Exporting Zones to Africa: The New Strategy of Asian Powers

The designation of a specific space to contain commercial and manufacturing activities at preferential conditions is not a new practice. Such liberalising principles were initially implemented in forms of Custom Bonded Warehouses and Free-Port areas. Its practice attained a tangible zone-formation only with the introduction of Export Processing Zones (EPZs). However, in 1970s, China diverted from the EPZ trend and introduced Special Economic Zones (SEZs). Deng Xiaoping's Joint Venture law encouraged the inflow of foreign direct investment (FDI) and offered investors options of doing business independently or in partnership with Chinese nationals in various patterns of cooperation.[1] As these were new experiments in the market economy for post-revolutionary China, SEZs were conceived as spaces to contain these experiments. Initially set up as isolated enclaves in the Guangdong and Fujian provinces in the late 1970s, SEZs later multiplied across the country and have been held as strongly contributing to the unprecedented economic growth and development of China. Since this period, several countries in Asia and Eastern Europe, have sought to apply the SEZ model at home in the hope for similar results. While SEZs are similar to EPZs in regard to their (1) structure (2) preferential provisions and (3) employment trends, they differ considerably on other premises, as shown in Table 1.

Compared to EPZs, SEZs show more variety and pragmatism in their administration and activities. Kwan-Yiu Wong picks upon this malleability and describes the SEZ as a model that 'stands on its own as a separate member' and does 'not belong to any of the categories within the family of free zones now existing in the world.'[2] If this distinction between EPZs and SEZs was unclear a decade or two ago, the demarcation stands more obvious today as SEZs depart from their traditional government-established form to become public-private partnership projects exported overseas.

	EPZ	SEZ
Content	Light Manufacturing (Textiles, Simple electronics)	Real estate, light manufacturing, Electronics, Tourism, Pharmaceuticals, Technology, R&D, Residential, Leisure, Supporting services like airports, financing (stock market)
Initiators	Government: Infrastructure is provided by host government.	Government & Private Investors: Both share responsibilities of initial infrastructure.

[1]See S Nishitateno, 'China's Special Economic Zones: Experimental Units for Economic Reform', *The International and Comparative Law Quarterly*, vol.32, no.1, January 1983, pp. 175-185.
[2]KY Wong, 'China's Special Economic Zone Experiment: An Appraisal', *Geografiska Annaler. Series B, Human Geography*, vol. 69, no. 1, 1987, pp. 27.

Implied reforms	All reforms required to prevailing national practices are already integrated in the incentive package when the EPZ scheme is designed.	Modifications are constantly made to the provided incentives in order to make the SEZ more profitable. E.g. Taxation levels change when SEZ restructuring is required.[3]
Forms of Investment	Largely private foreign investors invested in EPZs	State Owned Enterprises (SOEs) & local investors are involved. Nishitateno identifies five forms of investments.[4]
Key Instrument	Export: The income generated through exportation of products and employment created are the main benefits. EPZs produce negligible backward linkages.	FDI: SEZs rely on capital brought in in terms of FDI to generate benefits; through backward linkages, further investments, infrastructural development, imparting of technology and expansion of R&D.

Figure 1: Differences between EPZs and SEZs

CSEZA (CSEZA)

At the 2006 China-Africa Summit, Hu Jintao declared: 'To forge a new type of China-Africa strategic partnership and strengthen our cooperation in more areas and at a higher level, the Chinese Government will... establish three to five trade and economic cooperation zones in Africa in the next three years.'[5] China targeted two regions in Zambia, two in Nigeria, one in Ethiopia, one in Egypt and one in Mauritius to host these SEZs. While in keeping with speculations that China aims to secure resources in Africa through aid and investment, Zambia, Nigeria, Ethiopia and Egypt do have high-value natural resources, Mauritius is the only host country which does not have any natural resource of obvious interest to China. Because its selection to host a Chinese SEZ defies expectations, Mauritius is the most suitable case to study the activities of China in Africa, without falling into the clichéd assumptions that China seeks resource-security in the continent.

In October 2006, Tianli Spinning (Mauritius) Co. Ltd, established in Mauritius in 2003 by the Chinese Shanxi Tianli Enterprises Group, proposed the construction of an industrial zone in Mauritius. Mauritian authorities pursued the proposal at the November 2006 China-Africa Summit. Following discussions at the Summit, Mauritian Prime Minister N.Ramgoolam secured Mauritius as one of the destinations of China's intended SEZs in Africa. The SEZ stands on 211 hectares at Riche Terre, approximately 4 km away from the

[3]China oscillates between unbalanced and balanced investment strategies in order to make the most of restructuration in and spill-over effects from SEZs. E.g. in 1990s, Guangdong province, which housed three SEZs, received high investments but paid low taxes to allow restructuring. This was at the expense of high taxation and firms' stagnation in Shanghai. This trend was reversed few years later. In 1994, all SEZ preferences were eliminated and a balanced investment strategy was established. See MJ Litwack & Y Quian, 'Balanced or Unbalanced Development: Special Economic Zones as Catalysts for Transition', *Journal of Comparative Economics,* vol.26, no. JE971502, 1998, pp.117-141.

[4]See Nishitateno, pp.181-182.

[5]*Hu Jintao, President of the People's Republic of China at the opening ceremony of the Beijing Summit of the Forum on China-Africa cooperation*, 4 November 2006, retrieved 6 may 2011, <www.english.focacsummit.org/2006-11/04/content_4978.htm>.

capital and port. The total cost of the project is US$750 million. Its main investors are Taiyuan Iron and Steel Company Ltd (TISCO), Shanxi Coking Coal, Tianli Group and the China-Africa Development Fund. Earlier called the Tianli project, the SEZ was renamed as the Mauritius Jin Fei Trade and Economic Cooperation Zone (locally referred to only as Jin Fei) after the Jin Fei company, another Shanxi Province SOE, took over as the biggest investor. Details of Jin Fei SEZ remain secret. Responding to pressures from the Opposition party, media and public regarding the lack of transparency surrounding this project, Mauritian Minister of Finance and Economic Development (MOFED), P.Jugnauth declared:

> I wish to inform the House that I am not in a position to table the Framework Agreement as there is a confidentiality clause which provides that the parties to the Agreement should ensure strict confidentiality on the Agreement.[6]

Such an aura of red-taping and unaccountability unleashes concerns about this new Chinese endeavour.

Academics writing about China's relations with Africa mostly identify CSEZAs as being mechanisms to secure natural resources (Horta 2010), goodwill (Horta 2010),[7] allow restructuration at home (Brautigam et al 2010) and gain market access (Brautigam et al 2010).[8] World Bank (WB) publications emphasise that one of the motives of these zones is to overcome the trade barriers Europe and America set against Chinese exports.[9] They also stipulate the profit-motive behind SEZs:

> …despite the substantial government incentives, the Chinese zones in Africa are profit-driven initiatives, led by private sector consortia (although many of the lead firms are national or provincial state-owned enterprises). The Chinese government designed the program to ensure that developers have a profit motive because they view this as critical to ensure sustainability.[10]

Thus, it is assumed that CSEZAs are either neorealist exercises of balance of power or are founded on neoliberal grounds of competitive trade and profit-making. Although

[6]'First Session 15 June 2010', No. 3 of 2010, *Fifth National Assembly Parliamentary Debates (HANSARD)*, retrieved 13 November 2010, <www.gov.mu/portal/goc/assemblysite/file/hansardsecd310r.pdf>.

[7]L Horta, 'China Building Africa's Economic Infrastructure: SEZs and Railroads', *China Brief: A Journal of Analysis and Information*, The Jamestown Foundation, vol.X, issue 15, July 22 2010, retrieved 13 May 2011, <www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=36661&tx_ttnews%5BbackPid%5D=7&cHash=f7c2313cc0>.

[8]D Brautigam & T Xiaoyang, 'China's Investment in African Special Economic Zones', January 2010, Discussion paper available from T Farole (The paper is part of a wider project led by the International Trade Department of the World Bank (PRMTR): *Special Economic Zones in Africa: Comparing Performance and Learning From Global Experience*.

[9]D Brautigam, T Farole & T Xioyang, 'China's Investment in African Special Economic Zones: Prospects, Challenges and Opportunities', *Economic Premise: Poverty Reduction and Economic Management Network*, no.5, The World Bank, March 2010.

[10]Ibid.,p.3.

both theories provide broad understandings of contemporary Chinese activities in developing countries and help comprehend policies regulating the activities of these zones, they fail to explain why CSEZAs happened in the first place. Except for the internal motivations upon which these zones are founded, what pushed China to undertake this new transnational spatial shift approach to profit-making? As Brautigam argues that this move allows China to domestically restructure, what she provides is the solution; without initially identifying the cause leading to the adoption of such a solution. Moreover, the unusually complex set of actors involved in the construction of CSEZAs,[11] the arbitrary customization of each SEZ and the controversies and social disharmony these zones generate, challenge the structuralist nature of this endeavour. Rather, it appears that CSEZAs are 'trickle-down' projections of systemic global appropriation activities. They follow from and are the results of a series of escalating subordination--domination relations. The topic should therefore be considered from a paradigm believing that political and economic activities, entities and occurrences, represent a pre-determined hierarchical structure inherent to capitalism.

Why Mauritius?

If SEZs in Africa function purely by the logic of profit-making, then, in keeping with the zero-sum nature of profits, it is understood that an optimisation of profits pursued by China through SEZs in Africa simultaneously means that African host countries concede something in the bargain. This assumption, coupled with the unlikely choice of Mauritius as a site for an SEZ reiterates scepticism about the pursuits and development promises of these zones. Why Mauritius? Jin Fei has been described as stepping stone to Africa. Mauritian authorities accredit China's choice of Mauritius to (1) its strategic geographical positioning; and (2) its membership of Southern African Development Community (SADC) and Common Market for Eastern and Southern Africa (COMESA).[12] However, these two

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[11]Chinese state through SOEs + African host state+ Chinese private investors+ African host community + Local African private investors.

[12] *N.Ramgoolam at launch ceremony of the Jin Fei SEZ* cited in 'Jin Fei arrive au moment opportun', *Le Matinal,* 16 September 2009, retrieved 9 may 2011, <www.lematinal.com/mobile/economie/1303-JinFei-arrive-au-moment-opportun.html>.

Although Mauritius is a member of both SADC and COMESA, the recent trade zone configurations formed under the Economic Partnership Agreement (EPA) whereby African, Caribbean, Pacific Group of States (ACP) countries have been divided into seven regions to determine their eligibility to benefit from reciprocal or preferential trade with the European Union (EU), has made Mauritius a cross-member of SADC, COMESA and the Eastern and Southern EPA (ESA EPA). In line with its EPA affiliation to the ESA, Mauritius has acceded to the COMESA Customs Union. This dual association of Mauritius can prove to be a hindrance to accessing Africa rather than being an opportunity that China can exploit. Already, figures from the Central Statistics Office (CSO), Mauritius, noted a trade deficit of US$190,522.52 to Mauritius' trade with SADC in the year 2010 and a simultaneous rise in trade with COMESA.

explanations do not hold when asked the following: Why did China not go straight to mainland Africa when it already nurtures bilateral relationships with most SADC and COMESA states? V. Ancharaz argues the same by referring to Madagascar to where Mauritius itself has shifted most of its manufacturing, as production cost is lower there.[13] Moreover, while the dismantling of the Multi Fibre Agreement (MFA)[14] has removed the protective textile export quotas Mauritius, Madagascar and several other African nations benefited from, China instead benefits from this measure as there are fewer restrictions on its exports to Europe and North America.[15] When Mauritius is measured against neoliberal benchmarks, the island does not match the criterions of eligibility--in providing resources and market--and do not meet China's sought ends.

China stresses that CSEZAs are mutually beneficial cooperative efforts. They position themselves as catalysts of African development who, in return, only seek to expand Chinese goodwill and ascertain access privileges. It is part of China's 2001 Go Global strategy whose aim is to ease the domestic pressure falling on its home resources in the pursuit to upholster its products up the value-chain in order to create a sustainable economy in this competitive era of global trade.[16] In so doing, China combines African development with its own growth and sustainability. While criticisms of CSEZAs are still limited (as they are still under construction), the defences China presents for its foreign aid initiative—which has been labelled as a method of resource appropriation—are relevant to the zones too, because as noted above, even the SEZs are deemed resource exploitative. The following statement by the Vice Commerce Minister Fu Ziying refuting speculations that China is in Africa to secure resources can also be transposed to answer conjectures about resource abuse through SEZs: 'In terms of crude oil, African oil exports to China are totally in the form

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See Development Policy Research Unit- University of Cape Town, 'Free Trade Areas under COMESA and SADC: What the literature says about the current situation', *DPRU Policy Brief,* no. 01/P15, August 2001, retrieved 9 May 2011, <www.commerce.uct.ac.za/Research_Units/DPRU/PBriefsPDF/PDFs/P15.PDF>.

[13]V Ancharaz & B Nowbutsing, *Impact of China-Africa Relations: An in-depth case Study of Mauritius*, University of Mauritius, May 2010.

[14] MFA was implemented to allow developed countries to adjust to textile imports from developing countries. Quantitative restrictions were placed on developing countries textile exports after individual analysis of each case. The measure was not negative for all; countries like Mauritius and Bangladesh benefited from the set quota. MFA ended in 2005.

[15]By involving in export manufacturing in Mauritius, China will benefit from no secured markets and will instead have to compete with high-quality Mauritian textile exports. See C Ernst, A Ferrer & D Zult, 'The End of the Multi-Fibre Arrangement and its implication for Trade and Employment', *Employment Strategy Papers*, no.16, 2005, retrieved 21 May 2011,
<docs.google.com/viewer?a=v&q=cache:mxejkARYBdIJ:citeseerx.ist.psu.edu/viewdoc/download%3Fdoi%3D10.1.1.135.650%26rep%3Drep1%26type%3Dpdf+china+benefits+from+end+of+multi+fibre+agreement&hl=en&gl=uk&pid=bl&srcid=ADGEESjMKZhzdiKBrfnv7rcJR2f9ossFiKX6jQcVYiih3f5MbTisFw9DzPzCDp1BLO7arDn63TFROsUyCyzpAxIaxTy7ztSHKraYYx3OyDaR07eDQDREdjSKDglxNSubv78tL-LzpOYW&sig=AHIEtbT9K2I0Sfjm3tkRndTCmMSOq2qQEw>.

[16]*People's Daily*, 12 September 2001, retrieved 10 May 2011,
<www.english.peopledaily.com.cn/200109/12/eng20010912_80006.html>.

of international trade, and account for only 30 percent. Where are the other 70 percent from? Why don't you care about that? ... Mali doesn't have significant natural resources, but Chinese people are helping them build bridges and roads. Can we say that's for resources?'[17] Where Organisation of Economic Cooperation and Development (OECD) countries have failed to live up to their commitments over Official Development Assistance (ODA)[18] and their investments have evaded the essential requirements of African countries i.e. infrastructure, transport, electricity, water, training and education, China prioritises these areas.

Seeking to enhance its economic and political security, China only impinges upon part of the investment opportunities and goodwill-generating developmental assistantship which were earlier undertaken by OECD states.[19] The only, nonetheless, fundamental difference is that, not only do Chinese investments respond quicker and more efficiently to the needs of African communities, they furthermore grant greater host country customization to those investments by tailoring them to fill-up the deficiencies plaguing daily African life. In this process, China spreads its goodwill amongst local African communities and ensures acceptance. However, this local integration is rarely translated into local business cooperation as China favours government to government transactions like in the case of its SEZs where the parties involved are Chinese SOEs, Chinese Ministry of Commerce (MOFCOM) and the host African state. One can observe from this scenario that while China performs the role of a user-friendly investment source with an astuteness that Western states lacked, African countries, on the other hand, still persist on absorbing FDI uncalculatedly. In the race to attract FDI, they are willing to forgo all protectionist clauses which would otherwise ensure that the local economy receives an equitable share of profits from such lucrative ventures. It is largely upon the recommendations of United Nations Conference on Trade and Development (UNCTAD) and OECD countries via initiatives like OECD-NEPAD[20] Africa Investment Initiative and the Investment Climate Facility (ICF) that African countries have effaced protectionist conditions to FDI.

China has been a clear beneficiary of these measures. Of its five SEZs hosts, Zambia, Ethiopia and Mauritius have been active participants in these reforms and have signed to

[17]*Xinhuanet.com English News*, 27 April 2011, retrieved 10 May 2011, <www.news.xinhuanet.com/english2010/video/2011-04/27/c_13848317.htm>.

[18]*Xinhuanet.com English News*, 7 May 2011, retrieved 10 May 2011, <www.news.xinhuanet.com/english2010/world/2011-05/07/c_13862818.htm>.

[19]In 2006, Chinese investment into Africa amounted only to 1.4% of a global total FDI inflow of US$36 billion. Although it is growing, Chinese FDI input into Africa is comparatively low. See H Besada, Y Wang & J Whalley, 'China's Growing Economic Presence in Africa', *Policy Brief*, The Centre for International Governance Innovation, no.6, October 2008, retrieved 11 May 2011, <www.relooney.info/SI_Oil-Politics/RGE-China_9.pdf>.

[20] New Partnership for Africa's Development.

projects on taxation, customs, property rights and contract enforcement. Egypt and Nigeria also have undertaken reforms for improved transparency and to reduce bureaucratic formalities required to establish enterprises. Although a lowering of such barriers attracts FDI, these immediate gains are nevertheless acquired at the cost of long-term losses. Some may argue that African nations have to adopt such liberalising policies in order to integrate the global economy and grow. Though true, it remains that given the multiplicity of alternatives and competing investment sources available, African countries can negotiate for some domestic protectionism when welcoming FDI. The failure to do so signals the continued preference of peripheral elites for short-term immediate gains at the expense of long-term profits. To some extent, Mauritius has kept its ground by enforcing the flat 15% tax while other host SEZ countries offered tax rebates. Nevertheless, the government has left some loopholes. It has allowed a series of backward linkages in areas which could be nefarious to the domestic economy and a number of its incentives clash with its development aims. Mauritian government furthermore allows 100% foreign ownership of investment enterprises and free unlimited profits, dividends and capital gains repatriation. Intentionally or not, the gains from CSEZAs largely favour China. Using the example of Mauritius, the inequitable share of costs and profits will be analysed.

(i) Trade Imbalance

African exports to China are lower in comparison to the Chinese imports entering Africa. Critics might quickly attack such claims as a look at data collected does not reflect a major trench.

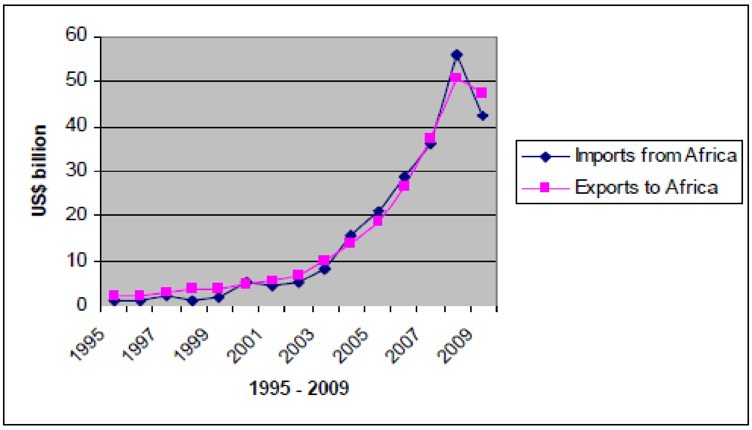

Figure 2: China Trade with Africa US$ billion (Source: Tralac)[21]

Nevertheless, along with this narrow imbalance favouring China, it is the difference in developmental value between the exchanges that are more indicative. While African outgoing resources are valuables like oil, minerals, food items, metals and wood which

[21]Traclac, *Africa-China Trading Relationship*, retrieved 12 May 2011, <www.tralac.org/cause_data/images/1694/tralac_Africa-China2010.pdf>.

could play a significant part in furthering African internal development and resolve social, environmental and economic problems (like famine) had they been domestically or regionally invested; Chinese exports to Africa consists mostly of mass quantities of low quality and cheap textiles, footwear, electronics, machineries and plastics. Not only do these Chinese imports into Africa propagate an unsustainable consumer culture but also drive local entrepreneurs out of business.

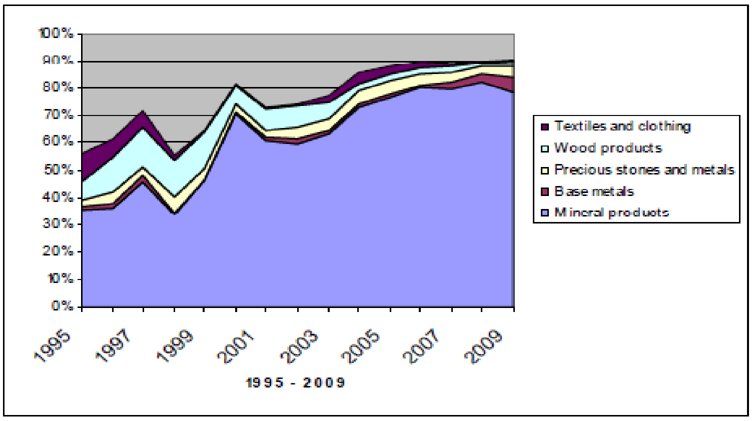

Figure 3: Percentage Share of Top Chinese Import Products from Africa (Source: Tralac)[22]

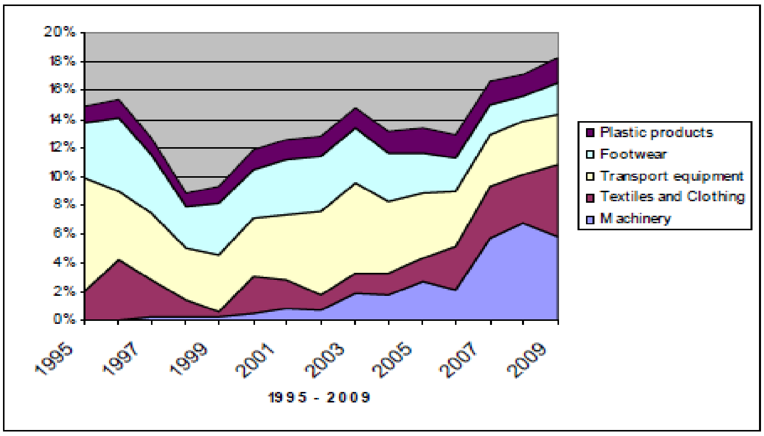

Figure 4: Percentage Share of Top Chinese Export Products to Africa (Source: Tralac)[23]

A calculation of the value of the trade-off occurring between China and African SEZ hosts indicates towards an obvious trade imbalance. The result received from an application of the WB formula of weighing the success or failure of a project by considering the balance left after having subtracted the value of incentives granted, from the foreign exchange income and social capital received, is indicative.[24] WB analysts conclude that very often the

[22]ibid.
[23]ibid.
[24]Warr devises a Benefit-cost analysis formula of EPZ whereby along with EPZ's economic contribution, its contribution to the nation's social welfare is accounted for in the form of the social capital element i.e. employment creation, training and skills dissipation etc. See P Warr,' Export Processing Zones: The Economics of Enclave Manufacturing', *The World Bank Research Observer*, vol. 4, no. 1, January 1989, pp. 65-88, retrieved 12 May 2011, JSTOR Database.

nation's domestic foreign capital accumulation is not considerable when compared to the profits gathered by the foreign investors involved in the venture.

Zone Performance = [Foreign exchange income (Tax revenue)[25] + Social Capital (Employment created, labour training)[26]] – [Incentive Package (Infrastructure, Land, Utilities subsidies, domestic purchase subsidies, tax concessions, recurrent costs)]

The current trade position of Mauritius vis-à-vis China is as follows:

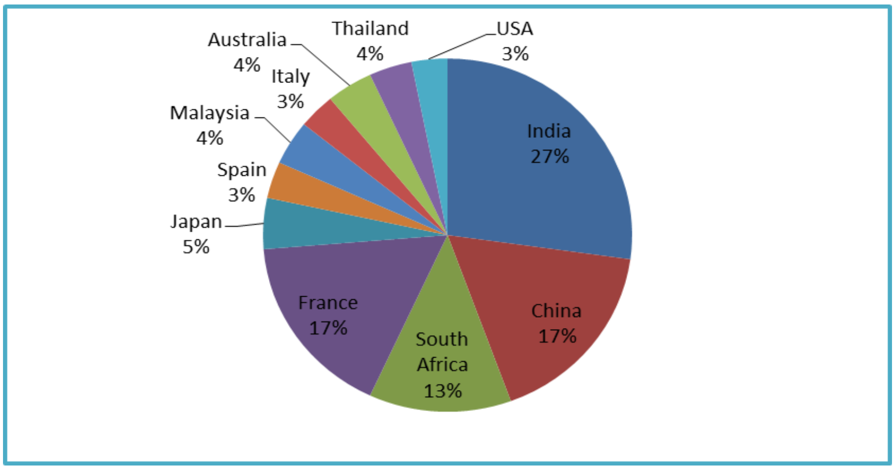

Figure 5: Mauritian Imports 2009 (Source: MOFED, CSO Mauritius, Digest of External Trade Statistics, 2009)

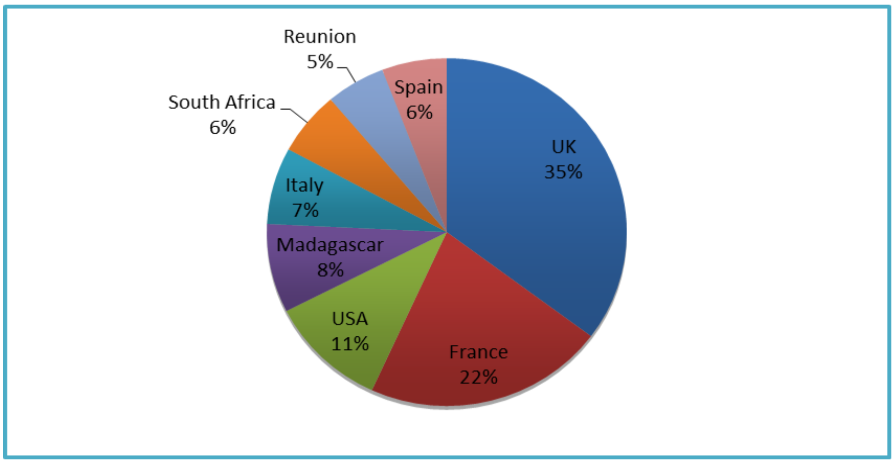

Figure 6: Mauritian Exports 2009 (Source: ibid)

It is interesting to note that China is absent from amongst the major export partners. Statistics reveal that exports to China are less than 0.25%. However, in 2009, Mauritian imports from China amounted to USD$539.9M. Conversely, Mauritian exports to China were only USD$181,159.42**.** In 2008, exports to China had been USD$579,710.14. Therefore,

[25]The host country receives revenue from export profits (1) if there is a tax on profit transfers (2) if the company keeps the money in the host country (3) if profits are passed to local shareholders.

[26]Labour training and employment are treated as benefits as untrained labour and unemployment are costs to the state.

there had been a reduction of 52%. According to V.Ancharaz's figures, in 2005, China alone accounted for 30% of Mauritius' trade deficit. The above figures show that this trend will persist.

Mauritius stands to experience further loss to China over the Jin Fei project because:

(1) The state will bear the utilities and off-site infrastructure costs.

(2) The domestic trade area (DTA) will benefit from limited backward linkages. Already, Chinese promoters have refused to buy construction materials from Mauritian producers. Instead, they have set up their own stone crushing, block-making, tile manufacturing plant, clinker grinding plant and concrete batching plant within the zone. United Basalt Products (UBP), leading Mauritian producer of construction materials criticized the maneuver[27] and in May 2011 reported a slump of 68% in its third-quarter profits.

(3) The agreement states that domestic investors will not be allowed in the zone initially.

(ii) Development Prospects

Advertised as mutually-beneficial trade and economic cooperation projects, SEZs are expected to contribute to the development and growth of its host countries. In the case of Mauritius (as in the case of most African countries), development and growth allude to the creation of employment, dissemination of technology and know-how, R&D, improving gender equality and increased domestic accumulation of foreign exchange. However, Jin Fei is unlikely to improve these aspects of the Mauritian life. The reasons are as follows:

(1) Jin Fei investors are mostly private enterprises. Naturally, their aim will be profit maximization. As Gu notes, most Chinese private ventures in Africa aim to escape the 'pressure cooker of domestic competition and surplus production' and in favour of 'large markets and relatively less intense market competition from local firms.'[28] Hence, in pursuit of profit maximization and lowering local competition, development needs will be ignored.

(2) Areas of investment in Jin Fei overlap with the high income generating industries of the DTA.

Main Industries contributing to GDP growth in Mauritius 2010	**Areas of Investment in Jin Fei**
Manufacturing (Garment, Processed Food, Beverages, watches,	Garment Manufacture Tourism Souvenir Manufacturing[29]

[27] *Interview of J.M Giraud, Director General of UBP*, cited in *L'Express*, 10 February 2010, retrieved 14 May 2011, <www.lexpress.mu/news/226-interview-jean-michel-giraud-il-est-aberrant-que-les-chinois-construisent-la-zone-de-jin-fei-avec-leurs-materiaux.html>.

[28] J Gu,'China's Private Enterprises in Africa and the Implications for African Development', *European Journal of Development Research Special Issue*, vol.24, no.1, 2009, retrieved 30 May 2011, < www.asiandrivers.open.ac.uk/Chinas%20Private%20Enterprises%20in%20Africa_GU.pdf>.

[29] Souvenir Manufacturing in Jin Fei will create difficulties for local souvenir manufacturers consisting mostly of women and laid-off workers. Organisations like National Women Entrepreneur Council (NWEC) and Small and

clocks, toys, optical goods, jewellery, travel goods, handbags, yarn, fabrics and made up articles, pearls, semi/precious stones, wood manufactures)	Food Processing
Real Estate and Business	International Conference Centre Staff dormitories Real Estate
Hotels and Restaurants	Hotels
Motor Vehicles repairs, motorcycles, personal and household goods, Wholesale and Retail Trade	Electric House Appliances Light Engineering Wholesale and Retail Centres
Financial Intermediation	Financial Services
Other Services	
Transport and Communications	Information Communication Technology
Construction	
Health and Social Work	State-of-art medical Centre Pharmaceuticals
Education	Boarding School
Public Administration	
Electricity, Gas and Water Supply	

Figure 8: Domestic Areas generating high GDP and overlapping Jin Fei Investment Areas (Source: CSO Quarterly National Accounts 4th Quarter 2010[30] and Parliamentary Questions Sessions)

The two lists show that Jin Fei's activities will overlap with the lucrative industries of the DTA. Not only will it increase market competition, but the overlap of manufacturing activities will cause a shift in labour forces rather than create a new labour force. This is because the jobs available in such industries can only be filled by semi-skilled workers--usually women—and given the current literacy level, it is improbable that the new Mauritian employable generation of women (or men) will show interest in working in the manufacturing sector. Therefore, Jin Fei will make no remarkable contribution to employment creation and will only end up supporting the existing gender disparity.

(3) Jin Fei will also encourage an importation of foreign labour. Figures from the Ministry of Labour, Industrial Relations and Employment reveal that in 2009, the number of foreign workers increased from 21,000 to 24,000.[31] As noted in an analysis of the impact of the phasing out of the MFA on Mauritius,

> the number of firms in the textile and clothing sector fell by 7% while the number of jobs fell by 17%. The irony is that the unemployed are now reluctant to work in this sector, which has led to firms relying on imported labour. For

Medium Enterprises Development Authority have specialised schemes encouraging unemployed and laid off workers to opt for such low cost businesses. NWEC currently registers 240 handicraft manufacturers.

[30]Central Statistics Office (CSO), *Mauritius, External Trade 4th Quarter 2010*, retrieved 13 May 2011, <www.gov.mu/portal/goc/cso/ei889/qna.pdf, 13/05/11>.

[31] CSO Mauritius, *Digest of Labour Statistics 2009*, p.12, retrieved 13 May 2011, <www.gov.mu/portal/goc/cso/report/natacc/labour09/labour09.pdf>.

instance, by December 2004, the level of employment in the sector was recorded at 67,249 workers with slightly more than 20% of whom were expatriates.[32]

The employable Mauritian generation is more interested in sectors like call centers and the service industry.[33]

(4) Jin Fei will impact the domestic trade income accumulation as it will compete for markets with local entrepreneurs. Already, local companies are struggling against cheaper Chinese products that have flooded the market. They will now face added pressure to match up with the lower production costs and selling price of Chinese enterprises. Securing a larger share of profits, Jin Fei investors are most likely to repatriate their gains to their Chinese headquarters at no cost, as according to the provisions of Board of Investment (BOI), rather than reinvesting it in Mauritius. Otherwise, the profits may be confined within the Chinese realm as given the Chinese culture of cluster manufacturing,[34] it is likely that Jin Fei investors zone will (i) cooperate among themselves to produce parts of a product (ii) will import parts of the product from China (iii) will seek linkages with Chinese companies established outside the zone, in order to increase their competitiveness.

(5) There are limited prospects for backward linkages in the case of Jin Fei as local investors have been contractually barred from investment in the zone for the initial years.[35] It is not dismissible that Jin Fei investors will limit their cooperation with the DTA only by trading with those Chinese companies who are established outside the zone. For instance, it is almost imperative that the yarn for garment production for Jin Fei enterprises will come from Tianli Spinning (Mauritius) Co. Ltd, pioneer of the SEZ. Already, promoters of the zone have expressed unwillingness to cooperate with local Mauritian partners. Mauritian construction companies and construction materials' suppliers have been sidelined and the

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[32]S Rojit, 'Trade Review 2007', *SADC Trade Review,* 2007, retrieved 13 May 2011, <www.sadctrade.org/files/Mauritius-2007.pdf>.

[33]In 2009, Mauritius had a Gross Tertiary Enrolment Rate of 43.4%. See CSO Mauritius, *Education Statistics 2010,* retrieved 13 May 2010, <www.gov.mu/portal/goc/cso/ei856/education.pdf>. Hence, there are fewer candidates to fill semi-skilled jobs in manufacturing. Furthermore, from 2007 to 2009, number of workers--male and female--having joined textiles manufacturing, declined.

[34]Ruan and Zhang define Chinese style clusters as 'a production system involving numerous enterprises in a certain location engaged in producing a wide range of stages.' See J Ruan & X Zhang, 'Finance and Cluster-Based Industrial Development in China,' *International Food Policy Research Institute*, Discussion Paper no. 00768, May 2008, pp.2-3, retrieved 13 May 2011, <www.books.google.co.uk/books?id=DaiLBHDPGUEC&printsec=frontcover&source=gbs_ge_summary_r&cad=0#v=onepage&q&f=false>.

Referring to Zhongguancun High-Tech cluster, Zhou elucidates the scrounging aspects of Chinese cluster manufacturing: clusters allow firms to benefit from services and goods unavailable in the local market. They furthermore increase the market chances of firms within the clusters as they get involved in a network and create more market contacts. See Y Zhou, 'An Innovative Region in China: Interaction between Multinational Corporations and Local Firms in a High-Tech Cluster in Beijing', *Economic Geography*, vol.2, no.79, 2003, p.134, retrieved 26 May 2011, Wiley Online Library Database.

[35]D Brautigam, 'African Shenzhen: China's Special Economic Zones in Africa', *Journal of Modern African Studies*, vol.42, no. 1, 2011,p.42.

Oriental Group (Mauritius) Co. Ltd, branch of Yantai Oriental Stainless Steel Industry Co. Ltd, was established in October 2009 to handle the construction of the zone. Raw materials for tiles and cement production at Jin Fei's own stone crushing plant will the imported from China. Oriental Group admits that only indirect jobs will go to Mauritians.[36]

(iii) Labour Issues

Riots between Chinese managers and Zambian workers at Chambishi SEZ over the past years emphasize concerns about labour issues in SEZs. While Zambians were unhappy about their working conditions and wages, there are other types of labour conflicts that Chinese SEZs bring to the host African countries. In Mauritius, the prominent issue is the number of jobs Jin Fei will create for the local community. The prospective employment figures cited have been incongruent: in 2008, Mauritian authorities estimated the creation of 7500 jobs, and in 2010, the number rose to 35000[37]--only to be countered by 5000 jobs, cited by the CEO of Jin Fei.[38] While the zone promoters have denied any intentions to bring Chinese labour to Mauritius, the inclusion of a staff dormitory in the SEZ plan indicates that the zone will, in fact, be welcoming foreign labour.[39] Along with being a lost opportunity of employment by Mauritians, the import of Chinese workers may induce ethical clashes between the Mauritian and Chinese government given that the zone will have to submit to general Mauritian labour laws. This is because, while China's employment conditions tend to be unregulated and minimal, Mauritius has a long history of strong trade unions. Even the state supports generous workers' treatment. The International Confederation of Free Trade Unions discusses how Mauritian authorities had to intervene to restore the rights of Chinese immigrant workers in the EPZ:

> Chinese women workers recently went on strike to protest that, having paid a 1,000 dollar recruitment fee, their wages were then paid in dollars directly to the recruitment agency, leaving them barely 200 to 300 rupees. The Mauritian authorities are now insisting that the Chinese workers receive their full wages

[36] *Le Mauricien*, 14 December 2009.
[37] *Parliamentary Questions session*, 20 June 2010, retrieved on 13 May 2011, <www.gov.mu/portal/goc/assemblysite/file/orans22june10.pdf>.
[38] *Interview of Xie Li*, CEO Jin Fei SEZ, cited in 'Jin Fei sort de terre', *L'Express*, 22 July 2010, retrieved 13 May 2011,<www.lexpress.mu/services/epaper-116740-b-jin-fei-sort-de-terre-b.html>.
[39] Given the size of Mauritius, all Mauritians commute to their work place daily. They do not reside at their workplace even for training purposes.

> and that the recruitment agencies are officially registered by the Chinese authorities.[40]

The establishment of a minimum wage mechanism (still under process) and reintroduction of the tripartite mechanism (2010) might increase chances for conflict between the zone employers and Mauritian authorities.

Land acquisition under CSEZAs

Trade imbalance, a lack of constructive contribution to development and employment are instances of passive impacts Chinese SEZs have on the African host countries i.e. they only prohibit growth which could have been possible. These impacts do not involve reducing the profitability and efficacy of an already existing scheme of benefit. However, there is one aspect of Chinese SEZs which exercises active exploitation of the host country: land acquisition. Through land acquisition, China acts directly onto an appropriation of gains. Discussing SEZs in India, Gopalakrishnan notes that the SEZ is purely a political concept whose true purpose is the 'creation of space rather than any particular activity.'[41] CSEZAs seem to be perpetuating a similar logic. Usually, land grab in Africa occurs for cultivation and resource management purposes and has, nevertheless, unleashed political unrest. E.g. Daewoo Logistic deal for corn plantation on 1.3 hectares in Madagascar led to the expulsion of President Marc Ravalomanana in 2009. However, Chinese SEZs provide China with a more secure and stable foothold in Africa: the establishment of infrastructure, including residential areas, will allow China to affirm its presence in the continent in a comprehensive fashion. Recently, local media of the SEZ host African countries have questioned the legitimacy of land occupation by foreigners when these lands could have been put to an alternate use more directly beneficial to local communities. They refer to subsistence farming which could help reduce famine problems.

Eric Mangar, head of Mouvement pour l'Autosuffisance Alimentaire, Mauritius, (translated as Movement for Self-sustaining Food Security) expressed similar worries in relation to Jin Fei. He argues (translation mine):

> The farmers of Riche-Terre produced and supplied at least 20 tonnes of vegetables to Port-Louis market, weekly. They contributed to the country's food security in a very significant way before they were transposed in light of the Tianli/Jin Fei project as from 2006. The Jin Fei project, if completed, will cover the most fertile

[40] S Perman, L Duvillier et al, 'Behind the Brand Names: Working Conditions and Labour Rights in Export Processing Zones', *International Confederation of Free Trade Unions*, December 2004, p.43.

[41] S Gopalakrishnan, 'SEZs in India: an economic policy or a political intervention' in C Carter & A Harding, (First ed.), *Special Economic Zones in Asian Market Economies*, Routledge, USA, 2011, p.148.

land of the island with concrete, in order to respond to the economic imperatives of the country's leaders.[42]

The Jin Fei land lease was increased from sixty years to ninety-nine years without any explanation. 120 farmers who were leased 48 hectares for cultivation at area were ousted within one month of notice. 103 of the 120 farmers were proposed a compensation of USD$1831 each and were to be relocated to another part of the island. This resulted into hunger strikes after which the government had to establish an enquiry commission. Although the enquiry's findings remain inaccessible and the report was never published, it is said that the Noel--Ramkissoon Report distinguished between the status of the complainants (those who were cultivating their land during the field survey, those who were not and those who do not intend to resume cultivation) and accordingly revised the compensations.

Another feature of the Jin Fei land acquisition process which exacerbates discontent is the provision to grant one Mauritian passport for every US$500,000 of investment to Jin Fei Chinese investors. Such a facility makes the Chinese investors, turned-citizen, eligible to all privileges available to Mauritians. Incidentally, this entitlement corresponds to the terms of purchase of residential property in the Integrated Resort Scheme (IRS), a property development project established in collaboration with the BOI. IRS seeks to attract real estate developers to build luxury villas which are sold to foreigners. It also states a minimum investment of USD$500,000. The coinciding financial prerequisite of both projects only highlights the land encroachment aspect of the Jin Fei SEZ. Considering the unusual territorially comprehensive Mauritian EPZ practice, there are possibilities that Mauritian authorities have matched the benchmarks of financial eligibility to allow Chinese spill-over in IRS. Though this strategy will boost foreign investment income, it also implies a strain on land availability to Mauritians, a hike in property prices and local inaccessibility to high-value land. Already, Mauritius faces a mismanagement of land use whereby the coastal regions are monopolised by hotels. Anahita Fairways occupies 6km of the East coast.[43] Locals are denied access to areas of the beach surrounding the hotels. Moreover, the strain on fertile land has pushed Mauritius to venture outside and lease land in Mozambique to pursue food security.

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[42] E Mangar,'Avec le project Jin Fei, nos décideurs n'ont pas vu assez loin', *L'Express*, 3 April 2011, Translation mine, retrieved 26 May 2011, <www.lexpress.mu/news/539-interview-eric-mangar-maa--avec-le-projet-jinfei-nos-decideurs-n-ont-pas-vu-assez-loin.html>.

[43] Mauritian coastline measures 177km.

As China forays into Africa with SEZs, it inspires others to follow suit. This new method of spatial occupation and establishment of long-term presence in Africa has encouraged India to replicate the model. Its first project is the NeoTown at Les Salines, Mauritius. That NeoTown is an attempt to replicate the still testable Jin Fei is clearly stated in government papers.

> Les Salines Development Limited has also requested that a Framework Agreement similar to the one entered into in respect of the Tianli Project be drawn so that Les Salines Development Project becomes easily bankable and financially viable… all off site infrastructural works shall be borne by government up to the border of the site.[44]

While Mauritius uses Jin Fei as an advertisement to acquire more investment from the regional competitors, it ignores the possibilities of using similar bargaining tactics as negotiation leverage and insisting upon certain conditions of establishment and functioning of such zones. The fate of erstwhile successful Mauritian EPZ only enhances scepticism about the fate of another financial scheme relying disproportionately on foreign investors.

Developmental prospects

The inconsistencies triggered by this new venture in Africa raises one question: will it successfully bring development and growth to Africa? Although, as noted at the outset, EPZs and SEZs are essentially different, the Mauritian EPZ experience is useful in acting as a benchmark to evaluate the prospects of developmental success of Jin Fei. Launched in 1970s, by the 1990s, EPZs employed one third of the total Mauritian labour force. Mauritian EPZ implementation differed from the rest of the world's in that it extended the practice and preferences to the entire island. Moreover, as Subramanian and Roy point out, "about 50% of the total equity of firms in the EPZ are owned by Mauritian nationals.'[45] In spite of all these provisions, the phasing out of the MFA and implementation of EPAs brought the flourishing EPZ to an end. Investors shifted to Madagascar.

This insight in the Mauritian EPZ brings into perspective Jin Fei's limited prospects of success. EPZ was successful mostly because it extended its activities beyond a restricted space, ownership and control, thus encouraging backward linkages; Jin Fei's policies take the opposite route. Secondly, at the time, there was a large female population who were

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[44] *Brief Paper of Ministry of Housings and Land*, cited in *Le Weekend Dimanche*, 10 Avril 2011, retrieved 13 May 2011 , <www.lemauricien.org/weekend/in110410.htm>.
[45] A Subramanian & D Roy, 'Who can explain the Mauritian Miracle? Meade, Romer, Sach, or Rodrik?' *IMF Working Paper*, no.01, July 2010, p.24.

willing to work in textiles. Today, Mauritius faces graduate unemployment. Thirdly, the EPZ then had preferential access to European markets through the quota Mauritius enjoyed under the MFA. Now, under the EPAs, whereby Africa is divided into competing commercial groupings, it is unlikely that the Jin Fei textile manufacturers will be able to sell their products more easily to the EU or to other African states. Moreover, while Least Developed Country (LDC) status has been extended to Mauritius under African Growth and Opportunity Act (AGOA) after hard lobbying, Mauritian textile producers will enjoy the competitiveness imports of raw materials grants them under the Third Country Fabric derogation until 2015 after which even Jin Fei textile manufacturers will have to submit to the Rules of Origin[46] for their products to be eligible for export to the US market under preferential conditions. Jin Fei, therefore, carries substance for direct loss because there are few chances that Mauritius will be able to maximise benefits from this lease. On the contrary, it is likely that the country will lose some of its markets and its monopoly of supply of exclusive services and goods to Chinese producers.

Chinese SEZs' appeal to Africa

Despite the loss of political capital it triggers, [47] the social disharmony it generates,[48] and the inequitable relationship it nurtures, what is it about Chinese SEZs that make them so appealing to Africa?

1. Geographical contextualisation of trade politics change according to the concerns of authorities ruling at the time. The current economically competitive international climate undermines the importance of multilateralism and introduces new cooperation structures. This is termed as regime-shifting. The Doha deadlock is an example where multilateralism has failed and countries have established other conglomerations to pursue similar agendas. SEZs can be understood as part of this same chain of evolutionary political and economic spatial representations which promise more success.

[46]AGOA's Rule of Origin dictates that products exported to America under AGOA should be a "growth, product or manufacture" of one or more AGOA-beneficiary countries; the product must be involve no transhipping and where the product includes materials sourced from non-AGOA states, at least 35% of the product's value-added should come from AGOA countries.

[47]The Mauritian Opposition Party is using the secrecy of Jin Fei and the land issue to undermine the accountability and viability of the current ruling party.

[48]Farmers went on hunger strike to contest the compensation amount granted in line with their displacement under the Jin Fei project. This act of pressure snowballed and since, numerous civic groups have threatened to go on strike in order to have the government agree to their demands (E.g. 4th May 2011 Employees syndicates over amendment to labour laws, March 2011 over payment of salary Infinity BPO's employees). On 13th April 2011, Jin Fei and Neotown zone projects took an ethnic angle whereby socio-cultural groups like Mauritius Sanatan Dharma Temple Federation accused the Opposition Party, led by P.Bérenger of Franco-Mauritian ethnicity, of opposing the Jin Fei project as it is of Asiatic affiliation.

2. Official Development Assistance (ODA) to African nations by OECD countries comes with prerequisites conditional to aid disbursement; as are investments through Policy Framework for Investment (PFI).[49] Contrarily and in keeping with its principle of non-interference, China does not impose conditions such as austerity, market liberalisation, structural adjustment and democratisation before granting aid. However, Chinese SEZs are even better than Chinese aid: while Chinese aid is received by African countries upon request, [50] for the establishment of Chinese SEZs, it is the Chinese promoters and state who approach the African country with a proposal. It institutes a humbler approach thus making the Chinese SEZ format more appealing. The advent of CSEZAs also establishes a new mechanism for the regulation of foreign investment. They allow the host countries to set their own investment terms hence becoming Africa's Best Alternative to a Negotiated Agreement (BATNA).

In order to demonstrate the difference in the response OECD aid and investment and Chinese SEZs receive from their African counterparts, I will name the method of the former as the Spatial Infusion Approach, and the later as the Spatial Diffusion Approach.

(i) Spatial Infusion Approach: OECD countries set the international agenda and call for other nations to join them into granting it legitimacy. It is a classic top-down approach whereby Western nations demand that other countries join them and in cases where nations do not respond positively, they are penalised through sanctions.

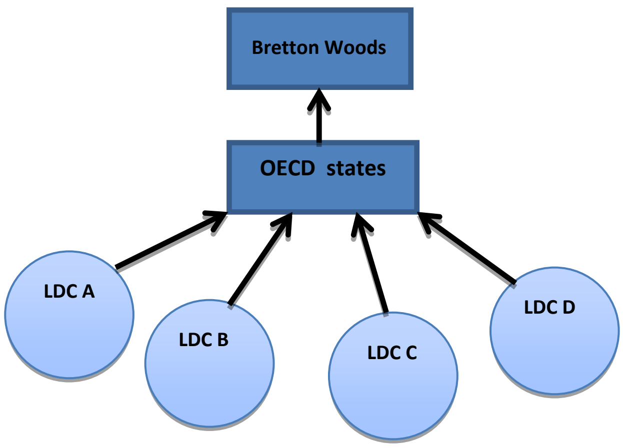

Figure 11: Spatial Infusion Approach

(ii) Spatial Diffusion Approach: China approaches other nations and offers to build them SEZs. There is greater host-country customization and state ownership of this development activity (an aim towards which IMF aspires so as to revitalize its

[49] Founded by OECD in 2002 covering ten policy areas to help African countries attract FDI.
[50] See M Davies, H Edinger et al, *How China Delivers Development Assistance to Africa*, Centre for Chinese Studies, University of Stellenbosch, February 2008, p.11.

development programs). China poses as a partner and diffuses spatial concentrations of power to other parts of the world.

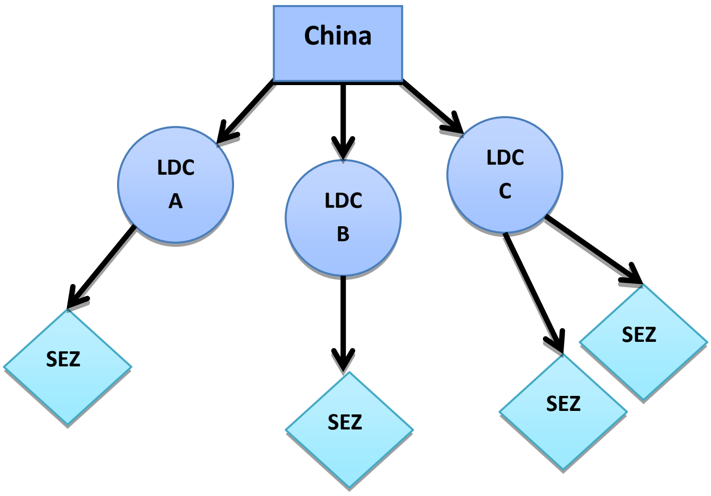

Figure 12: Spatial Diffusion Approach

Given the diverse nature of actors involved in the venture, hence the differing nature of their motivations, only Dependency Theory (DT) provides the framework within which to comprehend the functionality of CSEZAs. Not only does DT allow a contemplation of actors of diverse natures but it brings into perspective the capitalist context within which variations of power coexist, complement each other (whether negatively or constructively) and project their relations into new formations. In the given light, China assumes a dual position; one of peripherality to Western states leading the Washington Consensus world order, and of appropriation towards African states.[51] The earlier identified problems associated to CSEZAs are therefore, indirectly, consequences of this trickle-down effect of capitalism-induced dependency equations. It is in this environment that peripheral elites of the host African countries have equally failed in their duties to draw policies that would protect such misappropriation of resources.

Evaluation

Still at the inception stage, CSEZAs spawn concern about probabilities of impingement which might snowball from the provision of policies more conducive to business ease and enhanced competitiveness than granted to the African DTAs. In the case of Jin Fei, for the time being, the odds against the project have gained greater magnanimity over optimism for its promised eventual advantages. While the incentives given to Jin Fei do

[51]The categorisation of Western states as the core and African states as periphery in relation to China is based on Snyder and Kick's blockmodel analysis conducted in 1979 whereby they identified the 'structural positions' of countries and 'the dynamic relations among them'. See D Snyder & E Kick, 'Structural position in the world system and economic growth,1955-1970: A multiple network analysis of transnational interactions', *The American Journal of Sociology*, vol.84, no.5, 1979, p.1096.

not depart drastically from the usual domestically-applied business and trade facilitation policies, and therefore, should not make of Jin Fei a threat—the granting of land and utilities over long term and the lack of protectionist measures to ensure a minimum profitable return from this venture, perpetuates domestic contempt towards the project which might undermine any prospective benefits that the zone could have brought to Mauritius. Therefore, to maximize the success of CSEZAs, the host country should ascertain transparency, local integration and moreover, inscribe protectionist conditions when negotiating the SEZ framework. Such measures will function as a safety net for the domestic inputs in case the project is unsuccessful or produces no backward linkages. Unfortunately, Mauritius has not done so: E.g. Signed in 2007, the agreement stipulates that starting June 2007, if zone construction is not completed in five years, the land will be claimed back. Now, one year until the end of the initial deadline and there are only make-shift warehouses on the site and promoters claim that construction will start in July 2011. Despite this, Mauritian government has exerted no pressure or taken action against the promoters.

While African countries form issue-based coalitions and successfully lobby to secure preferences and domestic safeguard measures vis-à-vis EU and US, the competition for Chinese investment make them individualistic. They ignore possibilities of cooperating amongst to negotiate with China to get it agree on a basic framework applicable to the seven CSEZAs; whereby promises of mutual development be given guaranteed policy-forms like local employment quota, use of local construction materials, links to local universities in R&D etc. The host countries could also use the fact that they are in demand amongst China's competitors to secure better terms for the SEZ functioning. For future CSEZAs, negotiators could refer to Madagascar and Zambia and argue that domestic ratification of such practices under the conditions demanded by China is difficult in light of already emerging controversies around Chinese SEZs and land lease in Africa. Thus, there are numerous policy positions that can be adopted to make CSEZAs more viable and reliable projects with real mutually beneficial effects. The onus lies considerably on the host governments in ascertaining that altogether, while benefiting from immediate FDI benefits, SEZs, over a longer term, do not further perpetuate the dependency relations of which they are a projection.

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