialistic needs, the non-materialistic value of the employment, as well as the safety and opportunities for promotion are clear setbacks. The information provided in this debate remains on different levels, one side relying on quantitative information, and the other on qualitative considerations. Where Chinese FDI offers much-needed employment, the conditions facing many of the employed are not conducive to empowerment, fair conditions, or a transference of skills. While Chinese FDI might not actively detract from development, it does not automatically offer conditions conducive for advancement either.

4.3 Political Indicators

The socio-economic partnership is tied closely to the political debate as already hinted at in the discussion of employment creation. FDI has a political significance due to the

inevitable interaction of corporations with the law and regulations within the state. As Chinese FDI is intertwined with the political relationship between China and Zambia, the influence of Chinese FDI also further extends into the political realm. Investments have the potential to empower government to better respond to its citizens and to gain space for policy making. Alternatively, it can increase detachment from the population – not least so by fostering corruption – and ultimately weaken state institutions through poor practices and limitations on accountability.⁷

The indicators studied here will include the influence on the Zambian government's dependency on foreign aid and loans, its control over domestic issues, its influence on transparency, and its overall capacity to direct the country's future course. Similar to socio-economic indicators, the debate is reliant on case studies, reports, and assumptions within the larger context of measurable national trends. While the Chinese policies emphasise a renouncing of interference within the domestic issues of other states, any external support has sway on the political realities of Zambia.

4.3.1 State Dependency on External Actors

Dependency of a state on external factors (including finance from other states) is highly discussed in matters of development. As experienced by Zambia with the SAPs from the IMF in previous decades, financial obligations through loans limit the autonomy of the government to make its own policies and govern its own country as it sees best. Notably, being a recipient of aid often comes with its own strings, obligations, and priorities that diminish a government's sway over its own direction. With Chinese state agencies offering substantial loans and aid to Zambia, often with limited transparency, debate is raised as to whether it is conducive to Zambia's development, or re-creating a structure of debt and reliance, and dependency (Brautigam, 2009: 12).

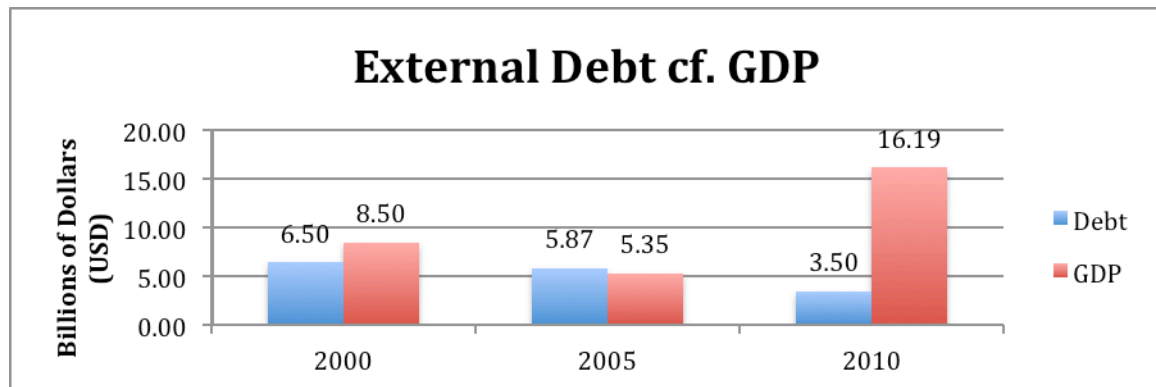
State Dependency on External Actors in Zambia

Beyond a dependency on copper markets for a sizeable portion of tax revenue and as a source of employment, Zambia has – since the 1980s – become increasingly dependent on loans and aid from foreign countries and international organisations.

⁷ Guy Scott, deputy leader of the Zambian opposition party was quoted saying, "The Chinese [...] are seen as cheats and our government as crooks for allowing them to get away with it" (Alden, 2007:76).

Zambia's government has taken significant loans to cover expenses, creating a debt that limits its finances and obligates it to oblige the interests of the lender. Zambia's autonomy and capacity as a state were thereby limited. FDI, though much is tied to copper, might offer a route to address socio-economic issues, increase government income, and reduce its reliance on debt and aid.

Figure 4.6: Zambia's External Debt Compared to its GDP



(UNDP (b), 2010; CIA 2002; 2006; 2011)

In the 1980s it was its reliance on debt that forced the World Bank's SAPs that removed governmental control and set back the national economy significantly. Benefiting from Western Multilateral Debt Relief Initiative (MDRI) and Heavily Indebted Poor Countries (HIPC) initiatives⁸, Zambia's external debt was cut from a staggering \$4.5 billion to \$635 million in 2006, resulting in substantially improved debt/GDP ratio as can be seen in figure 4.6. However, the figures for 2010 already include new debts. In 2007, Zambia took large amounts of loans from China, adding to the amounts already owed (Davies, 2008: 48). External debt increased from \$2,014 million in 2006, to \$3,407.3 million in 2009 (Zambian Ministry of Finance and National Planning, 2011: 9).

Concerns are raised in the debate about Zambian efforts for autonomy and capacity to address its own issues, possibly undermined by Chinese loans and unsustainable debt (Alden, 2007: 89). The financial conditions of Chinese loans to Zambia (and elsewhere) are not known to the public (Grimm, 2011:7). It risks placing greater debt on Zambia and with this, increasing its obligations to China, much to the concern of

⁹The HIPCs are developing countries with large debt and high levels of poverty. They are eligible for low-interest loans and aid from the IMF and World Bank. The MDRI is an extension of the HIPC.

western donors and analysts (Kragelund, 2010: 213; Taylor, 2006: 165; TI, 2007: 6). However, these concerns might be exaggerated. As indicated in chart 4.6, Zambia's debts are reducing steadily while its GDP grows. While it may be taking on loans from China, it is not increasing its debt disproportionately, but continuing to reduce it, showing prudence and capacity.

Chinese FDI and Dependency

China offers a chance for Zambia to reduce its reliance on financial flows from Western countries and institutions. Furthermore, if Chinese rhetoric is translated into practice, it might allow the Zambian government to set its own priorities, given the emphasis on sovereignty and non-interference. This would, indeed be different from Western involvement, which attempts to guide and control the course taken. While it may reduce Zambia's dependency on the West, some suggest it may easily be replaced with dependency on China (Le Pere et al., 2007: 159; Kapinski, 2011:132). The indifference towards human rights, corruption, and the lack of transparency in Chinese flows are often justified by official Chinese rhetoric referring to principles of sovereignty. This is discussed as potentially stifling the attempts of Western states of the World Bank and IMF (and, indeed, of African institutions like NEPAD) to improve governance in recipient states (Deng, 2008: 242). For example, Chinese arm sales in Zambia have fuelled regional conflicts and domestic strife, similar to those they have caused in Ethiopia and Sudan (Deng, 2008: 244).

In terms of Chinese aid to Zambia, there is a lack of transparency and blurred lines in Chinese aid, trade, and FDI (Bautigam, 2009: 12; Grimm 2011). Lack of information available prevents insight into whether amounts of aid are increasing or what tied obligations may come along with the aid. The debate on both sides remains limited to suggesting potential benefits and risks. Based on what information is available, Zambia does not appear to be near dependence on China, but rather seems to broaden the base of its financial obligations, diversifying the actors and thus spreading risks. Uncertainty exists as to whether this is setting back development potential through the real freedoms of the government or not.

With limited transparency into the details of Chinese loans and aid, much is left to speculation. As such, the debate remains relatively inconclusive, reliant on further

information and transparency to better substantiate argument. This debate carries over into the next indicator, transparency and corruption.

4.3.2 Transparency and Corruption

Fighting corruption is needed to better run a government responsible to its citizens and economic partners. Political and administrative corruption hampers reforms and developmental progress and lack of transparency is at least hampering policy planning and control (Bertelsmann Stiftung, 2009: 2; Grimm, 2011: 2). Transparency in government and levels of corruption are understood to be diametrically opposed. Transparency is an essential step towards addressing issues of corruption and patrimonialism within a state (Ndulo, 2008: 204).

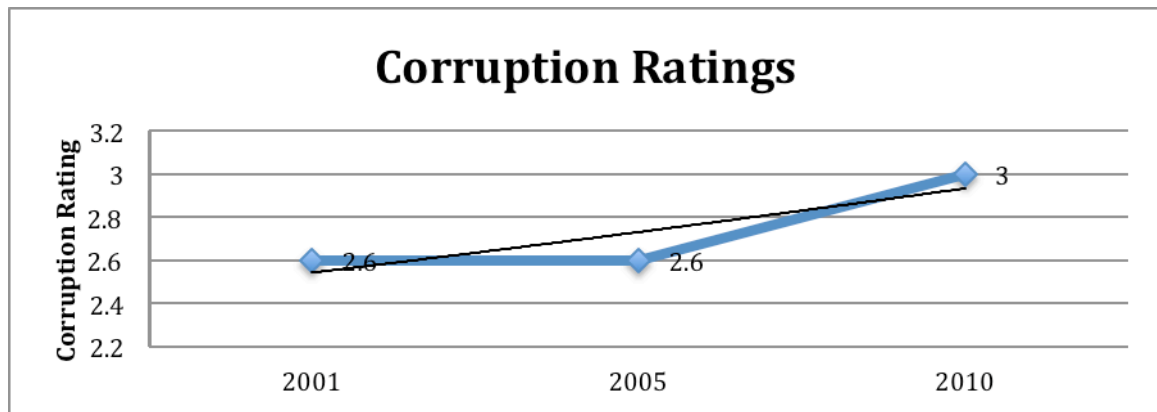
Transparency and Corruption in Zambia

Zambia, like many African countries, is discussed in the context of weak regulations, where state elites can be persuaded to take a relaxed approach to their enforcement (Raine, 2009: 45). While corruption is understood as a major problem in Zambia, it is one the government has been addressing, addressing also the highest office bearers. Most notably, former President Chiluba was prosecuted for graft in 2007, indicating some action is being taken, though its effectiveness cannot be fully determined (TI, 2007: 5). TI's rating system measures perceived levels of corruption in a country⁹. These ratings need to take into account further accounts of corruption and charges made in Zambia to complete the picture of national trends.

Figure 4.7: Perceptions of Corruption Ratings in Zambia¹⁰

⁹ While this remains one of few ways to measure corruption, it comes with some limitations. As the index is based on perception, government action to fight corruption may result in a raised perception by the polled populace as indicated by TI. Similarly, a government's slide into corruption may go undetected and reduced mention in the media, again altering perceptions.

¹⁰ Transparency International's Perception of Corruption Indicators are scored out of 10, with 10 indicating no corruption (very clean), and 0 indicating extreme corruption. Therefore on this diagram, the rise indicates a reduction in perception.



(TI, 2001; 2005; 2010)

As indicated in chart 4.7, perceptions of corruption have decreased over the past decade. However, the rating of 3.0 given in 2010 still indicates the perception that corruption is rampant (Financial Standards Foundation, 2009: 9). As a perverse effect, successes in transparency might not always positively reflect in the available indicators, as increased levels of transparency within a state can bring greater awareness to corruption and thus increase the perceived levels of corruption.

The Relevance of Chinese FDI to Corruption in Zambia

China's government argues that the principles in its cooperation allow for sovereignty and therefore avoid domestic political issues. Numerous concerns are raised that China's avoidance of debates on internal policies in partner countries and a general scarcity of country-based information (Grimm, 2011:2), undermine transparency and better governance. China's principles for sovereignty are regarded as sitting uneasily with human rights and corruption (Kaplinsky, 2007:11; Rocha, 2007:16). The practice of Chinese Africa policy directly links to critical issues of transparency in several ways. In bidding for contracts, transparency is said to be not a criterion for the Chinese government; rather, the government of China is alleged to use its sway to gain settlements in their favour (Ndulo, 2008: 144).

Despite the government's claims of non-interference, Chinese MNCs are seen to influence transparency and corruption. Numerous reports indicate that Chinese MNCs obstruct employee protests – their exercise of right to organise and express themselves freely – through coercive means. Chinese companies are said to use threats and other tactics for cases that go to court often have witnesses intimidated (Michel et al., 2009:

235; Kragelund, 2010: 216). While the Zambian government occasionally reprimands the managers of Chinese companies, it has dropped a number of cases. TI Zambia's president, Reuben Lifuka, sees this as a decline in the belief in the Zambian judicial system (TI, 2007: 5). Alleged bribery of union officials in combination with the tactics described above of Chinese companies are a perceived challenge to the Zambian society to maintain control over its own issues. While rules exist to protect employees and the environment, institutions are seen to be too weak to enforce them (The Economist, 20 April 2011).

Overall levels of corruption in Zambia allow influence without necessarily having a clear intent to challenge corruption for own ends; yet, the risks for such practice to emerge are high. China's official position on state sovereignty and non-interference might thus mean that Chinese MNCs are put in a position to utilize corrupt practices with reprimands and consequence only coming from the relatively weak Zambian government itself (Mawdsley, 2007: 414).

Even though more often than not anecdotal in nature, the numerous cases and reports reviewed – both from Western and Zambian authors – indicate Chinese FDI to be having a negative impact on efforts for transparency and reductions in corruption (Brautigam 2009: 13; Mawdsley 2007: 407; Alden 2007: 58; Broadman 2007: 19; Ndulo, 2008: 144). The value of transparency for development is clear through the real freedoms and opportunities it provides a population. The stated hands-off official Chinese practice in this topic area is likely to have negative effects on the developmental progress. The debate exists where Chinese supporters would argue minimal influence on state, while opponents utilize case studies and reports to argue Chinese FDI has undermined Zambian progress towards transparency and the fight against corruption (Mawdsley, 2007: 407). As is the nature of this indicator, the information available remains weak in capacity to substantiate overall trends, reliant on specific case studies and quotes.

4.3.3 Strength of State Institutions

An effective state is regarded as a prerequisite for a well-functioning market (Cheru et al., 2010, 236). The strength of institutions indicator measures the ability of the government to govern its own affairs and respond to issues of state. This in turn

indicates its capacity to direct its future while responding to citizen needs. These requirements are understood as essential for developmental progress to be actualized. Within the debate, Chinese FDI is challenged for its potential influence in weakening state institutions through undermining measures and taxing the state with the challenges aforementioned in other indicators.

Strength of State Institutions in Zambia

The government of Zambia recognizes the potential negative impetus of having an economy based heavily on natural resources, particularly mining (Zambian Ministry of Finance and National Planning, 2011: 11). Yet, clear evidence does not exist to show that it has capacity to begin transitioning away from the focus on natural resources. Analysts call for a well-elaborated framework and timeframe to develop international economic relations (Mutesa, 2010: 168). The Zambian government's documents¹¹ on future economic planning offer no elaborate strategic comprehension on how to work with foreign countries or companies, how to hold them accountable or work them into their plans.

The Zambian government is also alleged of lacking a balance between seeking economic growth for improved conditions for sustainable development. The emphasis of the Zambian government is so heavily on attracting FDI that it might, in fact, be limiting the direct benefits that could come with FDI. As Mutesa (2010: 172) argues, the government is criticised for being overgenerous with its incentives given to foreign investors. This would allow foreign investors to feel above the law, Mutesa continues, as institutional capacity was lacking and institutions were underfunded. Labour standard, safety, and environmental inspectors are said to be lacking to inspect factories and business premises to ensure compliance with laws (Alden, 2007: 3; Mutesa, 2010: 172).¹² The Afrobarometer (2009: 9) indicates that dissatisfaction with Zambia's democracy by Zambians has increased from 36 per cent of the population in 1999, to 53 per cent in 2009. This might not least be an indication for voters'

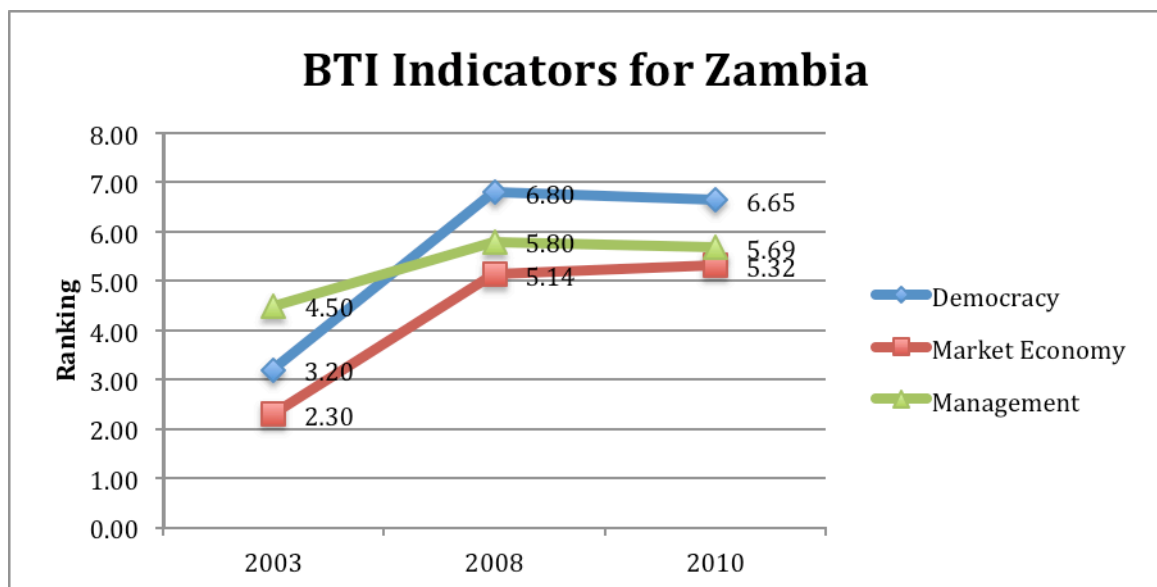
¹¹ Documents referred to include the Sixth National Development Plan (SNDP), Public Reduction Strategy Papers (PRSPs), and government speeches (Ministry of Financial and National Planning, 2011; Banda, 2011).

¹² Media report said that labour inspectors in Lusaka had access to only one car, which, additionally, was out of commission for four months (The Economist, April 20, 2011).

behaviours in the last election in 2011, leading to a change in government of the first time in 20 years.

Despite these raised concerns, the Bertelsmann Transformation Index (BTI) indicates positive national trends in Zambia over the past decade in regards to strength of its governmental institutions.¹³ Chart 4.8 indicates a general improvement in democracy and government management alongside the improving market economy, taking place over the decade. In its 2010 Report, the BTI (2010:2) reports that the government is making progress to improve democracy, with the judiciary said to be remaining relatively independent and a functional separation of powers. The report, however, does not indicate any foreseeable risks to the further consolidation of the democratic state. Whereas FDI does not hold a position to directly strengthen institutions other than upholding laws and acting with transparency and consideration for its host country, there are specific ways it can undermine a country's institutions.

Figure 4.8: BTI Indicators for Zambia



(Bertelsmann Stiftung, 2003; 2008; 2010)¹⁴

¹³ The BTI assesses a state on criteria of sustainability, democracy founded on the rule of law, social integration, and welfare. Status index rates countries based on their state of democracy and market economy. The Management index ranks them according to their leadership's management performance (BTI, 2011).

¹⁴ The BTI rankings for democracy, market economy, and management range from successful (7-10), successful with weakness (5.6-6.9), moderate (4.3-5.59), weak (3-4.25), to failed or non-existent (0-2.9) (BTI, 2011).

The Relevance of Chinese FDI to the Strength of Zambia's State Institutions

The key challenge for Zambian leadership is to maximize the political and economic advantages from the Sino-Zambian relationship while mitigating negative effects. This requires the Zambian government to take a greater input into the bilateral relations between the two states (including FOCAC), and control over the effects it is able to have in Zambia (Le Pere, 2007: 214-215). Beyond the issues mentioned in other indicators, there are certain perceived challenges within the Chinese partnership argued to be weakening Zambia's institutions.

Firstly, China is seen as a challenge to NEPAD, as the Chinese government's goals are predominantly bilateral and focused on its own interests; they do not appear to consider regional organisations' norms and interests. Furthermore with its principles of sovereignty, its partnerships with illiberal regimes and weak democracies based on natural resource economies does not hold the state to higher standards, that NEPAD or Western states work to encourage (Alden, 2007: 66, 70). Though all NEPAD partners are being impacted by partnership with China under FOCAC, there have been no regional or multilateral African responses or propositions, from government or NGOs (Alden, 2007: 77). With limited options, Zambia continues to take the risks because the need for the potential benefits Chinese partnership may procure. The Zambian government and police force are criticised for allegedly providing full support to the Chinese government and their business interests, arguing that Chinese activities are in favour of Zambian development regardless of Zambian laws that would favour the employees (Michel et al., 2009: 236; *The Economist*, 20 April 2011).

Zambia's general development strategy is to formulated as focussing its foreign policy towards economic and development issues. Zambian government efforts to promote FDI and South-South cooperation require creating favourable conditions for Chinese FDI (Mwanawina, 2008:5). While national trends for the strengthening of institutions are shown positive by the BTI, Chinese FDI is shown to still bring challenges to government institutions, for example by allegedly not playing by the rules in engagement with labour. Because of the aspired effects of value added to the national GDP, the Zambian government is regarded as remaining eager to support Chinese FDI (Kopinski et al., 2011(b): 187). The government realises that using FDI for

development will require Zambian strategies that use revenue from copper and FDI to improve and sustain infrastructure, education, technology, and manufacturing capacity (Ndulo, 2008: 141).¹⁵

Critics do not see Zambia having the capacity to address the negative effects presented by Chinese FDI in their attempts to handle the issues presented. Criticism by Western observers is often harsh and in broad terms: Paul Collier (2007: 86) expressed that for developing countries, “[governance] is already bad and the Chinese are making it worse”, basing his arguments on lack of transparency and regulation. Other analysts raise concern that because China does explicitly not pressure for democracy, governance standards, or human rights, it implicitly allows for violations and dilutes the attempts of others (Rochea, 2007: 16). To address many of the issues observed in the aforementioned indicators, a tighter legal framework and improved regulation are needed. The country requires enforcement of serious labour, customs and import policies that would prevent the sending many of the socio-economic and political issues Chinese FDI poses on Zambia (Taylor, 2009: 171).

Despite an official position of non-interference, the Chinese government took an explicitly hostile stance towards the opposition politician Michael Sata in the 2006 election. While understandable due to Sata’s populist anti-Chinese stance, this reaction by the Chinese government overtly interfered in Zambian domestic affairs. It is argued that Zambia’s government non-reaction to this interference shows the lack of capacity (or lack of willingness) on the Zambian side to challenge China, not least because of Zambia’s growing reliance on the economic interests tied into the relationship (Kopinski et al., 2011(b): 186; Ndulo, 2008: 146).

In summary, Zambian institutions seem to be strengthening. However, case studies offer most of the ‘evidence’ of Chinese FDI opposing the state’s institutions. Even if a number of arguments might be brushed away as simple allegations, it remains doubtful whether this strengthening of state institutions is *because* of or rather *despite* Chinese engagement in the form of FDI. There are substantial allegations that argue

¹⁵ Supporting this, Roy Kapembwa, Head of the Zambian Development Agency expressed “We are trying as much as possible to focus on China because they are ready. Where there are opportunities, they will take them” (Brautigam, 2009: 104).

Chinese FDI to not be conducive to the strengthening of state institutions. Government's policy space in Zambia appears to be increasing, with less debt burden (which is NOT based on Chinese engagement) *and* 'fresh money' from Beijing. It appears to be this mix of factors rather than one factor (China) on its own that has positive effects also for the development of Zambia.

4.4 Conclusion

This chapter has exemplified how analysts argue Chinese FDI has a substantial influence on Zambia's course to development. As this chapter has also shown, key national indicators in Zambia suggest that, overall; Zambia is currently on a good path to development. However, the debate around Chinese FDI's role in this positive development is less conclusive. The debate suggests Chinese FDI to be conducive in various indicators particularly with regard to economic growth and possibly infrastructure expansion as well as availability of government's finance in the shape of aid and loans. However, arguments indicate a mixed of benefits and costs in the sectors of employment and dependency. In regards to the strength of Zambia's institutions, transparency and corruption, and market diversification, Chinese FDI is discussed rather as being relatively unfavourable. The debate on both sides relies heavily on case studies and rather anecdotal evidence due to limited information. As such, there is no one clear argument on whether Chinese FDI is overall conducive to Zambian development or not. Rather, the debate, as followed within these indicators, show progress in differentiating and in isolating key issues and prospects.

5. Research Overview

5.1 Introduction

The Chinese government's partnership and FDI come with promises of development. Since 2000, not least so with the inception of FOCAC as a framework, China strengthened its relationship with Zambia and most other sub-Saharan African states as part of its new plans for economic expansion. Since this date, Chinese FDI has increased in Zambia. Alongside interests in mineral extraction, Chinese enterprises gained international clout, and an increased market for Chinese goods. With a unique background including differing approaches to domestic-, corruption-, and social responsibility- issues, questions arise as to whether and how Chinese FDI will influence Zambia's developmental course.

This study set out to consider the relevance and conduciveness of Chinese FDI for Zambian development, and the substantiation of arguments provided in the surrounding debate. As Chinese FDI into Zambia has steadily increased since 2000 through a distinctive partnership between governments, study of its propitiousness for Zambian development is merited. In order to do so, this study developed a framework of key socio-economic and political indicators in light of Capability Approach development theory. These factors were selected for their indicative relevance to both FDI and development.

5.2 Framework, Methodology, Theory and Chapter Overview

The study began with conceptualizations of FDI and development. It examined the *connections* between FDI and development, while being aware that there is no easy or straightforward causality between development and increasing levels of FDI. FDI is only one of many influences on a state; therefore national trends cannot directly indicate the impact of FDI. To merit assessment, consideration of both national trends and relevant reports and information on specific activity within the various indicators were fused. While direct conclusions remain limited, a study of the correlation between the two variables remain significant.

Chapter three provided contextual information surrounding Zambia's socio-economic and political history. It then reviewed the spectrum of Western involvement in Zambia, another partnership and source of FDI. The context of Chinese partnership and FDI was consequently reviewed in light of Zambia's developmental needs. Chapter Four analysed national trends and specific information on Chinese action relevant to key indicators, applying the framework established in Chapter two. This final chapter will review the relevance of this study for other African states in the context of similarities between Zambia and other African states in terms of development and FDI relationship with China. It will conclude with suggestions for further research.

5.2.1 Theoretical Framework

Development per definition is the improved capacity of a state to meet its own needs and continue its own economic growth, reducing its dependency on other states while improving its own structures and the capacity of its populace to live autonomous sustainable lives. For developing countries, attaining funds and support for addressing developmental issues such as education, health, infrastructure, and employment is often essential. Aid is used for directly addressing these issues. Loans are procured so that governments have greater capacity to direct their own funds towards needed issues. Both loans and aid can come with stipulations and requirements. When studying the impacts of aid or loans, studies can look directly towards developmental levels. Measurements can be directly attributed to funds provided and their achievement of intended outcomes. Capability Approach theory maximizes the study of the process of development, rather than the means, and is able to offer insight into the debate surrounding FDI in development by assessing it not through end results, but by contextualizing them within the capacities of citizens and the government.

The intent of FDI by investors is to maximize potential profits. Yet, FDI conceptualized as the investments made within a state by foreign actors, whether private or state-run, has the capacity to influence a country's development (Todaro & Smith, 2009: 824). While FDI can have influence on a country's society, economy, and politics, its influences are not direct and cannot be measured through traditional developmental indicators. For a developing country with significant levels of FDI inflow, understanding the influence that FDI is having on its development.

This study evaluated several key indicators. In the socio-economic field, economic growth through GDP trends provided a straightforward context the economy's size. Infrastructure expansion analysed the furthering of infrastructure necessary for sustained economic growth. Market diversification reviewed trends of percentage of GDP found within different economic sectors. Comparative trends within agriculture, industry and services indicate the direction of the economy and reliance on natural resources or expansion to manufacturing and services with market diversification. Finally, labour and employment reviewed employment figures over the decade. Formal employment trends indicate levels of employment on a national level. The indicator also explored issues within employment to foreign nationals for their potential influence on society and the transference of skills and technology, which would be conducive for improved local business and skill sets to attract further business. These factors give oversight to the national socio-economic trends that pertain both to FDI and to propitious potential for development.

In terms of the political sphere, three key indicators were reviewed. Economic dependency was used to assess external debt and loans as compared to GDP. Trends would show either an increased reliance on external funds or an increase of self-reliance on the state to fund its budget. Transparency and corruption reviewed the perceptions of corruption from TI within the state at a national level. Finally, strength of institutions was measured through the BTI indicators complimented by their country specific reports showing trends for democracy and management. Overall these indicators provide a basis for the political realm as potentially influenced by FDI that are relevant to development taking place.

5.3 Main findings

Deliberating over specific indicators is a challenge, when needing to assess the overall picture of the developmental implications Chinese FDI has had for Zambia in the past decade. Questions are raised as to whether allowing for FDI because of its benefits to economic growth alone merit its value. For a developing country with such high levels of poverty and its surrounding issues, debate is raised whether potential

negative future implications are moot considerations. Chart 5.1 provides a summary review of the trends studied.

The first column reviews the national trend shown over the decade. These trends, while indicating the overall direction, are influenced by countless actors, decisions, and factors. Chinese FDI remains one of many contributing influences. It is not necessarily directly aligned to national figures provided.

The second column indicates the relevance of the indicator to development as observed through the study. It is ranked as high, moderate, low, or not applicable, as to its pertinence to Zambia's development, and therefore its value as an indicator to the overall debate. These rankings are provided by an evaluation of the assessments of each variable found in Chapter Two.

The third column reviews the available information included in this chapter to assess the contribution or challenge Chinese FDI has provided to this factor as discussed in the literature. As much of the study remains qualitative, rankings are set as positive, neutral, or negative. *Positive* refers to trends and overall influence being considered as conducive or furthering the potential for sustainable development in Zambia. *Neutral* indicates little or no change in terms of conditions for development. *Negative* indicates a perceived digression from development, or the debate focussing on an overall impediment to development potential being actualized for Zambia.

Lastly the fourth column reviews the strength of information that substantiates this assessment, i.e. it looks at the quality of evidence in the debate. Whereas some indicators were discussed in national studies and based on clear information, others were rather in the discussion based on speculation, individual quotes, and narrow case studies, with limited availability of information to fully substantiate the claims on either side of the debate. This column is attributing the values of strong, moderate, weak, or not available to the level of evidence in the debate. Together this information presents an overall review and evaluation of the debate surrounding the relevance and conduciveness of Chinese FDI to Zambia's development within key socio-economic and political indicators.

Table 5.1: Overview of Trends Observed of Chinese FDI and Zambian Development

Indicator	Overall National Trends	Overall Relevance of Indicator in the Debate	Assessment of Direction of Debate	Strength of Information to Substantiate the Arguments
Socio-Economic Overview				
Economic Growth	Positive	High	Conducive	Strong
Infrastructure Expansion	Positive	Moderate	Conducive	Weak
Market Diversification	Inconclusive	High	Not Conducive	Moderate
Employment	Positive	High	Inconclusive, various levels considered	Strong
Political Overview				
Reduction of Dependency	Positive	Moderate	Inconclusive	Weak
Transparency and Corruption	Negative	Moderate	Not Conducive	Weak
Strength of Institutions	Positive	High	Not Conducive	Weak

Chinese FDI has been discussed as conducive for development in the socio-economic factors. The steady increases of FDI since 2000 have supported the economic growth and employment numbers. In this trend, Chinese efforts in offering support for construction projects have been discussed as furthering the progress of infrastructure expansion, though the value of their efforts are impeded by low quality work and preferential employment of Chinese workers over Zambians. Employment benefits were challenged by the reported low wages, poor working conditions, and limited inclusion of Zambians in managerial positions within MNCs operating within Zambia. This, it is argued, prevents some transference of skills, otherwise assumed to come with FDI. As Chinese FDI efforts are primarily focused on copper, critics emphasise that the increased Chinese investments only heighten national dependence on its mining. Furthermore, Chinese firms in Zambia, and the dumping of cheap products are regarded as undermining local business and Zambia's manufacturing sector. Overall, despite setbacks and discussed limitations to the value offered to Zambia's

society and economy, Chinese FDI appears to be rather regarded as conducive to sustainable developmental progress in Zambia by the larger parts of the academic literature.

Politically national trends presented in the literature are regarded as furthering positive conditions favourable to development in Zambia. Zambia's government is seen as managing to reduce its economic dependency by cutting down on its debts. In terms of national corruption, while TI (2010) still heavily criticises corruption levels, the trend is not discussed as worsening in the country, despite a reduction in government efforts to fight graft. The BTI (2011) shows an overall strengthening of the government and maintains a positive outlook for the Zambian government.

As emphasized in Critical Theory, the strengthening of the abilities of the government to make its own decisions is developmentally advantageous. However, the trends experienced in worsening corruption and debt offer evidence of limited autonomies, and inevitably have negative consequences for the real freedoms of Zambian citizens. Against this background of an overall positive national outlook, Chinese FDI is rather discussed as having an overall *negative* influence on Zambia's political sphere. With limited information on Chinese aid and loans, little can be said about their influence on reducing dependency on foreign sources for funds, except that incidentally their support for economic growth (both direct and indirect) *does* give the Zambian government a larger national budget to work with. Numerous incidents are discussed as Chinese MNCs and government officials detracting from transparency and the fight against corruption within Zambia; China's policy of 'no political interference' only seems to be upheld when in the interest of the Chinese government. As presented in this debate, it leaves Chinese FDI to be regulated solely by the Zambian government (with no apparent effort by Beijing itself), which is impeded by lack of resources, capacity, and a tendency to corruption.

The overall debate and dialogue surrounding Chinese FDI and its relevance to development in Zambia remains limited by information and speculation. The challenge of arguments based on different understandings of development has been limiting. The utilization of Capability Approach in assessing the arguments, looking not only for ends of subsequent socioeconomic and political realities influenced by

Chinese FDI, but also at the process gives strength to assessment. The realities of recognizing real freedoms in the population and government to act to their full potential are limited. In many of the aforementioned factors due to specific Chinese policies or realities that need to be addressed or mitigated against for maximum developmental progress to be actualized. The transformation of resources into valuable activities is seen through the extraction of natural resources boosting the economy. However the limitations in market diversification, as well as the base level employment it is providing is another limiter. This is furthered in an evaluation of the distribution of opportunities in society. Chinese employment is minimal in terms of the opportunities provided at large, particularly in higher skilled level professions and training. Finally in terms of the materialistic and non-materialistic benefits, the aid and partnership that comes subsequent to the economic ties and FDI do offer some benefits to society at large, in terms of infrastructure improvements and capacities felt there for development.

5.4 Significance of Findings

The significance of this study is broad, as its discourse for analysis can be applied to a wide scope of areas of study. This study offers an evaluation of the debate around FDI's relevance to development. In the case of Zambia, it systematically reviewed the debate on China's FDI in comparison to national socio-economic and political indices. It contributes to discussion on the relevance for FDI to development, as well as the significance of the structure and conditions in which FDI is handled in a developing country.

In this study, the use of key socio-economic and political indicators can offer insight into debates around developmental strategies surrounding FDI. They can show what issues are focused on. Collectively these indicators provide a contextual understanding of the consequences of various approaches to FDI and development so they can be critically evaluated for their intended value. This information can be relevant to a host government in addressing limitations and mitigating negative effects raised by FDI by asking the 'right questions' with regard to FDI and its developmental effect. This study is thus a contribution to theoretical studies on FDI

and development, and to Zambia's developmental efforts in regards to its partnership with the Chinese government and MNCs.

5.5 Areas for Further Study

Several questions remain that should guide further research into the relationship between FDI and development, and its measurement. First, additional research into each of the indicators included in this study to better substantiate the arguments would be valuable. Each of the indicators could, for instance, be further explored with interviews and access to information available within Zambia. Furthermore, improving statistical measuring of factors is a continuous task. Whether due to issues of transparency or capacity, both the Zambian and Chinese government do not have up to date records on many accounts. The further blurring of lines between Chinese aid, trade, and FDI limit full comprehension of where different activities lie.

Secondly, the relation between FDI and development does not only exist in a socio-economic or political realm as used in the assessed elements of the debate on Chinese FDI's developmental impact. Investments have potential impacts on the physical environment, culture, international relations, and numerous other realities for the host country that could be considered in further studies. A study of the relationship between FDI and development is thus much more complex and would be enriched by also considering various other factors that have been beyond the scope of this study.

Finally, comparative aspects would help to put the debate into perspective in the broader context of Chinese relations with Africa as a whole. There is further scope for research in comparing and contrasting the study of Chinese FDI in Zambia with other countries. Comparing reports of other specific countries investing in Zambia could strengthen studies to gain better comprehension of FDI influence in Zambia on a comparative study between states. The study of Chinese FDI could also be extended to other developing countries or African states to extend analysis to a larger region. The FOCAC policies and principles are central to Chinese partnership with numerous African states with similar interest in natural resources in exchange for FDI and aid.

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