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Economic Statecraft in China's New Overseas Special Economic Zones

Soft Power, Business, or Resource Security?

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ABSTRACT

China's growing economic engagement with other developing countries has aroused heated debates. Yet there has been relatively little research on when, how, and why the Chinese state intervenes in the overseas economic activities of its firms. We examine China's program to establish overseas special economic zones as one tool of Beijing's economic statecraft. We trace the process by which they were established and implemented, and we investigate the characteristics of the 19 initial zones. China's state-sponsored economic diplomacy in other developing countries could play three major strategic roles: strengthening resource security, enhancing political relationships and *soft power*, and boosting commercial opportunities for national firms. We conclude that even in countries rich in natural resources, the overseas zones are overwhelmingly positioned as commercial projects and represent a clear case of the international projection of China's developmental state. In Africa (but not generally elsewhere), they also enhance China's soft power.

Keywords: Chinese outward investment, soft power, economic statecraft, overseas economic zones

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1. INTRODUCTION

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 caused 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, used 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 used by the Chinese government overseas. Several countries have been offered *mutual benefit loans* (*hu hui dai kuan*), large, commercial-rate, medium-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 natural resources). At least 20 African countries are set to host agricultural stations set up by Chinese companies and research institutes. 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 Chinese government has a hand in all of these experiments. Like other states, Beijing uses its economic power strategically. Although 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 (Breslin 2009, 834–835). Beijing's stubborn secrecy on flows of Chinese aid and official finance hampers analysis.[2] 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" (Norris 2010, 72). This matters, for both the 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 better respond 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 tool kit as more about politics, with profits secondary to the goal of bolstering diplomacy, China's image, and its soft power. Third, many see Beijing's moves into developing countries as predominantly shaped by strategic concerns about *resource security*. This view contends that the Chinese offer aid and overseas development programs, more or less directly, in exchange for more secure access to resources. Commercial considerations may not apply.

This paper focuses on a single instrument in Beijing's portfolio of new tools for international economic relations in other developing countries: overseas trade and economic cooperation zones. These zones can involve multiple activities: energy, manufacturing, export processing, logistics centers, and so on. They are not financed out of China's foreign aid budget, but they are subsidized by the Chinese state. Little is known about this program, 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, more generally, of the zone program itself. The Ministry of Commerce (MOFCOM) has itself released almost no information about China's overseas zone program. 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 for debates over Beijing's active use of economic tools as it ratchets up its presence abroad?

[1] On the relative lack of scholarship specifically on China in political science, see Reny (2011).

[2] Trade data are openly available, but China publishes no country-level data on aid or other official flows, and overseas foreign direct investment statistics are incomplete. See Bräutigam (2011).

The next section briefly reviews the literature on economic statecraft. Following this, we employ process tracing to examine the decision to establish overseas zones and its implementation.[3] We next explore more closely the characteristics of the first two groups of zones—19 in total—selected for official support in 2006 and 2007 and their host countries. We also draw on personal interviews with all of the active zone developers, either in China or in the zones themselves.

[3] On process tracing, see George and Bennett (2005).

2. ECONOMIC STATECRAFT

Powerful states frequently use economic tools as instruments of politics (Baldwin 1985, 3). As tools of economic statecraft, sanctions have received most of the analytical attention; foreign aid is a close second (Alesina and Dollar 2000, 33–63). However, states also use economic tools to intervene in their international relationships for commercial reasons. Below, we discuss three distinct 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

Media stories are replete with assumptions that China's strategic overseas economic engagement with other developing countries 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 assumed 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" (Foster, Butterfield, Chen, and Pushak (2008, 64).[4] Although 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 Zambia 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" (Foster, Butterfield, Chen, and Pushak (2008, 64). Yet other scholars have downplayed resource security as a driving force in Chinese diplomacy while acknowledging that the belief is widespread (see, for example, Zhang 2007). Sook-Jong Lee warned that China's overseas programs might be seen by others as primarily an exercise in "extractive resource diplomacy" (2009, 8). In "Sino-Venezuelan Relations" (2008), a study of China's relations with Venezuela, Cheng and argued that although many believe oil to be the driving force, it "actually plays a rather limited role."

Political and Soft Power Factors

Alternatively, state-sponsored cooperation programs like the zones might primarily reflect political goals: building alliances or boosting soft power—"the ability to get what you want through attraction rather than through coercion or payment," as Joseph Nye famously defined it (Nye 2004, 256). Certainly, China has some history of using state-directed investment for political purposes. After the crackdown on the Tiananmen Square protests, 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 (Wang 2002, 205). However, soft power as defined by Nye relies not on the economic attraction of investment or the provision of aid, but the attractiveness of ideas, culture, values, image. Many Chinese see developing countries—and Africa in particular—as important arenas for the projection of Chinese soft power. China's successful development is seen as a key aspect of its attractiveness.[5] A program that publicizes its intention to help transfer a highly successful aspect of China's own development experience could be intended primarily as a tool of soft power.

[4] The researchers cited no evidence to back this assumption.

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. In the *flying geese* model, Japanese bureaucrats used official aid, export credits, and investment support to help their companies construct and catalyze regional production networks in Asia (Luo and Zhang 2009).Over the past decade, China has confronted similar push and pull factors that make overseas investment attractive across multiple sectors(Wang 2002). Initiating a program 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, although they have evolved as market actors, this evolution is not complete. Henry W. C. Yeung (2004, 42) 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."

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 (2010, 83) argues that it is easiest to see economic statecraft at work in cases "in which a commercial actor faces commercially undesirable consequences yet does something in spite of the commercial costs because the state directs them to." However, given the tendency of states in East Asia to be far more involved in promoting firm-level activities with primarily commercial rationales than would be the case for Australia or the United States, for example, 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 an economic-diplomatic activity (Norris 2010, 83). We turn now to the process of establishing these zones in order to explore that question.

3. CHINA'S DECISION TO ESTABLISH OVERSEAS ZONES

It is an understatement 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 for this performance. 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: attracting foreign investment, using flexible labor contracts, and so on. Over time, the zones proved to be incubators for significant structural transformation. They have been breeding grounds for some of the country's new global champions—telecommunications firms like 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: China Export-Import Bank (China Eximbank), an export credit agency tasked with promoting Chinese trade and outward investment, and China Development Bank, with the mission of financing China's domestic development. [6] In recent years, both have become active in financing China's strategic outward investment and commercial relations.

In 1995, Beijing began to establish a second set of business-promotion instruments in Africa: around a dozen centers for trade, investment, and development. Built as public–private partnerships, these followed a standard build-operate-transfer model. In the Benin center, China's aid budget provided 60 percent of the construction cost, probably as a loan; the Chinese provincial company that was to operate the center contributed 40 percent; and the host government provided the land (Zhejiang Foreign Trade and Economic Cooperation Bureau (2009). The company would rent out space in the building while also providing services to other businesses (predominately, but not solely, Chinese). After 50 years, the host government would receive the building.

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 $1 billion contribution from China Development Bank (CDB), CAD-Fund was expected to raise another $4 billion over time.[7] It was not set up 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 (China.org 2004). 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 (Deng 2007, 15). In 2004, China Middle East Investment and Trade Promotion Center and Jebel Ali Free Trade Zone constructed a dragon-shaped $300 million trade center, known as *Dragon Mart*, to host 4,000 Chinese companies in Dubai.

[6] 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 (2006, 3) put it, Beijing "does not guarantee the obligations of China EXIM or provide automatic solvency support."

[7] All dollar figures refer to US dollars.

In 2006, the Chinese Ministry of Commerce decided to give official support to the establishment of zones in other countries (State Council 2008). Initially, a minimum of 10 zones would be established abroad, with the hope that 500 Chinese companies would use them to go offshore, investing a projected total of $2 billion (*Xinhua* 2008). The zone program was not limited to Africa, but the first mention of the policy in the English media came when the 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 FOCAC. [8] The first 19 zones selected for support are shown in Table 3.1. As of late 2011, four of the approved zones had exited the program (Algeria, Mexico, Venezuela, and Russia-St. Petersburg).[9]

[8] For an excellent discussion of FOCAC, see Taylor (2011).

[9] Shortly after the Algerian zone was approved, the Algerian government changed its legislation, requiring Algerian companies to own 51 percent 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 ranked first of those reviewed in 2007, 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 program because they wanted to focus on residential and commercial real estate rather than manufacturing (author’s interviews).

4. PROCESS: CHINESE GOVERNMENT SUPPORT FOR THE OVERSEAS ZONES

The new program of overseas zones was organized as an evolving process, where 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, public framing, financing, 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. At the same time, through official visits and diplomatic support, including the occasional intervention, the Chinese government has signaled that the zones have political importance over and above their economic role.

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" (People's Republic of China, Ministry of Commerce 2006). Two rounds of tenders were held, in 2006 and 2007.[10] The 2006 tender elicited more than 60 expressions of interest from Chinese companies; of these, nearly half were invited to submit formal proposals. [11] Twelve of these were invited to present their proposals to a panel of independent outside experts (officials from Chinese special zones and university professors) in Beijing. The panels selected eight proposals, based 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 (Wang , pers. comm.).[12] 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 RMB 15 billion (about US$2 billion) for at least the two previous years, an effort to ensure that companies would have the resources to successfully finance the development of the zones. Over 50 companies applied, 20 were invited to submit formal proposals, and 11 proposals were selected (see Table 3.1).

[10] Only two rounds of tenders have been held. MOFCOM has not made any official announcements about the goal of 50 zones.

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

[12] Interview, MOFCOM officials, Beijing, November 25, 2009.

Table 3.1—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	Jiangling Automobile	Jiangxi	Automobile
Cambodia	Sihanoukville	Sihanoukville	2006	Three Wuxi companies/ *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 product, construction materials
Indonesia	Indonesia-China	Bekasi, Jakarta	2007	Guangxi Farm (Nongken) Group	Guangxi AR	Cassava processing/ *industrial estate*
Mauritius	Jinfei	Terre Rouge	2006	Tianli/ *Three Shanxi companies*	Shanxi	Industrial and real estate
Mexico	Geely	Aguascalientes	2007	Geely Automobiles	Zhejiang	Automobile assembly
Nigeria	Lekki	Lagos State	2007	China Civil Engineering and Construction Corp.	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	Kangji International 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	Hi-tech, IT
Vietnam	Long Giang	Tien Giang	2007	Qianjiang Investment Management Ltd.	Zhejiang	Industrial estate
Vietnam	Shenzhen-Haiphong	Hai Phong	2007	Shenzhen Shenyue Joint Investment Co.	Shenzhen	Electronics and textile
Zambia	Zambia-China	Chambishi/ Lusaka	2006	Nonferrous Metals Mining Group	National	Mineral processing

Source: Author's compilation.

The fact that these zones were company led was not initially clear to many governments in Africa, where the zone program was announced as part of the November 2006 Beijing Forum on China–Africa Cooperation (FOCAC) summit. More than 10 African governments asked to host cooperation zones (Bo 2006). 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 (Liu, pers. comm.).[13]

General, performance-based subsidies from Beijing were part of the framework of incentives for zone development, whereas some (but not all) provinces and municipalities added their own sweeteners to further boost investments by their local companies. Yet this array of tools only came into play once a proposal was selected through the competitive tender and had advanced past stipulated milestones. The

[13] Interview, commercial representative of Chinese Embassy, Dar es Salaam, July 2008; Interview, MOFCOM official, Beijing, November 2009.

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 were 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 in 2000 or so assigned the Shanghai government to enhance 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 Russia 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 jointly develop Russian forest resources and establish a forestry-product-processing industrial zone (China–Russia Economic & Trade Cooperation 2007). A feasibility study was carried out by China's National Forestry Administration. Learning of the initiative, an experienced Shandong provincial company, Northwestern Forestry, lobbied actively to do the project (Liu, pers. comm.).[14] After both sides had approved the feasibility study, MOFCOM and the province of Shandong allowed Northwestern to take the lead on the zone (China–Russia Economic & Trade Cooperation 2007). Although these projects were the brainchilds of government officials rather than companies, they are a distinct minority, 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 program itself.

Monitoring for 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 (China, Ministry of Commerce 2010a). MOFCOM, which managed the program, and the Ministry of Finance, which held the power of the purse 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 their accounts, and determining their progress. Six zones passed the first round of inspections in late 2008 (and received their subsidies), and three failed (People's Republic of China, Ministry of Commerce 2008a). In April 2010, MOFCOM and the Ministry of Finance launched the second round of inspections; a third was done in March 2011 (CRCC China 2010).

Forms filled out during these exercises included an index to evaluate the "political environment" (People's Republic of China, Ministry of Commerce 2010a), political stability, host support for the zones, host incentives provided to the zones, 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 is 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.

[14] Interview, department manager of Northwestern Forestry Co. Xiamen, September 10, 2011.

Policy Banks and Official Fund Investment

In addition to two funds—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. As of late 2011, the 16 zones under construction have received a variety of economic support. At least half, and possibly more, of the zones have received or been promised support from their provincial governments. However, there has so far been only modest direct involvement by the two big central policy banks. Eximbank has given loans to three zones, Egypt, Cambodia, and Vietnam Long Giang, and arranged a line of credit for the developers of the Ethiopian zone (Chinese Overseas (Africa) Economic and Trade Cooperation Zones and China–Africa Development Fund 2010; Hongdou Group 2011; Zhang and Lu, pers. comm).[15] China Development Bank has provided loans to two zone companies (TEDA in Egypt and Guangxi in Indonesia) and has 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 China–Africa Development Fund (CAD-Fund) explored the potential for equity shares in all six of the zone development companies, but had only decided to invest in three of them: Egypt-TEDA, Nigeria- Lekki, and Mauritius-Jinfei (China–Africa Development Fund 2009, 14; Wu pers. comm).[16]

Framing the Zones

Although the way the zones were framed in public pronouncements in China and abroad cannot be proof of ultimate aims, they provide additional evidence as to the intentions of the government. One of the first Chinese media stories on the zone program emphasized that it would "reduce trade frictions" (by shifting the origin of Chinese exports from China to third countries); help reduce China's excessive foreign exchange buildup; support the development of Chinese brand names; and, generally, serve to implement the "going global" policies (People's Net 2006). At least two speeches by senior MOFCOM officials have stressed its commercial aspects. Deputy minister Fu Ziying described the strategy in 2006 as "a way to support the Chinese companies to 'go global' in groups," whereas 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 (Fu 2007; Bo 2007).

In a February 2008 document approving the zone program, the State Council described its guiding principles as "following market rules, pursuing equality and mutual benefits, moving forward gradually, and focusing on practical effects" (State Council 2008,). 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 development at home"(*Southern Weekly* 2010). All of this provides support for 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 Haier's zone in Pakistan and the Chambishi zone in Zambia, whereas 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.

Alone among regions, 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 programs) as a demonstration of "China's diplomatic philosophy," with one goal being "increasing political mutual trust" (Yang 2010). Chen Deming, minister of commerce, remarked that FOCAC was a strategic effort to "promote friendship and cooperation," and the zone program complemented both goals. He quoted the ancient Chinese

[15] Author's interviews with manager of Long Giang zone and Ethiopia zone, Xiamen, September 10, 2011.
[16] Interviews, Xiamen, September 2011.

proverb: "It is better to teach a man to fish than to give him fish" (*China Daily* 2010) 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" (People's Republic of China, Ministry of Commerce 2008b)

Officials from the Ministry of Foreign Affairs and from MOFCOM have urged companies building zones in Africa to "think about the big picture. Chinese investments in Africa are not purely economic but reflect political policies" (China–Africa Development Fund and Shenzhen Stock Exchange. 2010) The framing of the zone program in Africa reinforces the idea that they were seen by government planners as important elements of China's overseas image—its soft power. This did not seem to be the case in other regions where the zones were located. Yet even here, official rhetoric generally emphasizes the expected economic advantages. As an official report on China–Africa cooperation put it, the Chinese government's intention was as follows: "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" (China–Africa Research Center 2011).

Chinese Government Intervention

Finally, we can see what appears to be an overall emphasis on market orientation from the fact that we can identify few instances in which the Chinese central government intervened in the zone programs. 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 the Chinese president, Hu Jintao, during Hu's visit to the island in February 2009 (*China Daily* 2009). The Chinese government asked the province of Shanxi to solve the problem (Alves 2011). Eventually, two large firms owned by the provincial government joined Tianli Group in a new consortium.

In Nigeria, delays in the project led the Lagos state government to contact the Chinese government, which worked with the enterprises 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 (Owuru and Zhai, pers. comm.).[17] 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 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" (, pers. comm.)[18]

In a third case, three Chinese investors, each with a one-third share in the company building the Cambodian zone, were unable to come to a consensus on the strategy for the zone and ran into difficulties with their Cambodian partner, a Sino-Cambodian, causing a lengthy delay (Ma, pers. comm.).[19] MOFCOM took the lead in bringing the three managers together for a round of criticism and contacted the related local government to seek a solution. Wuxi municipality, the hometown of the three investors, was also home to a conglomerate, Hongdou Group, which operated a large industrial park 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: Hongdou took 70 percent of the shares, and the three original developers kept 10 percent each. With Hongdou's experience and capital, 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

[17]. Mthembu-Salter (2009) concluded that the Chinese government "intervened and unilaterally restructured the consortium in CCECC's [China Civil Engineering and Construction Corporation's] favor," but our interviews did not confirm this.

[18] Interview, Lekki zone Beijing representatives, Beijing, November 27, 2009.

[19] Interview, department manager of Cambodia zone, Xiamen, September 8, 2011.

included in MOFCOM's program, and thus its implementation had political implications as a pledge by the Chinese government. However, the restructuring was an economically reasonable step. Hongdou's capacity and its own strategy happened to fit the situation well. It was an economically reasonable decision facilitated by political action.

5. 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 statecraft. We consider the locations of the zones and the business environments, the backgrounds and business interests of their developers, and Chinese resource interests in the country.

Location of the Zones and Business Environments

Six out of the 19 winning zones, or about 32 percent, were proposed for countries that directly border China: Pakistan (1), Russia (3), and Vietnam (2). Four additional zones are in China's regional neighborhood, South Korea, Cambodia, Thailand, Indonesia, giving a total of more than 50 percent in Asia. Two zones (10 percent) were to be located in Latin America, and seven (37 percent) were to be in Africa. As most of China's trade and investment is with Asia, this 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 neighborhood.

What does the host countries' business environment suggest about the zone program? The gross domestic product (GDP) growth rate of the 15 host countries (averaged over the period 2005–07, the period when the zones were proposed) came to an average of a robust 6.6 percent (Table 5.1). The two countries with the lowest average growth rate (Algeria at 3.4 percent and Mexico at 3.7 percent) were also two of the three countries where proposed zone projects were later dropped by their Chinese developers. Clearly, Chinese companies appear to have been impressed by the growth potential of their host countries, a factor that also emerged from our interviews.

Table 5.1—Potential drivers of Chinese interest

Country	Average. GDP Growth Rate 2005–07	Doing Business Rank 2008 1 = best 178 = worst	Minerals & Fuels as % of Total Exports, Average 2005–09	Minerals &Fuels as % of Exports to China Average 2005–07	Minerals &Fuels as % of Exports to China Average 2008–09	Significant Chinese Natural Resource Investments, 2006–10
Algeria	3.4	125	98	99	99	no
Cambodia	11.4	145	1	..	2	no
Egypt	6.1	126	51	55	25	no[a]
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[b]
Nigeria	6	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*	

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

Notes: Chinese investment interests here include resource assets but not construction contracts.

[a] CIT mistakenly listed a proposed alumina refinery construction contract project in Egypt as a Chinese investment project.

[b] 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.

We also reviewed the host countries' business potential as rated by the World Bank's Doing Business survey, which focuses on countries' regulatory environment (Table 5.1).[20] Thailand (15), Mauritius (26), and Korea (30) are ranked among the best of developing countries worldwide, whereas Venezuela (172), Cambodia (145), Egypt (126), Algeria (125), and Indonesia (123) are ranked far below. However, in their subregion, the Sub-Saharan African host countries fared surprisingly well, with Mauritius ranked 1st out of 46 in Sub-Saharan Africa, Zambia 6th, Nigeria 13th, and Ethiopia 19th. Overall, 10 of the countries proposed to host zones scored below the median in the Doing Business rankings, whereas 9 were above. This suggests either that these investments were not entirely commercial or, perhaps more pointedly, that the Chinese developers did not consider the World Bank's measure of the ease of doing business, that is, the regulatory environment, as a deciding factor. This is not entirely surprising, given that China itself only had a Doing Business ranking of 83 in this period. Nevertheless, the fact that Chinese developers later dropped projects proposed for Venezuela and Algeria, countries with two of the worse 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, particularly if the investments were political or strategic. Yet 10 of the successful bidders in the MOFCOM tender were private (*minying*) firms, and 9 were state-owned enterprises. 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, itself the location of China's most successful special economic zone. The lead developers were from several provinces, but China's four main manufacturing provinces supplied 11 of the developers: Zhejiang (4), Shandong (3), Jiangsu (2), and Guangdong (2).

Lead developers came from multiple sectors. Ten, or just over half, were predominantly manufacturers, including two automobile firms (Jiangling and Geely);and three in the garment, leather, and footwear sectors (Kangnai Group in Russia-Ussuriysk, Hongdou Group in Cambodia, and Xieli Leather in Vietnam-Long Giang. Both lead developers active in Nigeria were engineering contractors as was one member of the original Cambodia consortium. Several developers operated across multiple sectors, such as the Tianli Group. Only one company had mining interests: China Nonferrous Metals Corporation in Zambia. Finally, a review of the developers' prior business interests shows that 13 out of 19 had already invested in the host country or had large export markets there (Table 3.1). They were thus familiar with the challenges of doing business in these particular countries and able to act strategically in their zone proposals.

Resource Interests

Only three of the zones were directly associated with natural resources: the Chambishi zone in Zambia, which emphasizes copper and other nonferrous 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, although this plan was later dropped. But might the zones have been offered to resource-rich countries as a way to influence their governments?

In Table 5.1, we also examine the weight of minerals and fuels in the exports of each country, averaged over the period 2005–09, and Chinese mineral and fuel imports from each of the countries hosting a zone in two periods, 2005–06 and 2008–09. 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 program.

[20] See www.doingbusiness.org/rankings. [Accessed March 2011]. We used the 2008 ranking, which covers the 2006–07 period, that is, when decisions were being made about these projects.

Seven out of 15 proposed host countries—Algeria, Egypt, Indonesia, Nigeria, Russia, Venezuela, and Zambia—can be considered resource-rich, that is, minerals and fuels made up at least 25 percent of the countries' total exports, on average, between 2005 and 2009. However, eight countries hosting zones were resource-poor. We cannot rule out natural resources as a factor, but we can say that they were clearly not the primary interest for the zone program. Furthermore, when we consider minerals and fuels as a percentage of exports to China over the two periods (2005–07, when the zones were being proposed, and 2008–09), we do not see, that this has any significant increase. On average, the percentage fell from 42 percent to 37 percent across the host countries. The figures changed significantly between the two periods only in Indonesia and Egypt, where the share of natural resources fell. So far, the evidence does not suggest a clear link between having a zone and increased access to natural resources.
We also checked to see if Chinese companies have made significant investments—over $100 million—in a natural resource sector (including agriculture and forestry) in the host country during the period 2005–10.[21] In over half of the 15 host countries (9), there was no significant Chinese natural resource investment, but in 6 countries, significant natural resource investment occurred during this period (Table 5.1). If we consider the zones themselves, the balance rises but remains modest against resource investment interests (9 zones selected in countries with natural resource investment during this period, 10 in other countries).

Although they have not (yet) made significant investments, Chinese companies had exploration concessions in one of the other host countries: Cambodia.[22] 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 $100 million in at least 32 other developing countries that are not part of the overseas zone development program.

[21] We use the Heritage Foundation's China Investment Tracker for this exercise. This database tracks and attempts to confirm signed foreign direct investment (FDI) deals of $100 million or more since 2005; see www.heritage.org/research/reports/2011/01/china-global-investment-tracker-2011.

[22] Although it is conventional wisdom that China has been exploring for oil in Ethiopia, we found that Chinese companies have had no exploration licenses there, but have been subcontracted by non-Chinese firms to do exploration work.

6. CONCLUSION

In his seminal study of China's economic statecraft, William Norris notes that Chinese business and politics are often intertwined, yet analysts need to be able to determine whether the interaction at hand is largely driven by state preferences, that is, "strategically manipulated economic statecraft" or by commercial forces (Norris 2010, 83). We agree, and yet this is easier said than done. When the Chinese government mounts significant development programs 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 program is indeed strategic, but not as a means to boost China's resource security. As an instrument of China's economic diplomacy, the program represents a significant expenditure. By September 2010, companies had spent US$730.97 million on the infrastructure alone; the Chinese government promised to reimburse at least 30 percent of this (*China Business News* 2011). 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, but 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 program as packaged in Africa clearly supports China's projection of soft power, we argue that overall, China's economic statecraft in the zone program represents a rather different phenomenon. Firms were not pushed to move against their long-term commercial interests. Indeed, six of the companies in the official program had begun to build overseas zones years before the program commenced, and another six were already developing plans to build zones when they learned about the tender.[23] Instead, the overseas zone program cushioned firms' risks and created new incentives that were intended to reap economic benefits for China and the host country. Here, Beijing's use of economic statecraft reflects the internationalization of the developmental state, a process already well advanced for other East Asian nations.

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

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