Economic statecraft in China's new overseas special economic zones: soft power, business or resource security?

DEBORAH BRÄUTIGAM AND TANG XIAOYANG*

China's rapid expansion of economic and political ties with other developing countries has aroused deep concern in the West and Japan. Much of this apprehension focuses on China's search for natural resources and its 'no-political-strings-attached' stance on official finance. Yet despite the popular unease provoked by China's growing outward engagement, scholars have done relatively little research on the Chinese government's strategic employment of its economic instruments overseas.[1]

Foreign aid and export credits are familiar tools of state intervention, wielded for decades by the West to foster its own economic and political interests abroad. China also uses foreign aid and export credits, yet these are not the only economic instruments applied by the Chinese government overseas. Several countries have been offered 'mutual benefit loans' (*hu hui dai kuan*): large, commercial-rate but long-term lines of credit that provide for the construction of public works—hospitals, power plants, irrigation systems and railways—with repayment secured by existing exports (often of natural resources). Fifteen African countries are hosting new centres for agricultural research, training and demonstration, with another five set to begin construction this year. And across the developing world, Chinese firms are building a number of new overseas economic zones: special areas designed to attract investment, predominantly from Chinese manufacturing firms.

The Beijing government has a hand in all these experiments. Like other states, China uses its economic power strategically. While coercion and overt force are largely absent from China's overseas engagement today, it is challenging, as Shaun Breslin has noted, to tease apart the purely economic, the soft power, and the resource security aspects of China's embrace.[2] Beijing's stubborn secrecy on

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1 The relative lack of scholarship specifically on China is not limited to international political economy. See Marie-Eve Reney, 'What happened to the study of China in comparative politics?', review essay, *Journal of East Asian Studies* 11: 1, 2011, pp. 105–35.

2 Shaun Breslin, 'Understanding China's regional rise: interpretations, identities and implications', *International Affairs* 85: 4, July 2009, pp. 817–35 at 834–5.

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flows of Chinese aid and official finance hampers analysis.[3] As William Norris concluded, in a review of China's economic statecraft, 'we do not yet understand how this increasingly powerful player wields its economic power'.[4] This matters, both for scholars and for governments trying to understand the strategic nature and developmental implications of China's economic courtship.

We can categorize prevailing scholarship into three sets of views on how (and why) the Chinese state wields its economic power overseas. The *developmental state* view sees the economic instruments used to promote China's expansion abroad as primarily a form of state guidance or direction with a commercial rationale: assisting profit-oriented firms to improve their response to global economic opportunities, filling information gaps and reducing risks and high transaction costs. A second interpretation recognizes the commercial rationale of some state intervention, but sees many of the economic instruments in China's toolkit as more about politics: loss-leaders that bolster diplomacy, China's image and *soft power*. Third, many see Beijing's moves into developing countries as predominantly shaped by strategic concerns about *resource security*. Proponents of this view contend that the Chinese offer aid and overseas development programmes, more or less directly, in exchange for more secure access to resources. Commercial considerations may not apply.

Here we focus on a single instrument in Beijing's portfolio of new tools for international economic relations with other developing countries: overseas trade and economic cooperation zones. These zones can involve multiple activities, including among others energy, manufacturing, export processing and logistics. They are not financed out of China's foreign aid budget, but they are subsidized by the Chinese state. Little is known about this programme, and although some individual zones in Africa have been studied by researchers, there appear to be no studies of Chinese zones outside Africa (the majority), or of the zone programme itself. Why has Beijing decided to sponsor the construction of up to 50 overseas economic and trade cooperation zones? Can a close examination of the zone strategy provide evidence to inform debates over Beijing's active use of economic tools as it ratchets up its presence abroad?

The next section of the article briefly reviews the relevant literature. Following this, we examine the decision to establish these zones, the way they have been framed in public statements by Chinese officials, and the respective roles of the Chinese state and the zone developers as the zones are being implemented. We next explore more closely the characteristics of the 19 zones selected for official support between 2006 and 2007, and their host countries. Our information comes primarily from interviews with at least one individual linked to each of the active zones, either in China or in the zones themselves, supplemented by field visits and other primary materials.

3 Trade data are openly available, but China publishes no country-level data on aid or other official flows, and overseas FDI statistics are incomplete.

4 William J. Norris, 'Economic statecraft with Chinese characteristics: the use of commercial actors in China's grand strategy', Ph.D. diss., MIT, Cambridge, MA, 2010, p. 72.

Economic statecraft

Powerful states frequently use economic tools as instruments of politics.[5] As tools of economic statecraft, sanctions have received most of the analytical attention; foreign aid comes a close second.[6] However, states also use economic tools to intervene in their international relationships for commercial reasons. Below, we discuss three major roles that might be played by China's state-sponsored economic diplomacy: strengthening resource security; enhancing political relationships and soft power; and boosting commercial opportunities for national firms abroad.

Extractive resource diplomacy

Many media stories about China's strategic overseas economic engagement with other developing countries are based on assumptions that it is largely determined by resource scarcities: China's 'desperate' search for oil, iron ore, copper and so on. In a major study of Chinese infrastructure projects, World Bank researchers asserted that 'most Chinese government-funded projects in Sub-Saharan Africa are ultimately aimed at securing a flow of Sub-Saharan Africa's natural resources for export to China'.[7] Although they are not financed by aid, could these zones be part of China's extractive resource diplomacy? An article on Chinese engagement in Zambia speculated that China's overseas industrial zone in that country might be directly connected to China's resource interests: 'Natural resource access can be achieved through consent or force . . . Helping Zambia reinvigorate its moribund manufacturing sector is one way in which to achieve access to resources through consent.'[8] Yet other scholars, while acknowledging that such assumptions are widespread, have downplayed resource security as a driving force in Chinese diplomacy.[9] Sook-Jong Lee warned that China's soft power approach might be seen (by others) as primarily an exercise in 'extractive resource diplomacy'.[10] In a study of China's relations with Venezuela, Cheng and Shi argue that although many believe oil to be the driving force, it 'actually plays a rather limited role'.[11]

Political and soft power factors

Alternatively, state-sponsored cooperation programmes such as that to create special economic zones might primarily reflect political goals: building alliances or

[5] David Baldwin, *Economic statecraft* (Princeton, NJ: Princeton University Press, 1985), p. 3.
[6] Alberto Alesina and David Dollar, 'Who gives foreign aid to whom, and why?', *Journal of Economic Growth* 5: 1, 2000, pp. 33–63.
[7] Vivien Foster, William Butterfield, Chuan Chen and Nataliya Pushak, *Building bridges: China's growing role as infrastructure financier for sub-Saharan Africa* (Washington DC: World Bank, 2008), p. 64. The researchers cited no evidence to back this assumption.
[8] Pádraig Carmody, 'An Asian-driven economic recovery in Africa? The Zambia case', *World Development* 37: 7, 2009, pp. 1197–207 at p. 1199.
[9] See e.g. Haibing Zhang, 'China's aid to Africa: oil oriented or not?', World Economy Studies, no. 10, 2007 (Shanghai: Shanghai Academy of Social Sciences), pp. 76–80.
[10] Sook-Jong Lee, 'China's soft power: its limits and potentials', EAI issue briefing no. MASI 2009-07: 8 (Seoul: East Asia Institute, 2009), p. 8.
[11] Joseph Y. S. Cheng and Shi Huangao, 'Sino-Venezuelan relations: beyond oil', *Issues and Studies* 44: 3, 2008, pp. 99–147.

boosting soft power. China has some history of using state-directed investment for political purposes. After the crackdown on the Tiananmen Square protests in 1989, Beijing used pledges of investment to 'mobilize against American politicization of the human rights issue' and accompanied its successful courtship of Taiwan's allies South Africa and Panama with pledges that included Chinese investment.[12] On the other hand, soft power as defined by Joseph Nye relies not on the economic attraction of investment, but on the attractiveness of ideas, culture, values and image.[13] Many Chinese see developing countries—and Africa in particular—as important arenas for the projection of Chinese soft power, and the country's successful development is a key aspect of its attractiveness.[14] A programme that combines government subsidies with the transfer of a highly successful aspect of China's own development model could be intended primarily as a tool of soft power.

The developmental state abroad

A third vein of scholarship on the strategic use of foreign economic policy emphasizes its business goals, and builds on earlier analyses of the East Asian developmental state that focused on its close coordination with the private sector as it moved offshore. In the 'flying geese' model, Japanese bureaucrats used official aid, export credits and investment support to help their firms construct and catalyse regional production networks in Asia.[15] Over the past decade, China has experienced similar push and pull factors that make overseas investment attractive across multiple sectors.[16] Initiating a programme to encourage Chinese firms to build overseas industrial zones where clusters of Chinese firms might find it easier to invest could be seen as simply a rational economic strategy, typical of a developmental state. When it comes to China, however, the commercial and the political are especially difficult to disentangle. Most of China's major firms operating abroad are still state-owned, and while they have evolved as market actors this evolution is not complete. Henry W. C. Yeung argues that interstate economic activities conducted through China's national firms are never simply economic, but include elements of politics and diplomacy and 'should be viewed as institutionally mediated interactions between different nation-states'.[17]

Whereas the developmental state uses economic tools for what are primarily *commercial* purposes, the goals of economic statecraft are usually seen as primarily political or strategic. Indeed, Norris argues that it is easiest to see economic statecraft at work in cases 'in which a commercial actor faces commercially

[12] Mark Yaolin Wang, 'The motivations behind China's government-initiated industrial investments overseas', *Pacific Affairs* 75: 2, 2002, pp. 187–206 at p. 205.

[13] See Joseph S. Nye, *Soft power: the means to success in world politics* (New York: PublicAffairs, 2004).

[14] Jianbo Luo and Xiaomin Zhang, 'China's African policy and its soft power', *AntePodium*, Victoria University of Wellington, 2009, http://www.victoria.ac.nz/atp/articles/pdf/JianboXiaomin-2009.pdf, accessed 16 May 2012.

[15] Peter J. Katzenstein and Takashi Shiraishi, eds, *Network power: Japan and Asia* (Ithaca, NY: Cornell University Press, 1997).

[16] Wang, 'The motivations'.

[17] Henry Wai-chung Yeung, 'Strategic governance and economic diplomacy in China: the political economy of government-linked companies from Singapore', *East Asia: An International Quarterly* 21: 1, 2004, pp. 40–64.

undesirable consequences yet does something in spite of the commercial costs because the state directs them to'.[18] However, states in East Asia are generally far more involved in promoting activities at the level of the firm with primarily commercial rationales than Australia or the United States, for example, would be. The challenge here is to know when an activity is state-sponsored but predominantly a 'normal' economic interaction (the developmental state model), and when it is 'strategically-manipulated economic statecraft', primarily a manifestation of economic diplomacy.[19] We turn now to the process of establishing these zones in order to explore that question.

China's decision to establish overseas economic zones

It is an understatement to note that China today has achieved extraordinary success at economic growth and development. Special economic zones—geographically delimited areas with world-class infrastructure and services, and, often, business-friendly policy and incentive regimes—were an important early strategy in pursuing this end. Initiated in 1979, only three years after the death of Mao Zedong, China's special economic zones allowed Beijing to experiment with what were then heretical ideas such as attracting foreign investment and using flexible labour contracts. Over time, the zones proved to be incubators for significant structural transformation. Today, they are home to some of China's new global champions, such as the telecommunications firms Huawei and ZTE, as well as foreign corporations, including IBM, Siemens, Samsung and Hitachi.

Going global

Starting as early as the 1980s, Beijing experimented with ways in which Chinese companies could be encouraged to invest overseas. In 1994, a banking reorganization established two new 'policy' banks: the China Export Import Bank (China Eximbank), an export credit agency tasked to promote Chinese trade and outward investment, and the China Development Bank (CDB), tasked with the mission of financing China's domestic development.[20] In recent years, both have become active in financing China's strategic outward investment and trade.

In 1995, Beijing began to establish a second set of business promotion instruments in Africa: around a dozen centres for trade, investment and development. Built as public–private partnerships, these followed a standard build–operate–transfer (BOT) model. In the case of the Benin centre, China's aid budget provided 60 per cent of the construction cost, probably as a loan; the Chinese provincial company that was to operate the centre contributed 40 per cent; and the host government

[18] Norris, 'Economic statecraft with Chinese characteristics', p. 83.
[19] Norris, 'Economic statecraft with Chinese characteristics', p. 83.
[20] Policy banks are explicitly directed to finance government policies and projects and do not have to operate strictly on market principles. Yet as a review by Standard & Poor's put it, Beijing 'does not guarantee the obligations of China EXIM or provide automatic solvency support': Standard & Poor's, *Bank credit report: Export–Import Bank of China* (New York, 2006), p. 3.

provided the land.[21] The company would rent out space in the building, while also providing services to other businesses (predominantly, but not solely, Chinese). After 50 years, the building would become the property of the host government.

A third tool, the China–Africa Development Fund (CAD-Fund), was launched at the 2006 Beijing summit of the Forum on China–Africa Cooperation (FOCAC). Established with a US$1 billion contribution from the CDB, CAD-Fund was expected to raise another US$4 billion over time. It was set up not to be an instrument of aid, but to invest in Chinese companies or Sino-African joint ventures.

A fourth experiment involved building a small variety of overseas industrial and trade zones.[22] In 1994, the Egyptian government asked the Chinese government for assistance in setting up an economic zone in Egypt. In 1999, the giant Chinese appliance firm Haier built its first overseas industrial park, a 46 hectare operation in Camden, South Carolina, followed in 2001 by a joint venture with a Pakistani company to build an industrial park near Lahore. Fujian Huaqiao Company applied to build an industrial and trade zone in Cuba in 2000.[23] In 2004, China Middle East Investment and Trade Promotion Centre and Jebel Ali Free Trade Zone constructed a dragon-shaped US$300 million trade centre, known as 'Dragon Mart', to host 4,000 Chinese companies in Dubai.

In 2006, the Chinese Ministry of Commerce decided to give official support to the establishment of zones in other countries.[24] Initially, a minimum of ten zones would be established abroad, with the hope that 500 Chinese companies would use these to go offshore, investing a projected total of US$2 billion.[25] The zone programme was not limited to Africa, but the policy was first mentioned in the English-language media when Chinese President Hu Jintao pledged to establish 'three to five' economic trade and cooperation zones in Africa as part of eight major commitments made during the November 2006 FOCAC summit in Beijing.[26] The first 19 zones selected for support are shown in table 1. By mid-2012, four of the approved zones (in Algeria, Mexico, Venezuela and St Petersburg) had withdrawn from the programme.[27]

[21] Zhejiang Foreign Trade and Economic Cooperation Bureau, 'Benin China economic and trade development center was launched', 12 Jan. 2009, http://www.zftec.gov.cn/english/PoliciesRegulations/FFE/T222487.shtml, accessed 1 Feb. 2009.

[22] China.org, 'Tianjin to set up trade park in US', http://china.org.cn/english/BAT/103526.htm, 10 Aug. 2004, accessed 16 May 2012.

[23] Lili Deng, 'Huaqiao shiye de guba jing' [Huaqiao Inc.'s experience of Cuba], *Da Jingmao* [Economics and Trade] 1, 2007, pp. 14–16.

[24] State Council, 'Replies on approving the suggestions to promote the construction of overseas economic and trade zone', State Council Letter no. 17, 18 Feb. 2008.

[25] Xinhua, 'Jiangxi Province plans to invest RMB3.8 billion in Algeria'. http://news.xinhuanet.com/newscenter/2008-05/04/content_8098057.htm, accessed 15 Feb. 2012.

[26] For an excellent discussion of FOCAC, see Ian Taylor, *The Forum on China–Africa Cooperation* (New York: Routledge, 2011).

[27] Shortly after the Algerian zone was approved, the Algerian government changed its legislation, requiring Algerian companies to own 51 per cent of any new companies, dissuading the Chinese investor. In Mexico, the Chinese developer (Geely Automobiles) decided not to move forward with its proposal, possibly in order to concentrate on its new purchase of Volvo. The Venezuela zone proposed by Inspur, a Chinese computer company with business interests in Venezuela, was considered the most promising of those reviewed in the 2007 tender but it appears not to have been implemented. The St Petersburg zone continued to be developed, but the developers decided to withdraw from the MOFCOM programme, because they wanted to focus on residential and commercial real estate rather than manufacturing (authors' interviews with MOFCOM officials in Beijing (November 2009), Shanghai (July 2011) and Xiamen (September 2011)).

Table 1: China's 19 initial zones

Country	*Zone name*	*Location*	*Tender year*	*Original lead Chinese developer/later lead developer*	*Home province or municipality*	*Initial zone focus/ later focus*
Algeria	Jiangling	Oran City	2007	Jianling Automobile	Jiangxi	Automobile
Cambodia	Sihanouk-ville	Sihanoukville	2006	Guangming, Yiduo, Huatai / Hongdou	Jiangsu	Industrial estate
Egypt	China–Egypt Suez	Suez	2007	Tianjin TEDA	Tianjin	Industrial and real estate
Ethiopia	Eastern	Dukem, Addis Ababa	2007	Yonggang / Qiyuan Investment Group	Jiangsu	Steel products, construction materials
Indonesia	Indonesia–China	Bekasi, Jakarta	2007	Guangxi State Farm Agribusiness Group	Guangxi AR	Cassava processing / industrial estate
Mauritius	Jinfei	Terre Rouge	2006	Tianli / Tiayuan Iron & Steel, Shanxi Coking Coal	Shanxi	Industrial and real estate
Mexico	Geely	Aguas-calientes	2007	Geely Automobiles	Zhejiang	Automobile assembly
Nigeria	Lekki	Lagos State	2007	China Civil Engineering and Construction Corporation	National	Industrial estate
Nigeria	Ogun-Guangdong	Ogun State	2006	Guangdong XinGuang	Guangdong	Industrial estate
Pakistan	Haier–Ruba	Punjab, Lahore	2006	Haier	Shandong	Home appliances
Russia	Ussuriysk	Ussuriysk, eastern Siberia	2006	Kangnai Int'l Investment	Zhejiang	Industrial estate
Russia	Baltic Pearl	St Petersburg	2006	Shanghai Overseas United Investment Company	Shanghai	Real estate
Russia	Tomsk	Central Siberia	2007	Northwest Forestry	Shandong	Wood processing
S. Korea	Korea–China	Muan	2007	Dongtai Hua'an International Investment	Chongqing	Industrial and real estate
Thailand	Rayong	Rayong	2006	Holley Group	Zhejiang	Industrial estate
Venezuela	La Cua	Cúa Urdaneta	2007	Inspur Group	Shandong	High technology, IT
Vietnam	Longgiang	Tien Giang	2007	Xieli Leather/Qian-sheng Mining/Hailiang Qianjiang Investment Management Ltd	Zhejiang	Industrial estate
Vietnam	Shenzhen–Haiphong	Haiphong	2007	Shenzhen Shenyue Joint Investment Co.	Guangdong	Electronics and textiles
Zambia	Zambia–China	Chambishi / Lusaka	2006	China Nonferrous Metals Corporation	National	Mineral processing

Process: Chinese government support for the overseas zones

The new programme of overseas zones was organized as an evolving process, in which officials would (in China's classic reformist fashion) 'cross the river by feeling the stones'. Here we examine five aspects of this process: selection, monitoring, financing, public framing and political intervention. Chinese officials were conscious of past difficulties in ensuring that their overseas economic cooperation projects would be sustainable once Chinese involvement ended. This lesson, along with the thrust of China's reforms since 1978, dictated a reliance on market principles, combined with government guidance and incentives, to establish the zones. The Chinese government had no blueprint for the zones and relied on Chinese companies to design them, in coordination with host governments. No policy conditions were imposed on host governments. At the same time, through official visits and diplomatic support, including the occasional intervention, the Chinese government has signalled that the zones have political importance over and above their economic role.

Selection by competitive tenders

Rather than assigning companies or provinces to establish zones, the Ministry of Commerce (MOFCOM) held a limited tender that it described as 'fair, just, and transparent'.[28] Two rounds of tenders were held, in 2006 and 2007. The 2006 tender elicited more than 60 expressions of interest from Chinese companies; of these, nearly half were invited to submit formal proposals.[29] Twelve of these were invited to present their proposals to a panel of independent outside experts (officials from China's own domestic special economic zones, and university professors) in Beijing. The panels selected eight proposals, basing their decision in each case primarily on the proposal itself and its feasibility studies (market potential, investment environment); documented evidence of support from the host government; the developers' ability to finance the project; and their proven capacity to implement a major construction engineering project.[30] The second round in 2007 drew on lessons from the first round, adding a new criterion: companies needed to show an annual turnover (revenues) of at least RMB15 billion (about US$2 billion) for at least the two previous years. This represented an effort to ensure that companies would have the resources to finance the development of the zones successfully. Over 50 companies applied, 20 were invited to submit formal proposals, and 11 proposals were selected (table 1).

The fact that these zones were company-led was not initially clear to many governments in Africa, to which the zone programme was announced as part of the November 2006 FOCAC summit in Beijing. More than ten African governments

[28] People's Republic of China Ministry of Commerce, 'China's first overseas trade and economic cooperation zone unveiled in Pakistan', 28 Nov. 2006, http://english.mofcom.gov.cn/aarticle/subject/cnpkfta/lanmua/200612/20061203905139.html, accessed 20 May 2012.

[29] Unless otherwise stated, this paragraph and the next draw on personal communications with a knowledgeable official in the Chinese government, July 2008.

[30] Interview, Ministry of Commerce officials, Beijing, 25 Nov. 2009.

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asked to host cooperation zones.[31] Among these was the Tanzanian government, a close ally of the Chinese in Africa; yet no Chinese company was interested in proposing a zone in Tanzania.[32]

General, performance-based subsidies from Beijing were part of the framework of incentives for zone development, while some (but not all) Chinese provinces and municipalities added their own sweeteners to further boost investments by their local companies. Yet this array of tools came into play only after a proposal had been selected through the competitive tender, and had advanced past certain stipulated milestones. The criteria for selection appeared to give no weight to natural resources or particular political interests. From what we have been able to determine, only one aspect of the selection process hints at political concerns: the Ministry of Foreign Affairs had to sign off on the projects, as they were to benefit other countries through official Chinese government subsidies.

However, although all of the official zone projects submitted proposals and won in a competitive tender, several of them had been initiated earlier, or pushed by Chinese officials in the context of bilateral diplomacy. The company that proposed a new zone in Egypt was the same company assigned to assist Egypt after its 1994 request for a jointly developed economic zone. The Shanghai Baltic Pearl project was born from a push by the central government, which around 2000 tasked the Shanghai government with enhancing economic ties between China and Russia, focusing on St Petersburg (Shanghai's sister city). The zone project itself, launched in 2004, was the brainchild of a Shanghai-based consortium of state-owned enterprises. The Russian Tomsk zone may have had a similar function. Russians have sought to enhance local value-added by reducing the export of raw wood to China, their most important market. In November 2000, the Chinese and Russian governments agreed to develop Russian forest resources jointly and establish a forestry product processing industrial zone.[33] A feasibility study was carried out by China's National Forestry Administration. Learning of the initiative, an experienced company in Shandong province, Northwestern Forestry, lobbied actively to undertake the project.[34] After both sides had approved the feasibility study, MOFCOM and the province of Shandong allowed Northwestern to take the lead on the zone.[35] These projects, then, were the brainchildren of government officials rather than companies; but they are a small minority of the total, and all later entered the tender as competitors rather than being provided with funding directly. We see the involvement of officials in this subset of zones as essentially unrelated to the overseas zone programme itself.

[31] Xilai Bo, 'Sannian zhijou jianshe 3 dao 5 ge jingji maoyi hezuo qu' [Construct 3–5 economic cooperation zones within three years], interview transcript, China Central Television, 13 Nov. 2006.

[32] Interview with Commercial Representative of Chinese Embassy, Dar es Salaam, July 2008; interview with MOFCOM official, Beijing, Nov. 2009.

[33] China–Russia Economic and Trade Cooperation website, 14 Nov. 2011, http://www.crc.mofcom.gov.cn/article/ergongshang/erhuiyifayan/200711/40863_1.html, accessed 16 May 2012.

[34] Interview with department manager of Northwestern Forestry Co., Xiamen, 10 Sept. 2011.

[35] China–Russia Economic and Trade Cooperation website.

Monitoring performance

The monitoring of zone implementation provides additional evidence as to the intentions of the Chinese government. As all subsidies were performance-based, they were not granted prior to development, but only after a zone had met specific milestones. As part of regular monitoring, zones were required to self-report on their progress, monthly for some aspects, and every six months for others.[36] MOFCOM, which managed the programme, and the Ministry of Finance (MOF), which held the purse-strings for the subsidies, periodically conducted a formal joint progress evaluation. Enterprises that believed they were sufficiently advanced in construction applied to be formally evaluated. China International Engineering Consulting Corporation was tasked with visiting each zone, inspecting its accounts and determining its progress. Six zones passed the first round of inspections in late 2008 (and received their subsidies), while three failed. In April 2010, MOFCOM and MOF launched the second round of inspections, and a third was carried out in March 2011.[37]

Forms filled in during these exercises included an index to evaluate the 'political environment':[38] this covered political stability, host support, host incentives provided and work efficiency of local officials. Under 'legal and security', the zone environments were rated for the 'robustness of local laws' and 'personal safety of foreigners'. The Chinese government's concerns about the safety and security of the zones are reflected in notices urging developers to mitigate risks by developing good relationships with local people and officials, and by taking out risk insurance from Sinosure, China's overseas export credit and investment insurance agency. These suggest that the Chinese government wanted companies to be aware of risks and take steps to minimize them. Beijing was not eager to use its own political capital to solve their problems.

Policy banks and official funding

In addition to two funds—the Trade and Economic Cooperation Zone Fund and the Special Fund for Economic and Technological Cooperation—controlled directly by MOFCOM, the Chinese government had other instruments with which it could support the overseas zones. By late 2011, the 16 zones under construction had received various forms of economic support. At least half, and possibly more, of the zones had received or been promised support from their provincial governments. However, there had so far been only modest direct involvement by the two big central policy banks. Eximbank had given loans to developers of

[36] People's Republic of China, Ministry of Commerce, 'Shangwubu, caizhengbu kaizhan diyici hezuoqu queren kaohe' [MOFCOM and MOF carry out the first inspection of cooperation zones], 13 Aug. 2010, http://www.mofcom.gov.cn/aarticle/subject/jwjjmyhzq/subjectm/201002/20100206777576.html, accessed 21 May 2012

[37] CRCC China–Africa Construction Limited, 'Introduction of Lekki Free Trade Zone project', 24 Dec. 2010, http://crcccac.com/_d271183676.htm, accessed 16 May 2012.

[38] People's Republic of China Ministry of Commerce, Letter of Cooperation Zone Office, *Index for evaluating regional external environment of overseas cooperation zones*, no. 37, 7 Dec. 2010.

four zones: Egypt, Cambodia, Vietnam Longgiang and the Ethiopian zone.[39] The CDB had provided loans to two zone companies (TEDA in Egypt, and Guangxi in Indonesia) and had one additional loan under consideration for the zone in South Korea. The limited involvement of both policy banks reflects their cautious approach and their use of commercial criteria. In Africa, the CAD-Fund explored the potential for equity shares in all six of the zone development companies, but decided to invest in only three of them: Egypt, Nigeria (Lekki) and Mauritius.[40]

Framing the zones

Although the way the zones were framed in public pronouncements in China and abroad cannot be proof of ultimate aims, these statements do provide additional evidence as to the intentions of the government. One of the first Chinese media stories on the zone programme emphasized that it would 'reduce trade frictions' (by shifting the origin of Chinese exports from China to third countries), help reduce China's accumulation of excessive foreign exchange, support the development of Chinese brand names and generally serve to implement the 'going global' policies.[41] At least two speeches by senior MOFCOM officials have stressed the programme's commercial aspects. Deputy Minister Fu Ziying described the strategy in 2006 as 'a way to support the Chinese companies to "go global" in groups', while in 2007 former minister of commerce Bo Xilai noted that the strategy 'reduces anxieties' Chinese firms have about investing abroad, while providing economies of scale.[42]

In a February 2008 document approving the zone programme, the State Council described its guiding principles as 'following market rules, pursuing equality and mutual benefits, moving forward gradually, and focusing on practical effects'.[43] Finally, the Chinese Ambassador to Zambia (the location of one of the zones) noted that the zone would assist China's restructuring while at the same time boosting development in Zambia: 'We also would like to introduce mature Chinese enterprises with comparative advantages to Zambia to help address the country's over-reliance on import of consumer and manufactured goods. Therefore, the establishment of the Cooperation Zone can help both Zambia develop and mature Chinese industries redeploy and win more space of

[39] Chinese Overseas (Africa) Economic and Trade Cooperation Zones and China–Africa Development Fund, *Newsletter of joint meeting of Chinese overseas (Africa) economic and trade cooperation zones and China–Africa Development Fund*, no. 2, July 2010; Hongdou Group, 'Short-term financing prospectus', no. 1, April 2011; International Monetary Fund, *Direction of trade 2010* (Washington DC: 2011); authors' interviews with manager of Longgiang zone, Xiamen, 10 Sept. 2011, and Ethiopia zone, Addis Ababa, 18 Nov. 2012.

[40] China–Africa Development Fund, promotional booklet distributed at FOCAC ministerial meeting, Sharm el Sheikh, Egypt, 5 Nov. 2009; interviews, Xiamen, 11 Sept. 2011.

[41] Xinhua, 'Zhongguo jiajianli 50ge jingwai jingmao hezuoqu jianshao maoyi moca' [China to establish 50 overseas economic cooperation zones to reduce trade frictions], http://news.xinhuanet.com/fortune/2006-06/20/content_4721894.htm, 19 April 2012.

[42] Ziying Fu, 'International strategy and a harmonious world for the financial industry and businesses', speech presented at China Financial Forum, Beijing, 12 Feb. 2007; Xilai Bo, 'Sannian zhijou jianshe 3 dao 5 ge jingji maoyi hezuo qu' [Construct 3–5 economic cooperation zones within three years].

[43] State Council, 'Replies on approving the suggestions to promote the construction of overseas economic and trade zone'.

development at home.'[44] All of this is consistent with a predominantly commercial rationale.

At the same time, however, some zones have clearly been positioned as part of China's overall political relationships with foreign governments. President Hu Jintao presided over the opening of the Haier zone in Pakistan and the Chambishi zone in Zambia, while Premier Wen Jiabao attended the official opening of TEDA's Egyptian zone. Vice-President Xi Jingping visited the Russian zone at Ussuriysk in 2010. Yet out of 16 zones under way, only a quarter have received this kind of high-level attention.

Only the African zones have repeatedly been framed as part of the high-visibility 'soft power' package of pledges made by Chinese leader Hu Jintao at the 2006 Beijing FOCAC Summit. China's Minister of Foreign Affairs described FOCAC (and its programmes) as a demonstration of 'China's diplomatic philosophy', with one goal being 'increasing political mutual trust'.[45] Chen Deming, Minister of Commerce, remarked that FOCAC was a strategic effort to 'promote friendship and cooperation', and that the zone programme complemented both goals. He quoted the ancient Chinese proverb: 'it is better to teach a man to fish than to give him fish.'[46] Officials have promoted the zones as a sharing of China's expertise and development success. An official connected with the zone in Egypt noted: 'Our cooperation with Africa today, as well as aid, has shifted from direct financial assistance to the output of development experience.'[47]

Officials from the Ministry of Foreign Affairs and from MOFCOM have urged companies building zones to 'think about the big picture. Chinese investments in Africa are not purely economic but reflect political policies.'[48] Yet even here, official rhetoric generally emphasizes the economic advantages expected to accrue. As an official report on China–Africa cooperation put it, the Chinese government's intention was that: 'Trade and economic cooperation zones built by the Chinese companies will reach a considerable scale, and attract a cluster of Chinese companies to form an industrial chain that can trigger the development of local manufacturing industries.'[49]

Chinese government intervention

Finally, an overall emphasis on market orientation is apparent from the fact that very few instances can be identified in which the Chinese central government has

[44] 'Interview with Chinese ambassador in Zambia Li Qiangmin', *Southern Weekly*, 7 April 2010, http://www.infzm.com/content/43554, accessed 16 May 2012.

[45] Jiechi Yang, People's Republic of China, Ministry of Foreign Affairs, 'Article of Yang Jiechi: a decade of FOCAC fruitful achievements and a new chapter of China–Africa relations', Beijing, 11 Oct. 2010, http://www.mfa.gov.cn/eng/wjb/wjbz/2467/t760880.htm, accessed 16 May 2012.

[46] 'China–Africa forum benefits strategic ties', *China Daily*, 12 Oct. 2010, http://www.chinadaily.com.cn/china/2010-10/12/content_11401155.htm, accessed 16 May 2012.

[47] People's Republic of China, Ministry of Commerce, 'Why China builds cooperation zone in Egypt', 16 Oct. 2008, http://www.cec.mofcom.gov.cn/article/cecsbdt/suyishi/200810/53143_1.html, accessed 16 May 2012.

[48] China–Africa Development Fund, promotional booklet.

[49] China–Africa Research Center, 'China–Africa trade and economic relationship annual report 2010', Beijing Chinese Academy of International Trade and Economic Cooperation, 2010, http://www.focac.org/eng/zxxx/t832788.htm, accessed 16 May 2012.

intervened in the zone programmes. Three examples stand out. In Mauritius, zone development lagged when the global financial crisis created cash-flow problems for the original developer, Tianli Group. The Mauritian Prime Minister made an explicit appeal for assistance to Chinese President Hu Jintao during Hu's visit to the island in February 2009.[50] The Chinese government asked the province of Shanxi to solve the problem.[51] Eventually, two large firms owned by the provincial government joined Tianli Group in a new consortium.

In Nigeria, delays in establishing the Lekki zone led the Lagos state government to contact the Chinese government, which worked with the enterprises involved in 2008 to solve the problem by shifting shareholdings and responsibilities from the junior partner, a provincial firm, to the more experienced national company China Civil Engineering and Construction Corporation (CCECC).[52] The Beijing representative of the Lekki zone commented later:

> We don't mind when the Chinese government steps in to assist, but we prefer to negotiate with the Nigerian government by ourselves as investors. We do not want to politicize problems that are business-related, and we do not want to create an impression that we are interfering in Nigerian internal affairs. The zone is primarily a business venture, politics is secondary.[53]

In a third case, three Chinese investors each had a one-third share in a Chinese company that formed a joint venture with a Cambodian firm to build the Cambodian zone. The Chinese side was unable to come to a consensus on the strategy for the zone, and ran into difficulties with the Cambodian partner, a Sino-Cambodian, causing a lengthy delay.[54] MOFCOM took the lead in bringing the three Chinese managers together for critical reflection and contacted their local government to seek a solution. Wuxi municipality, the home town of the three investors, was also home to a conglomerate, Hongdou Group, which operated a large industrial park in Wuxi and was also contemplating an investment in the Cambodian zone. The Wuxi government asked Hongdou to take over the Cambodian project. The project was restructured, with Hongdou taking 70 per cent of the shares on the Chinese side, and the three original developers keeping 10 per cent each. With Hongdou's experience and capital behind it, the construction of the zone was put on a fast track. In this case, governmental intervention turned a potential investor in the zone into the principal developer. MOFCOM officials were concerned because the zone had been included in the ministry's programme and thus its implementation had political implications as a pledge by the Chinese government.

[50] 'Hu signs Mauritius accords', *China Daily*, 18 Feb. 2009, http://www.chinadaily.com.cn/china/2009-02/18/content_7486395.htm, accessed 16 May 2012.

[51] A. C. Alves, *Chinese economic and trade cooperation zones in Africa: the case of Mauritius*, occasional paper no. 74 (Johannesburg: South African Institute of International Affairs, 2011), pp. 1–16.

[52] Interviews with Nigerian officials, Lekki zone, Lagos, June 2010, and Chinese embassy, Abuja, June 2010. Mthembu-Salter concluded that the Chinese government 'intervened and unilaterally restructured the consortium in CCECC's favor', but our interviews did not confirm this: Gregory Mthembu-Salter, *Chinese investment in African free trade zones: lessons from the Nigerian experience*, Policy Briefing no. 10 (Johannesburg: South African Institute of International Affairs, 2009), pp. 1–4.

[53] Interview with Lekki zone Beijing representatives, Beijing, 27 Nov. 2009.

[54] Interview with department manager of Cambodia zone, Xiamen, 8 Sept. 2011.

However, Hongdou's capacity and its own strategy happened to fit the situation very well. Restructuring the consortium was an economically reasonable decision facilitated by political action.

The zones: what are the drivers of Chinese interest?

In this section we examine the winning proposals more closely for evidence about the rationale, substance and overall direction of this element of China's economic diplomacy. We consider the location and business environment of the zones, the background and business interests of their developers, and Chinese resource interests in each country.

Location of the zones and business environment

Six out of the 19 winning zones, or about 32 per cent, were proposed for countries that directly border China: Pakistan, Russia (three) and Vietnam (two). Four additional zones are in China's regional neighbourhood—South Korea, Cambodia, Thailand and Indonesia—giving a total of more than 50 per cent in Asia. Two zones (10 per cent) were to be located in Latin America, and seven (37 per cent) in Africa. As most of China's trade and investment is with Asia, this bias bolsters economic integration and makes sense from a business viewpoint. However, it can also be argued that it makes political sense in terms of China's goal of good relations with its neighbourhood.

What does the host countries' business environment suggest about the zone programme? The GDP growth rate of the 15 host countries (averaged over the period 2005–2007, the period when the zones were proposed) came to a very robust 6.6 per cent (table 2). The two countries with the lowest average growth rates (Algeria at 3.4 per cent and Mexico at 3.7 per cent) were also two of the three countries where proposed zone projects were later dropped by their Chinese developers.

We also reviewed the host countries' business potential in 2008 as rated by the World Bank's 'Doing Business' survey, which focuses on countries' regulatory environment (table 2).[55] Thailand (15), Mauritius (27) and South Korea (30) are ranked among the best of developing countries worldwide, while Venezuela (172), Cambodia (145), Egypt (126), Algeria (125) and Indonesia (123) are ranked far below. The sub-Saharan African zones fare surprisingly well in their region, with Mauritius ranked first out of 46 in sub-Saharan Africa, Zambia sixth, Nigeria 13th and Ethiopia 19th. Overall, ten of the countries proposed to host zones scored below (better than) the median in the Doing Business rankings, while five were above. This suggests either that these investments were not entirely commercial, or that the Chinese developers did not consider the World Bank's measure of the ease of doing business, that is, the regulatory environment, a deciding factor. The latter interpretation would not be entirely surprising, given that China itself had a

[55] World Bank, *Doing Business Rankings*, 2008, http://www.doingbusiness.org/rankings, accessed 16 May 2012.

Table 2: Potential drivers of Chinese interest

Country	*GDP growth rate, average 2005–2007*	*'Doing Business' rank, 2008 1 = best 178 = worst*	*Minerals and fuels as % of total exports, average 2005–2009*	*Minerals and fuels as % of exports to China, average 2005–2007*	*Minerals and fuels as % of exports to China, average 2008–2009*	*Significant Chinese natural resource investments, 2006–2010*[1]
Algeria	3.4	125	98	99	99	no
Cambodia	11.4	145	1	n.d.	2	no
Egypt	6.1	126	51	55	25	no[2]
Ethiopia	11.3	102	1	2	1	no
Indonesia	5.8	123	37	37	37	yes
Mauritius	4.3	27	1	1	1	no
Mexico	3.7	44	18	18	19	yes[3]
Nigeria	6.0	108	84	98	91	yes
Pakistan	6.6	76	6	6	6	no
Russia	7.3	106	68	69	73	yes
S. Korea	4.7	30	9	8	10	no
Thailand	4.9	15	6	6	7	no
Venezuela	9.7	172	94	93	97	yes
Vietnam	8.4	91	22	26	11	no
Zambia	5.9	116	82	75	84	yes
average	*6.6*		*39*	*42*	*37*	

n.d. = no data available.
[1] Chinese investment interests here include resource assets but not construction contracts.
[2] CIT mistakenly lists a proposed alumina refinery construction contract project in Egypt as a Chinese investment project.
[3] In 2008, the Chinese company Jinchuan purchased a Canadian firm, Tyler Resources. Tyler's major asset of interest was an undeveloped copper/zinc concession in Mexico.

Sources: World Bank, *World Development Indicators 2010*; IMF, *Direction of Trade 2010*; Heritage Foundation, *China Investment Tracker* (CIT) 2011; authors' research.

'Doing Business' ranking of 83 in 2008. Nevertheless, the fact that Chinese developers later dropped projects proposed for Venezuela and Algeria, countries with two of the worst business environments (by the World Bank's measure), again provides support for the commercial interpretation.

Zone developers

It might be thought that the Chinese government would prefer to subsidize the outward activities of Chinese state-owned enterprises (SOEs), particularly if the investments were political or strategic. Yet ten of the successful bidders in the MOFCOM tender were private (*minying*) firms, while nine were SOEs. Further, the lead developers of the zones were all existing Chinese companies, as opposed to government departments, with one exception: the Haiphong zone in Vietnam was proposed by a company established for that purpose by the municipality of Shenzhen. The lead developers were from several provinces, but China's four main manufacturing provinces supplied eleven: Zhejiang (4), Shandong (3), Jiangsu (2) and Guangdong (2) (table 1). Thirteen out of 19 zone developers had already invested in the host country, or had large export markets there. They were thus familiar with the challenges of doing business in these particular countries, and able to act strategically in their zone proposals.

Although most of the zones were focused on manufacturing (table 1), lead developers came from multiple sectors. Ten, or just over half, were predominantly industrialists, including two automobile firms (Jiangling and Geely); three in the garment, leather and footwear sectors (Kangnai Group in Russia (Ussuriysk); Guangming Group in Cambodia; and Xieli Leather in Vietnam-Longgiang); Haier, a major appliance manufacturer; and the Holley Group (pharmaceuticals). Both lead developers active in Nigeria were engineering contractors, as was one member of the original Cambodia consortium. Several developers operated across several sectors, such as the Tianli Group. Only one company had mining interests: China Nonferrous Metals Corporation, or CNMC, in Zambia.

Resource interests

Only three of the zones were directly associated with natural resources: the Chambishi zone in Zambia, which emphasizes copper and other non-ferrous metal processing; the Tomsk zone in Siberia (Russia), which has forestry products as its focus; and the Guangxi Farm Group zone in Indonesia, which originally planned to emphasize farming. Even so, might the zones have been offered to resource-rich countries as a way to influence their governments?

In table 2, we show the weight of minerals and fuels in Chinese imports from each of the countries hosting a zone, averaged over two periods, 2005–2007 and 2008–2009. This allows us to capture, first, a potential general resource interest, and second, whether any evidence exists that China appeared to get better access to these resources as a result of the zone programme.

Seven out of 15 proposed host countries—Algeria, Egypt, Indonesia, Nigeria, Russia, Venezuela and Zambia—can be considered resource-rich: that is, with minerals and fuels making up at least 25 per cent of exports, on average, between 2005 and 2009. However, eight countries hosting zones were resource-poor. Further, when we consider minerals and fuels as a percentage of exports to China over the two periods (2005–2007, when the zones were being proposed, and 2008–2009), we see a *decrease* in average natural resource exports to China. In Russia, Venezuela and Zambia, natural resource exports increased, but the zone programme in Venezuela was cancelled. Overall, there is little reason to view the zones as generally connected to China's quest for natural resources.

We also checked whether Chinese companies made significant investments—over US$100 million—in a natural resource sector (including agriculture and forestry) in the host country during the period 2005–2010.[56] Such investments were made in just six of the 15 host countries (table 2).[57] If we consider the number of zones, the balance rises but remains modestly against resource investment interests (nine zones selected in countries with natural resource investment during this period, ten in other countries). Yet we note also that it is possible to fall prey to selection bias in assuming a link between Chinese natural resource interests and a zone project. During the same period, Chinese companies made natural resource investments of at least US$100 million in at least 32 other developing countries that are not part of the overseas zone development programme.

Conclusion

In his seminal study of China's economic statecraft, William Norris notes that while Chinese business and politics are often intertwined, analysts need to be able to determine whether any particular interaction is largely driven by state preferences ('strategically manipulated economic statecraft') or by commercial forces.[58] We agree; and yet this is easier said than done. When the Chinese government mounts significant development programmes overseas, analysts all too frequently jump to conclusions about their strategic intent, particularly with regard to natural resources. Simplistic assumptions like this need to be put to the test of evidence.

The evidence we examine here supports our argument that China's overseas zone programme is indeed strategic, but not as a means to boost China's resource security. As an instrument of China's economic diplomacy, the programme represents a significant level of expenditure. By September 2010, companies had spent US$730.97 million on the infrastructure alone; the Chinese government promised to reimburse at least 30 per cent of this.[59] The evidence reviewed here suggests that, particularly in Africa, Chinese officials expect that sharing the lessons of China's own developmental success will boost China's soft power. Yet across the 19 cases, it becomes clear that the zones primarily reflect a different, if no less strategic goal: providing a platform to accelerate China's own domestic restructuring by easing the outward investment of mature Chinese firms, increasing demand for Chinese-made machinery and equipment, and reducing trade frictions by relocating Chinese production to third countries.

Although the zone programme as packaged in Africa clearly supports China's projection of 'soft power', we argue that overall, China's economic statecraft in the zone programme represents a rather different phenomenon. Firms were not pushed to move against their long-term commercial interests. Indeed, six of the

[56] We use the Heritage Foundation's China Investment Tracker for this exercise. This database tracks and attempts to confirm signed FDI deals of US$100 million or more since 2005: http://www.heritage.org/research/reports/2011/01/china-global-investment-tracker-2011 (various dates), accessed 16 May 2012.

[57] Although they have not (yet) made significant investments, Chinese companies had exploration concessions in Cambodia.

[58] Norris, 'Economic statecraft with Chinese characteristics'.

[59] 'Shangwubu qiantou, shiyi buwei baojia zhongguo zhizao haiwai zhuanyi' [Led by MOFCOM, eleven ministries help made-in-China move overseas], *China Business News*, 19 Aug. 2007, http://www.china.com.cn/economic/txt/2007-08/19/content_8707859.htm, accessed 16 May 2012.

companies in the official programme had begun to build overseas zones years before the programme commenced, while another six were already developing plans to build zones when they learned about the tender.[60] What the overseas zone programme did was to cushion firms against risk and create new incentives that were intended to yield economic benefits for both China and the host country. Here, Beijing's use of economic statecraft reflects the internationalization of the developmental state, a process already well advanced among other East Asian nations.

[60] Zones in Pakistan, Egypt, Zambia, Thailand and Russia (Baltic Pearl and Ussuriysk) were under way before the programme was even announced. Another six companies—in Vietnam (Longgiang), Ethiopia, Cambodia, Russia (Tomsk), Nigeria (Lekki) and Korea—had developed plans to construct zones.