

BALANCING THE SCALES OF TRADE

Zambia-China Relations in a Dynamic Global Economy

EXPORT **IMPORT**



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ABSTRACT

The economic partnership between China and Zambia has grown significantly since China's entry into the World Trade Organization (WTO) in 2001. This paper explores the development of this bilateral relationship from its early stages in the 2000s, through the transformative impacts of the COVID-19 pandemic in 2019, and the global pivot toward clean energy transitions. Special attention is given to the implications of a potential deceleration in China's economic growth on Zambia's economy, with a focus on sectors that are heavily reliant on China's foreign direct investment (FDI). The study concludes with recommendations for strategic adaptations that could strengthen the resilience of Zambia's economy while fostering a more balanced and sustainable partnership with China.

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1. Introduction

Over the past two and a half decades, Sino-Zambian trade relations have transformed into a multifaceted economic partnership, evolving from foundational political alliances to a dynamic framework of economic collaboration. The diplomatic ties established on October 29, 1964, between Zambia and China provided the initial platform for engagement, exemplified by landmark projects like the Tanzania-Zambia Railway (TAZARA). However, the turning point in bilateral economic relations occurred following China's accession to the World Trade Organization (WTO) in 2001, which marked a new era of global economic integration and elevated trade and investment between the two countries.

In this context, this paper examines the evolving bilateral trade and investment relationship between Zambia and China, highlighting key findings regarding the structural features and composition of trade. China has emerged as Zambia's top trading partner, with Zambia mainly exporting raw mineral commodities and primary goods while importing Chinese manufactured products. Furthermore, the trade and investment structure reveal a high degree of sectoral concentration, particularly in the mining sector, which has dominated both Chinese investments and imports from Zambia. This has positioned China as a major source of foreign direct and portfolio investment, particularly in the mining sector, leaving a small fraction of their total investments going to other economic sectors such as agriculture, manufacturing and tourism.

Global developments such as, Climate change, the global clean energy transition and shifting geopolitical alignments are reshaping the relationship between Zambia-China trade and investment frameworks. These developments challenge traditional trade frameworks, such as the comparative advantage and gravity theory of international trade, to explain the evolving trade dynamics. China's structural changes in its real estate market and demographic pressures from an aging population, is projected to continue shaping its future economic growth trajectory. Consequently, the second section of this paper assesses the implications of China's economic performance on Zambia, with particular attention to shifts in Chinese investment strategies. Emerging trends suggest that policy swing toward global clean energy transition agenda will shape the future economies, especially mineral resource dependent countries. Likewise, the analysis identifies risks and opportunities associated with resource-dependent economies like Zambia, given the changing scales of trade arising from China's gradual shift in trade and investment priorities.

Therefore, this paper begins by assessing the economic relationship between Zambia and China, focusing on bilateral trade, investment flows, and auxiliary connections such as construction projects and the role of Chinese investments in Zambia. It then examines recent trends and forecasts for Zambia-China economic relations, balancing short-term cyclical factors with long-term structural developments. Finally, we conclude by outlining policy recommendations to enable Zambia to adapt to the evolving dynamics of its engagement with China, with the aim of promoting favorable balance of trade.



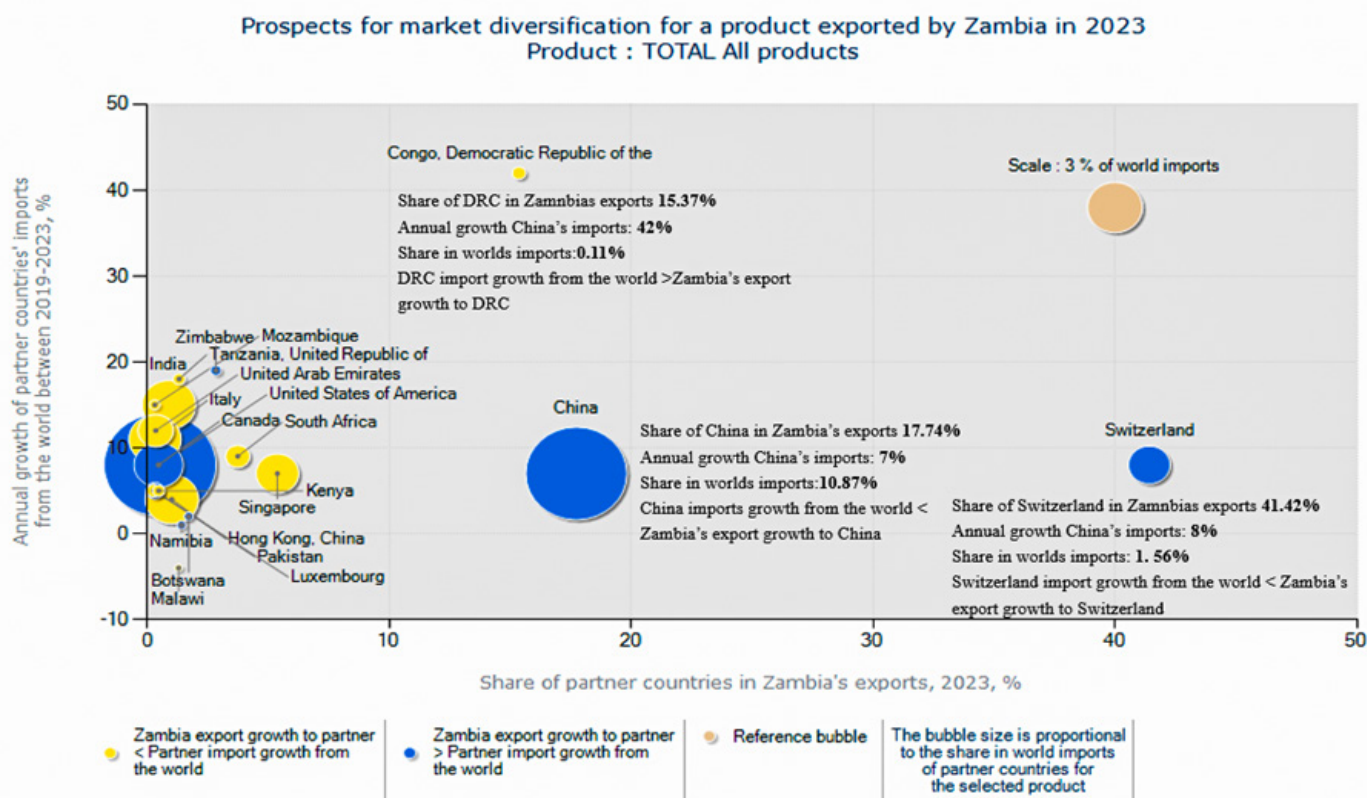
2. Sino-Zambian Economic Relations: A Deepening Partnership

Zambia's economic relations with China has deepened over the years, underscored by significant trade, investment, and diplomatic ties. Since establishing diplomatic relations in 1964, China has become Zambia's integral trading partner. Drawing on a variety of data sources, the next few sections aim to provide an overview of patterns in the historical economic engagement between China and Zambia for the past twenty-one years (2000 -2021). This includes an examination of trade dynamics, and foreign direct investment drawing attention to the opportunities and risks associated with this relationship.

2.1 Trade: The Cornerstone of Bilateral Engagement

Zambia was the first country in Southern Africa to establish diplomatic relations with China. To this day, China's footprints feature in Zambia's trade profile as a strategic trading partner, largely anchored on complementarity. The most important channel of economic engagement between China and Zambia is trade. China is one of Zambia's largest individual country trading partners, matching countries like Switzerland, South Africa, and Democratic Republic of the Congo. The trade relationship has significantly influenced both economies, shaping industries, employment, and consumer markets. Though Switzerland appears as Zambia's largest export destination in official statistics, this is primarily due to its function as a brokerage hub. In reality, China is the principal destination for Zambia's commodity exports (mainly copper), accounting for approximately 17.74 percent, in 2023 as illustrated in Figure 1 below.

Figure 1: Share of trading partners in Zambia's exports 2023



Source: ITC Trade Map.

Further analysis of Zambia's trade profile from Figure 1 above, portrays a high degree of concentration in two major markets: China and Switzerland. Together, they accounted for nearly 60 percent of Zambia's total exports in 2023, raising concerns about economic vulnerabilities in the event of market slowdowns in these two countries. This fact has important implications, because countries that have been exporting intensively to China may be more exposed to a looming deceleration in Chinese economic activity.

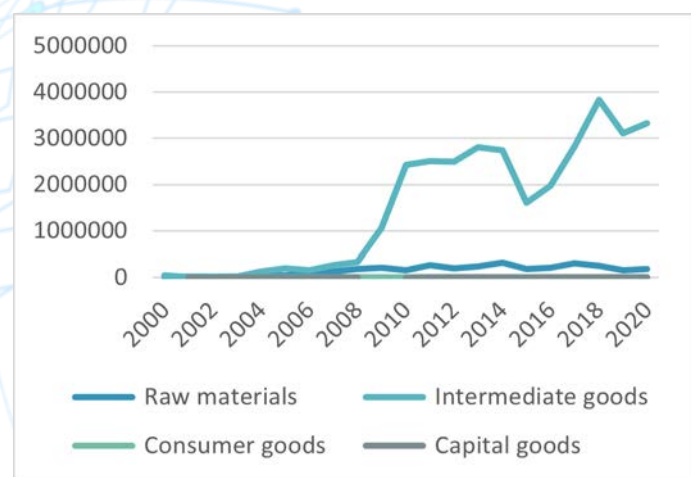
2.2 Trade Composition: Exports and Imports

A distinctive feature of China and Zambia's trade relationship lies in the composition of exports and imports, illustrated in Figure 2 using Trade Map data. Zambia predominantly exports primary commodities and other intermediate goods, with mineral commodities and other base metals constituting the bulk of exports to China. In contrast, Zambia's imports from China are predominantly capital goods (mainly machinery) and manufactured consumer goods, which are more advanced along the global value chain. This includes critical industrial inputs and consumer products essential for local production and infrastructure development. In all, the persistent trend of exporting natural resources such as copper, while importing capital goods and manufactured consumer goods from China, reflects Zambia's economic structure of the relative abundance of natural resources with limited domestic industrialization for value addition.

Figure 2: Zambia: Composition of trade with China, 2000-20

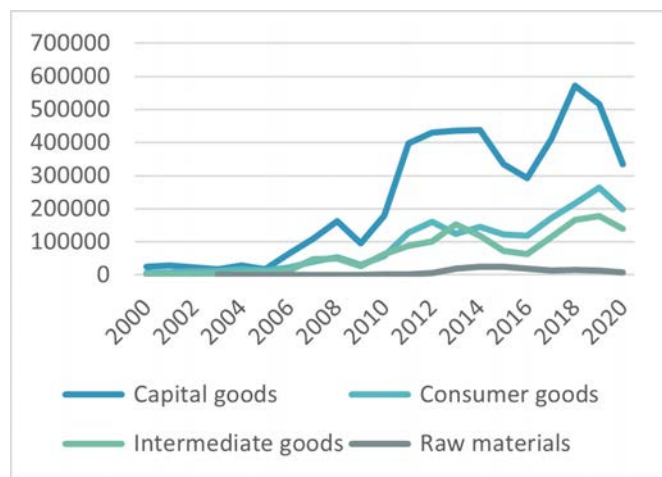
1. Exports of Goods

(Thousands of US dollars)



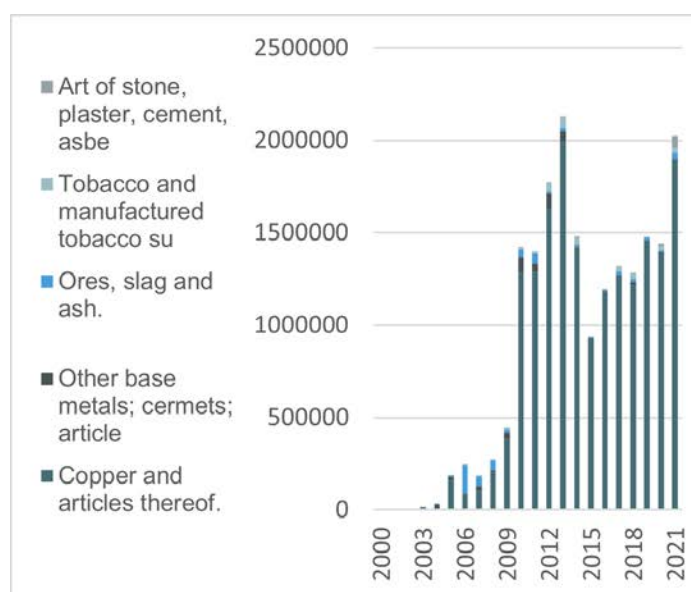
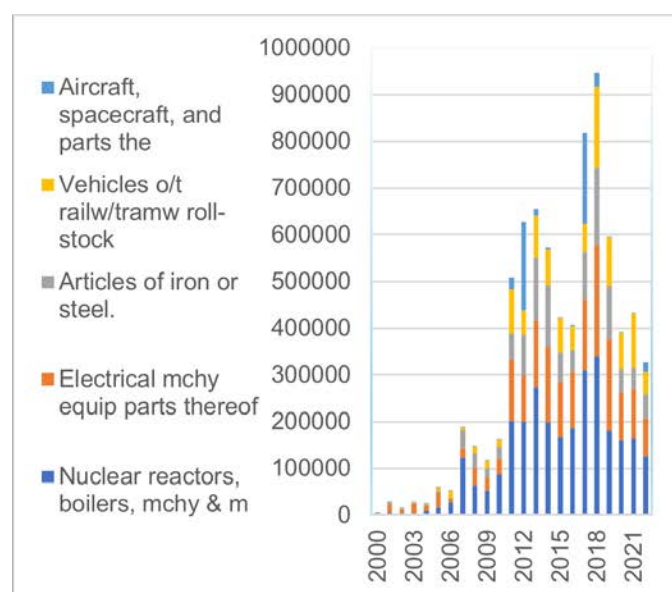
2. Imports of Goods

(Thousands of US dollars)



Source: Trade Map Data

Further data analysis at the 6-digit HS code level of classification, reveals interesting observations. As it can be gleaned from Figure 3, Zambia exports substantial quantities of copper and articles thereof to China while simultaneously importing categories of mining related goods. This includes nuclear reactors, boilers, and electrical machinery. This finding reveals an important underpinning which suggests that Zambia-China trade relationship remains heavily influenced by the mining sector, both in terms of exports and imports. It is plausible that a significant portion of the capital goods imported from China, particularly nuclear reactors and boilers are crucial for various processes in the mining sector. This in part includes energy and steam generation for ore processing and other mining operations, further reflecting the mining sector's central role in shaping China's engagement with Zambia.

Figure 3: Zambia: Composition of trade with China, at 6-digit HS code level of classification, 2000-21**1. Exports of Goods***(Thousands of US dollars)***2. Imports of Goods***(Thousands of US dollars)***Source:** Trade Map Data

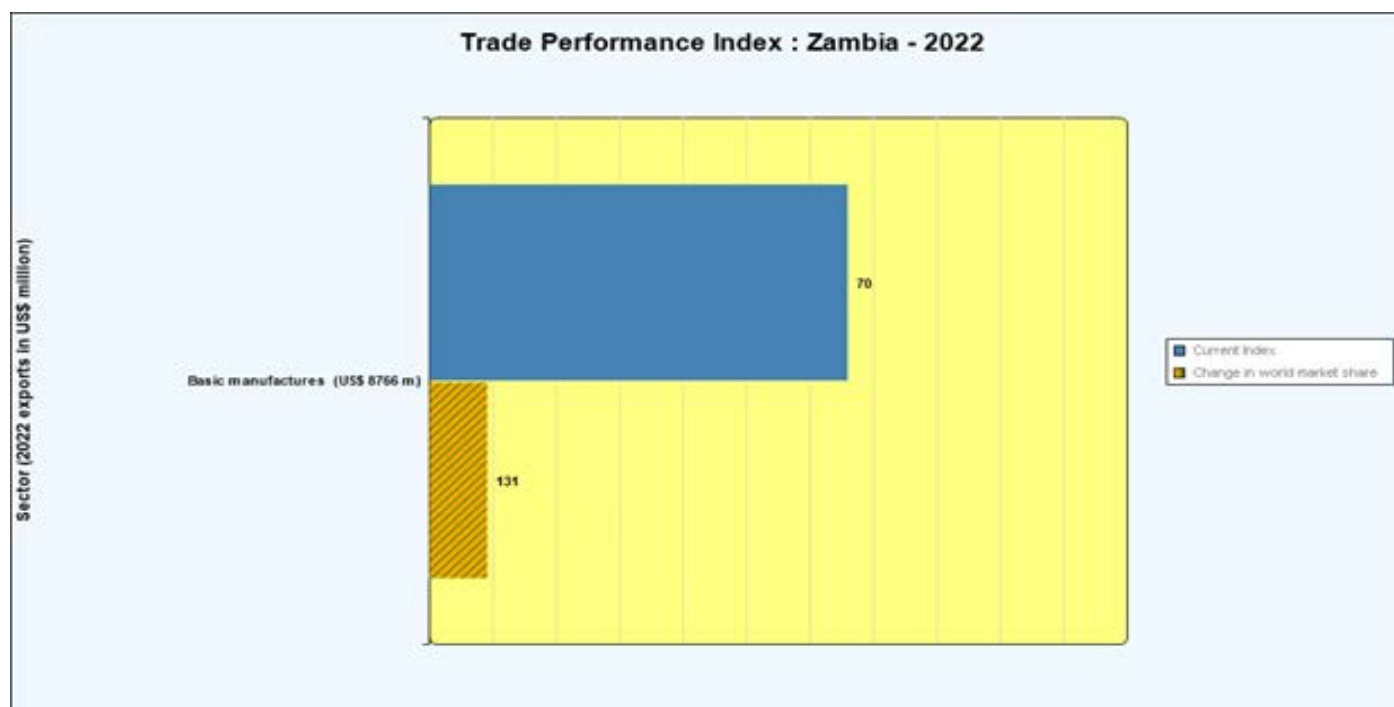
Nonetheless, it is also crucial to note other streams of China's engagement with Zambia such as the China-Africa Policy which reflects China's intent to gain access to African markets and natural resources. The bilateral trade relationship between Zambia and China has further strengthened under the frameworks like the Forum on China-Africa Cooperation (FOCAC), established in 2000 with an objective of fostering economic cooperation and mutual development. FOCAC provides a strategic avenue for Chinese enterprises to invest in Africa. The China-Africa Policy further reflects China's intent to gain access to African markets and natural resources.

2.3 Zambia's Basic Manufactures Trade Performance

An analysis of Zambia's export dynamics, utilizing the International Trade Centre (ITC) Trade Performance Index, reveals noteworthy developments in the country's trade relations, particularly with China and global markets. As illustrated in Figure 4, Zambia's ranking in global competitiveness for basic manufactures showed a slight decline from 67 in 2020 to 70 in 2022. Nonetheless, the country made improvements in global manufactures market share. Zambia's market share surged from 17 percentage points in 2020 to 131 percentage points in 2022, reflecting a significant increase in the country's presence in global markets. This growth is mirrored by the rise in Zambia's exports of basic manufactures, from USD 6.290 billion in 2020 to USD 8.766 billion in 2022. This suggests growth prospects in Zambia's value-added export profile, indicating a growing capacity to compete in value-added markets.

Given that Zambia is already implementing special economic zones (SEZs) which are the engine for industrialization and value addition promotion, the growing trend in Zambia's basic manufactures could be sustained so as to enhance economic resilience. Notably, this could also reshape Zambia's trade relationship with China, as it suggests the possibility of diversifying export offerings beyond traditional raw materials.

Figur 4: Basic Manufactures Trade Performance Index



Source: ITC Trade Competitiveness Map. Updated data only available for 2022 during the study.

Note: Ranking of international competitiveness in terms of static indicators (Current index) * and the change in world market share (percentage points) **

Position 1 in the ranking refers to the best performance out of 189 countries.

*Net exports, per capita exports, share in world market, product diversification, market diversification.

** Absolute change of world market share (% points p.a).



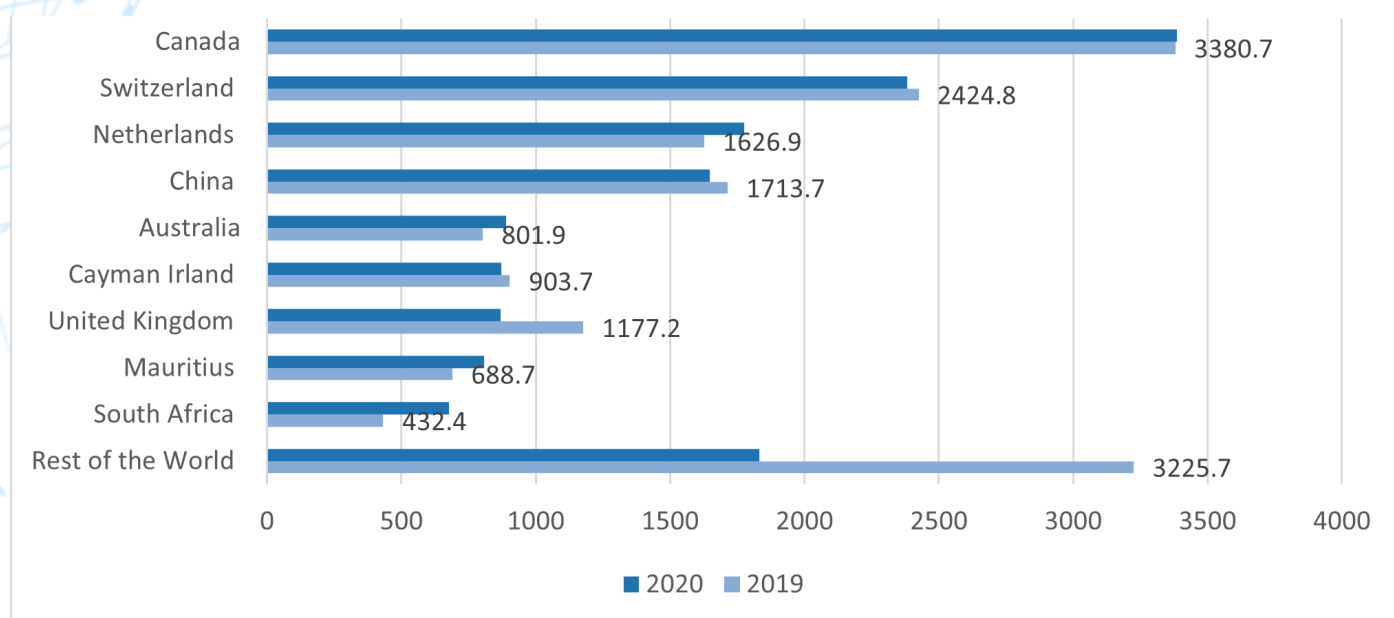
3. Foreign Direct Investments: Catalyst for Zambia's Economic Development

This section examines the role of foreign direct investment (FDI) from China, analyzing its contribution to Zambia's economic trajectory. Chinese FDI has emerged as a critical capital stream, reshaping the landscape of Zambia's industrial and economic development. Yet, the evidence from the analysis points to a predominant concentration of Chinese investments in the extractive industry, particularly mining, while expansion into other economic sectors like agriculture, manufacturing and tourism remains marginal. This concentration underscores a dual-edged dynamic offering pathways for resource-driven growth while limiting diversification critical for broad based economic growth and job creation. In addition to these dynamics, the section also highlights other driving factors behind the increase in Chinese investment in Zambia, such as the China-Zambia High-Quality Development Forum Initiative. Launched in 2024, this forum serves as a strategic platform for fostering collaboration and facilitating business-to-business (B2B) engagements to strengthen bilateral economic ties.

3.1 Investment Trends: Towards Zambia's Resource Sector

The second main channel of engagement between Zambia and China is Investment. In 2019, China was Zambia's third-largest source of FDI, following Canada and Switzerland (BOZ, 2021). The top four countries Canada, Switzerland, the Netherlands, and China collectively accounted for 60.8 percent of Zambia's total FDI stock in 2020, up from 56.4 percent in 2019 (Figure 5).

Figure 5: Zambia's top five FDI source by country 2019-2020



Sources: Author's construction based on Bank of Zambia Foreign Private Investment & Investor Perceptions Survey, 2021

A detailed examination of Chinese FDI flows to Zambia highlights a noteworthy shift in investment patterns, particularly from 2006 to 2008. Figure 6 illustrates a surge in Chinese FDI, from USD 10 million in 2006 to USD 214 million in 2008, driven largely by China's increasing interest in Zambia's mineral resources (MFEZs) (IJFMR, 2023). This surge coincides with the establishment of key initiatives such as the Chambishi and Lusaka East Multi-Facility Economic Zones (MFEZs), which have become focal points for Chinese investment.

Figure 6: China FDI flows and stock to Zambia, 2000-2022 (Millions of US dollars)



Source: Author's construction from UNCTAD, FDI/MNE database

Despite fluctuations in FDI due to global economic shocks such as the 2008 financial crisis and the COVID-19 pandemic, the long-term trajectory of Chinese investment in Zambia's resource sector remains positive. FDI stock grew from USD 134 million in 2003 to over USD 3.5 billion in 2018, underlining China's sustained commitment to Zambia's mining and economic development. This pattern reinforces the critical role of the resource sector in shaping Zambia's economic relationship with China and signals a continued investment in mining infrastructure and related industries.

3.2 Chinese FDI in Zambia: Sectoral Concentration, Limited Diversification, and the Implications for Job Creation

A closer analysis of Chinese FDI in Zambia reveals a sectoral concentration, particularly in the mining industry, which has dominated Chinese investments (Table 1). Between 2006 and 2012, 66 percent of Chinese FDI was directed towards the mining sector, a capital-intensive industry with relatively low employment generation. In contrast, sectors such as manufacturing, agriculture, tourism and textiles, which are more labor-intensive, received a smaller share of Chinese FDI.

This skewed investment pattern has significant implications for economic diversification and job creation in Zambia. The mining sector, while contributing substantially to capital accumulation, has not generated the level of employment seen in other sectors. For example, the employment pledge per USD million invested in the mining sector was markedly lower compared to manufacturing and agriculture, sectors that

are typically more labor-intensive. This suggests that while Chinese investments have bolstered Zambia's resource sector, they have not been as effective in promoting broad-based employment growth. This finding highlights the need for more diversified investments that promote economic diversification and job creation across different sectors of the economy.

Table 1: below illustrates the distribution of Chinese FDI across key sectors in Zambia:

Sector/Industry	FDI as a Percentage of Total Investment (2006-2012)	Employment Pledges per USD Million Invested
Mining (Extractives)	66.0%	13.0
Manufacturing	28.0%	40.5
Construction	1.6%	73.0
Agriculture	0.5%	51.0
Other	3.9%	27.9

Source: World Integrated Trade Solution World Bank

Further analysis of Chinese investments from 2005 to 2024, as shown in Table 2 and using data from the Chinese Global Investment Tracker, reveals a continued strategic focus on resource-intensive and infrastructure-driven sectors. In addition to the mining sector, the energy sector has also attracted over USD 5 billion worth of investments during this period, primarily through construction projects led by companies such as PowerChina and Sinohydro. These investments have focused on hydroelectric power generation and grid expansion, addressing Zambia's critical energy needs while simultaneously supporting Chinese industrial activities within the country.

The transport sector follows closely, with approximately USD 3.5 billion in investments aimed at enhancing trade infrastructure, particularly for mining exports. This focus on infrastructure aligns with China's broader Belt and Road Initiative, which seeks to facilitate the flow of resources and goods.

Chinese investments in real estate, while less than those in mining, energy, and construction, have still attracted a significant USD 2.25 billion. This investment surpasses agriculture (USD 1.23 billion), technology (USD 0.28 billion), tourism (USD 0.21 billion), and health (USD 0.13 billion).

Notably, the Agriculture, Forestry, and Fishing sector has, on average, contributed 3 percent to Zambia's GDP between 2018 and 2023 and employs around 721,349 individuals, making it the second-largest employment sector. However, it has received limited Chinese investment compared to mining, energy, and construction. This highlights the need for a strategic policy shift to attract increased investment in the agriculture sector a challenge similarly observed in the tourism sector key for economic diversification.

Table 2: Chinese Investments & Contracts in Zambia (2005 - 2024) , USD 17.37b Total

Year	Investor or Builder	Sector	Country	Amount	Type
2024	JCHX Mining	Metals	Zambia	750M	Investment
2024	Power Construction Corp. (PowerChina)	Energy	Zambia	200M	Construction
2023	JCHX Mining	Metals	Zambia	120M	Construction
2023	Aviation Industry Corp. (AVIC)-led consortium	Transport	Zambia	650M	Investment
2023	JCHX Mining	Metals	Zambia	170M	Construction
2022	China National Chemical Engineering	Agriculture	Zambia	460M	Construction
2021	Huaxin Cement	Real estate	Zambia	150M	Investment
2020	Power Construction Corp. (PowerChina)	Energy	Zambia	350M	Construction
2020	Anhui Zhongding	Health	Zambia	130M	Construction
2020	China Railway Construction	Transport	Zambia	830M	Construction
2020	Sun Share Investments	Real estate	Zambia	140M	Investment
2019	China National Machinery Industry (Sinomach)	Utilities	Zambia	450M	Construction
2018	China National Building Material	Real estate	Zambia	250M	Investment
2018	China National Building Material	Real estate	Zambia	230M	Construction
2018	State Construction Engineering	Tourism	Zambia	210M	Construction
2018	Jiangxi investors	Other	Zambia	200M	Investment
2018	StarTimes	Entertainment	Zambia	270M	Investment
2018	China National Machinery Industry (Sinomach)	Transport	Zambia	200M	Construction
2017	China Railway Engineering	Agriculture	Zambia	390M	Construction
2017	Aviation Industry Corp. (AVIC)	Transport	Zambia	400M	Construction
2017	Huawei	Technology	Zambia	280M	Construction
2016	China Railway Engineering	Transport	Zambia	110M	Construction
2016	Shandong Dejian	Agriculture	Zambia	170M	Construction
2016	China Railway Engineering	Energy	Zambia	220M	Construction
2016	State Construction Engineering	Transport	Zambia	200M	Construction
2015	Power Construction Corp. (PowerChina)	Energy	Zambia	170M	Construction
2015	Sinohydro	Energy	Zambia	2010M	Construction
2015	Sinoma	Real estate	Zambia	500M	Investment
2015	Aviation Industry Corp. (AVIC)	Real estate	Zambia	320M	Construction
2015	Henan International Cooperation Corp	Transport	Zambia	280M	Construction

2015	Sinoma	Real estate	Zambia	140M	Construction
2015	Jiangxi International Cooperation Corp	Transport	Zambia	390M	Construction
2014	China National Machinery Industry (Sinomach)	Energy	Zambia	190M	Construction
2014	China National Machinery Industry (Sinomach)	Agriculture	Zambia	110M	Construction
2014	China National Machinery Industry (Sinomach)	Agriculture	Zambia	100M	Construction
2014	Power Construction Corp. (PowerChina)	Energy	Zambia	450M	Construction
2013	Aviation Industry Corp. (AVIC)	Transport	Zambia	240M	Construction
2013	State Construction Engineering	Transport	Zambia	100M	Construction
2013	Henan International Cooperation Corp	Transport	Zambia	210M	Construction
2012	Power Construction Corp. (PowerChina)	Energy	Zambia	590M	Construction
2012	China Railway Construction	Utilities	Zambia	150M	Construction
2012	China Nonferrous	Metals	Zambia	830M	Investment
2012	China Copper Mines	Metals	Zambia	100M	Investment
2011	Power Construction Corp. (PowerChina)	Energy	Zambia	160M	Construction
2011	China National Machinery Industry (Sinomach)	Transport	Zambia	180M	Construction
2011	Tebian Electric Apparatus (TBEA)	Energy	Zambia	330M	Construction
2011	China National Building Material	Real estate	Zambia	100M	Construction
2010	China National Machinery Industry (Sinomach)	Real estate	Zambia	420M	Construction
2009	Sinoma	Real estate	Zambia	140M	Construction
2009	China National Machinery Industry (Sinomach)	Energy	Zambia	670M	Construction
2009	China Nonferrous	Metals	Zambia	370M	Investment
2008	Sinohydro	Energy	Zambia	280M	Construction
2006	China Nonferrous	Metals	Zambia	310M	Investment

Source: China global investment tracker

3.4 Investments in MFEZs: A Catalyst for Diversification, Job Creation, and Industrial Growth

The introduction of Multi-Facility Economic Zones (MFEZs) by the Zambian government in 2005 represents a strategic initiative aimed at fostering industrialization, job creation and enhancing the country's export competitiveness. The Zambia-China Economic & Trade Cooperation Zone (ZCCZ), also known as the Lusaka East Multi-Facility Economic Zone (LEMFE), established in 2007, is a key example of Chinese-led investment in Zambia's industrial sector.

These zones aim to support the growth of value-added exports by facilitating industries such as copper processing and agro-processing, which have the potential to increase Zambia's export capacity.

The MFEZs, particularly those driven by Chinese FDI, have made strides in encouraging value-added exports. However, the contribution of these zones to Zambia's overall export performance remains

ambiguous. Despite efforts to increase the domestic processing of copper and other raw materials, the precise impact of MFEZs on Zambia's value-added exports is difficult to quantify. The data gap on the proportion of MFEZ-processed goods in total exports complicates assessments of their effectiveness.

Ultimately, while Chinese investment in MFEZs has supported the establishment of processing industries, and creation of jobs as can be seen in Table 3, the limited evidence and statistics of high-value manufacturing outputs from these zones presents a challenge. This underscores the need for a more robust approach to monitoring and evaluation and data reporting from MFEZs operations.

Further analysis is needed to better understand the contribution of MFEZs to Zambia's overall export volume and value addition. A 2020 study by the Zambia Institute for Policy Analysis and Research (ZIPAR) suggests that while MFEZs have contributed to raw material processing, they have not fully realized their potential in high-value manufacturing outputs.

Table 3: Summary of SEZ from Chinese investment

Name of Company	Name of MFEZ	Location	Status	Investment (USD)	Main Industrial Activities	Jobs Created
China Nonferrous Metal Company (CNMC)	Lusaka East Multi-Facility Economic Zone (LEMFE)	Lusaka	Operational (established 2008; covers 5.7 km ²)	20 million	Agro-processing and manufacturing industries; Modern logistics; Real estate; Commerce and business.	Approximately 207 jobs
China Nonferrous Metal Company (CNMC)	Chambishi MFEZ	Copperbelt (Kitwe)	Operational (established 2007; covers 3,692.801 ha)	1.3 billion	Heavy and light industries; Copper processing industries; Mechanical industries;	Approximately 8,211 jobs
Jiangxi Economic Cooperation Zone	Jiangxi Economic Cooperation Zone		In progress (as of 2024; covers 2,088.9157 ha)	In progress	Mining services; EVs car battery manufacturing and processing activities.	In progress

Source: ZDA 2024.

MFEZ clearly provided avenues for complementing mining investments with manufacturing and processing activities, and Chinese FDI can help address Zambia's job creation challenges while laying the foundation for industrial growth and export competitiveness. MFEZs also demonstrate the potential for Chinese investments to contribute to economic diversification, bridging gaps highlighted in earlier analyses.



4. Advantages of Zambia-China Trade Relations

4.1 Infrastructure development and Capital Investment

China has played a key role in promoting infrastructure development in Zambia, significantly contributing to the country's economic growth. A prime example of this is the recent USD 1 billion investment aimed at modernizing the Tanzania-Zambia Railway Authority (TAZARA). This initiative is crucial in enhancing Zambia's ability to export copper and other minerals through the Dar es Salaam port, thereby boosting the country's position within the global mineral supply chain and improving overall export efficiency.

China has also been instrumental in providing investments, particularly in capital-intensive sectors in Zambia. At the China-Zambia High-Quality Development Forum held on May 15, 2024, China pledged approximately USD 1 billion in investments across key sectors. These funds include USD 290 million for mining, USD 58 million for agriculture, and USD 652 million for energy. The planned investments are expected to drive economic growth through increased mining output, enhanced agricultural productivity, and expanded energy generation. These developments offer substantial potential to significantly enhance Zambia's long-term economic outlook.

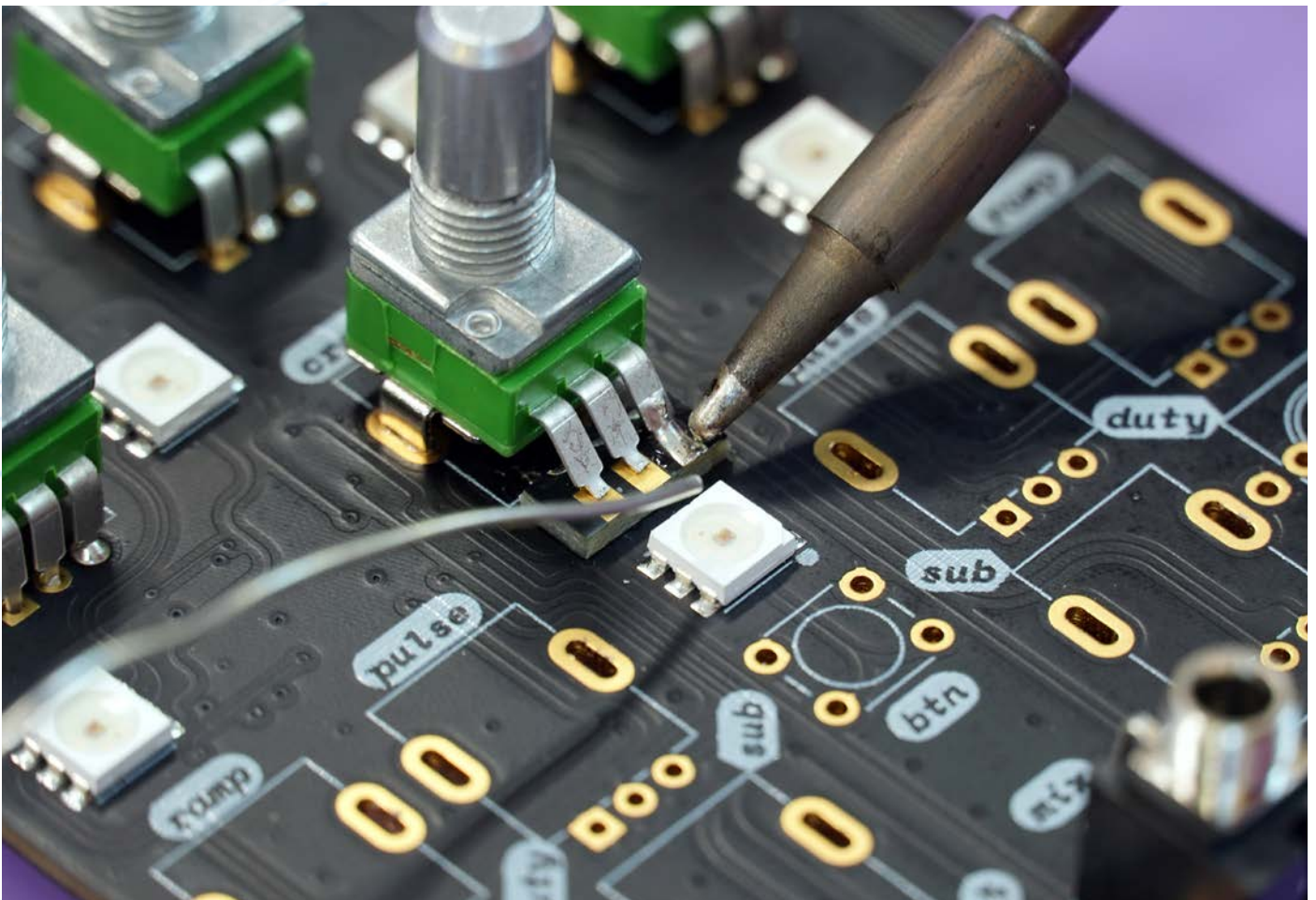
Figure 7: Break down of 18 MOUs signed during China-Zambia High-Quality Development Forum held on 15th May, 2024 in Lusaka Zambia.



Sources: Author's construction based on the China-Zambia High-Quality Development Forum Presidential Speech 2024.

4.2 Industrialization and Technological Advancements

China's investments have been pivotal in advancing Zambia's industrialization, especially through the development of renewable energy infrastructure. One such example is the collaboration with Longi Green Energy Technology Company to expand solar energy infrastructure, positioning Zambia as a regional hub for solar solutions. This development contributes to the diversification of Zambia's energy mix, reducing dependency on hydropower. Additionally, the establishment of a car battery manufacturing plant in the Zambia JianXi Multi-Facility Economic Zone (MFEZ) in Chibombo, backed by a USD 90 million investment, is expected to boost Zambia's industrial capacity. With the potential to produce 400,000 batteries annually, the plant is expected to stimulate local businesses through job creation and enhanced value chain linkages. Further, Chinese investments have also contributed to knowledge transfer on technology and managerial expertise to Zambia, particularly in construction and mining. Investments in the Zambia-China Economic & Trade Cooperation Zone (ZCCZ) MFEZs have created thousands of jobs, stimulated local businesses, and fostered domestic value addition. These investments reflect broader trends across Africa, where Chinese FDI has played a crucial role in infrastructure and technological development.



5. Challenges of Zambia-China Trade Relations

5.1 Trade balance

Zambia's trade relationship with China, while beneficial in terms of investment and infrastructure development, is marked by a structural imbalance. Zambia faces a structural trade imbalance in its relationship with China, which is primarily driven by the type of goods traded. In 2022, Zambia's exports to China were valued at approximately USD 2 billion, with raw copper accounting for over 60% of the total exports¹. In contrast, Zambia's imports from China were valued at around USD 113 million comprising of mainly mining machinery in the same period. The core issue that exacerbates the trade imbalance is Zambia's underdeveloped industrial base. This leaves the country heavily reliant on exporting raw materials, such as copper, while importing finished goods like machinery, electronics, and other manufactured products.

5.2 Labour Practices

Labour practices within Chinese operated enterprises in Zambia remain a contentious issue. Reports have highlighted meagre working conditions, restricted union rights, and instances of Labour violations against workers, particularly in Chinese-owned mining operations. While Chinese investments have created employment opportunities, there are still challenges reported with regards to Labour laws.

5.3 Environmental and Social Impacts

The rapid industrial development driven by Chinese investments, particularly in the mining sector, has raised concerns about environmental sustainability and social impacts. The increasing pace of extraction has contributed to environmental degradation, underscoring the need for stronger regulatory frameworks and enhanced oversight mechanisms. Addressing these concerns is essential to ensure that Zambia's natural resources are used responsibly and sustainably.

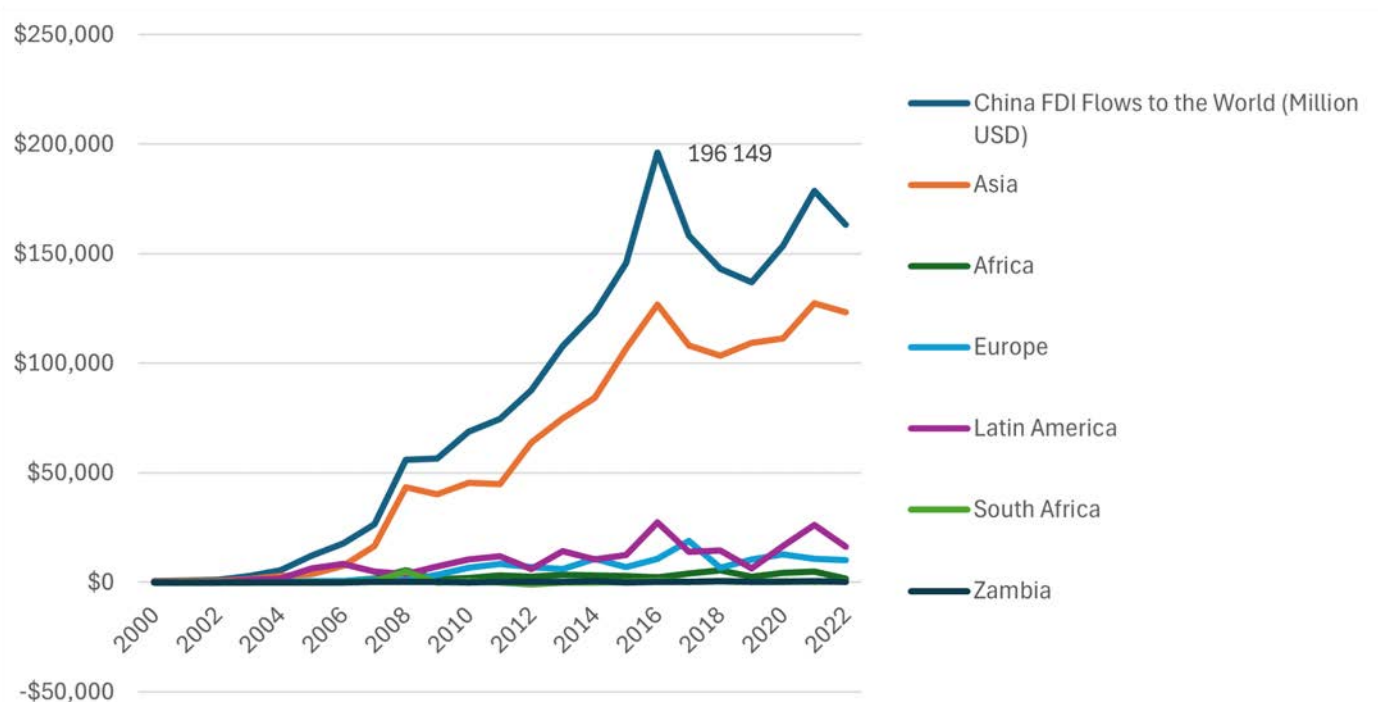
¹ <https://oec.world/en/profile/bilateral-country/chn/partner/zmb>

6. China's Economic Slowdown and Implications for developing economies

Since 2008, China has positioned itself as one of the world's largest investors, with its outward foreign direct investment (FDI) peaking at USD 196 billion in 2016. However, this trend has shifted as Chinese FDI flows have declined significantly. This reduction reflects both internal and external pressures, including China's efforts to realign outward investments with domestic priorities and the economic disruptions caused by the COVID-19 pandemic. For instance, the share of global FDI from China fell from 9.7 percent in 2016 to 7.9 percent in 2019 (World Bank, 2024).

The decline in China's global investment footprint has raised concerns, particularly for developing economies heavily reliant on Chinese capital. This shift signals a broader economic transformation within China, which has important ramifications for global trade, investment, and development dynamics.

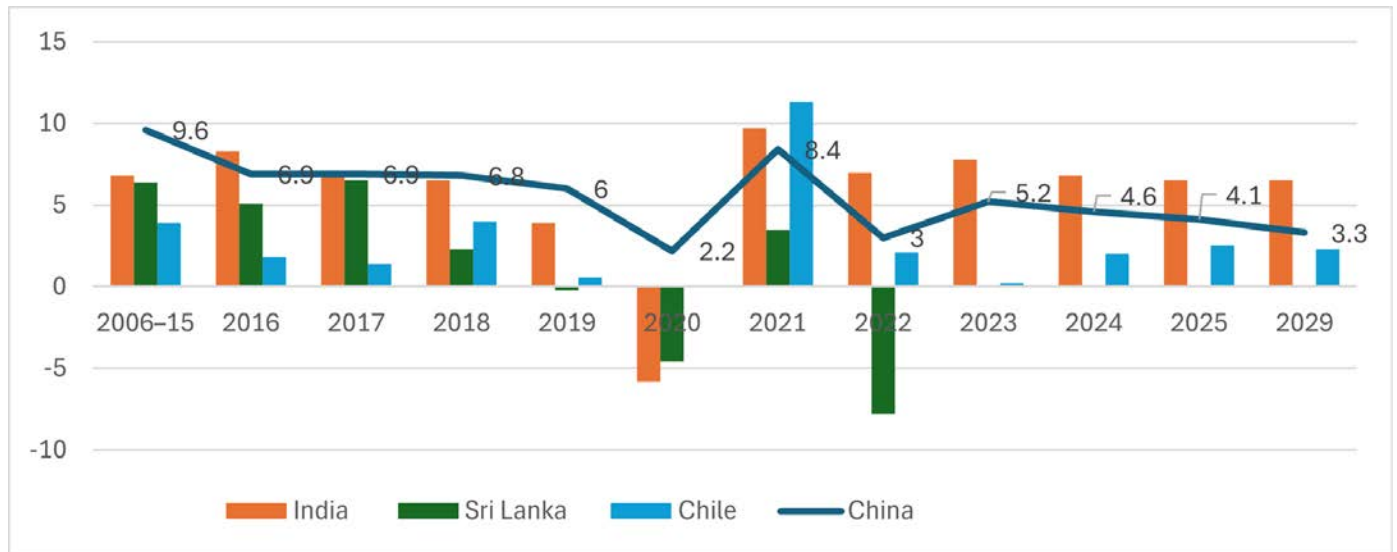
Figure 8: China FDI abroad, by geographical destination 2000-29(Percent)



Source: Author construction from UNCTAD, FDI/MNE database

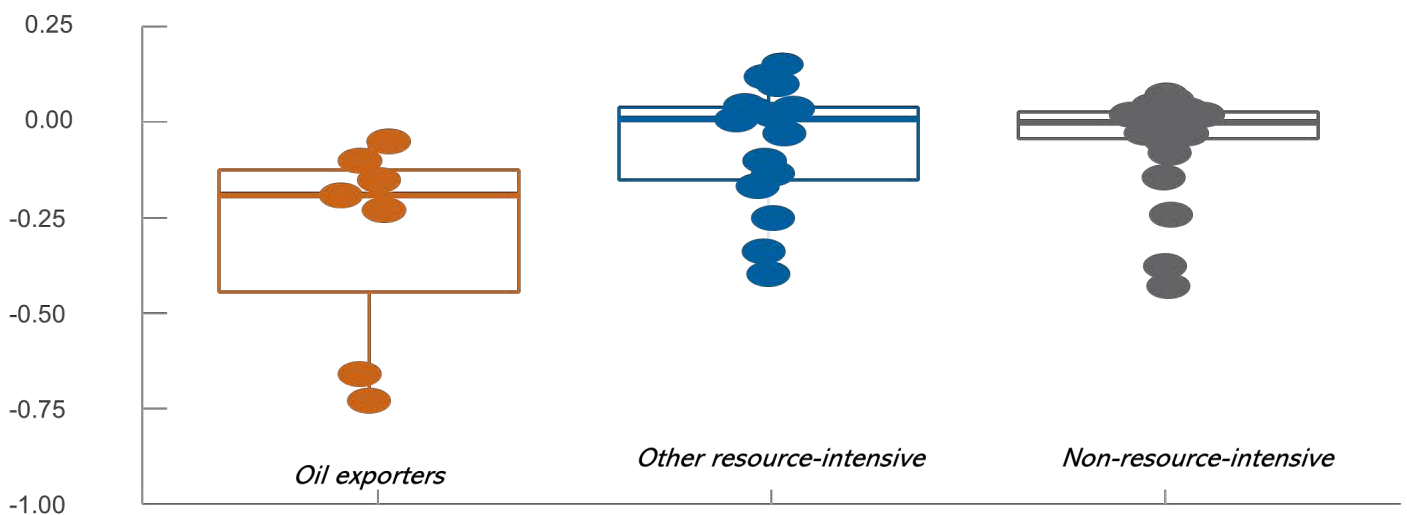
The declining trend in Chinese FDI is exemplary of a broader economic slowdown, which has become more pronounced in recent years. By 2023, China's GDP growth rate, which had averaged 10% in the 2000s, is projected to fall below 4% annually between 2023 and 2028 (Figure 9). Key contributors to this deceleration include structural challenges, demographic changes, and the cooling of its real estate sector (IMF, 2024)².

² <https://www.imf.org/en/Publications/WEO/Issues/2024/04/16/world-economic-outlook-april-2024>

Figure 9: Emerging Market and Developing Asian Economies: Real GDP Africa 2006–29 (Percent)

Source: Trade Map Data.

The economic implications of this slowdown extend beyond China's borders, particularly for resource-dependent developing economies. China's reduced demand for commodities, first observed post-2015, has already dampened the growth trajectories of many sub-Saharan African countries. Empirical evidence suggests that a 1 percentage point decline in China's GDP growth results in a 0.25 percentage point reduction in sub-Saharan Africa's GDP growth within a year³. For resource-exporting countries, the impact is even more pronounced, averaging a 0.5 percentage point decline (Figure 10).

Figure 10: Sub-Saharan Africa: GDP Response to China's Growth Slowdown (percent of GDP)

Source: IMF regional economic outlook report 2023, specific analysis on Sub-Saharan Africa.

Note: Dots denote individual countries. Box plots portray the median country effect as the thick horizontal line and the first and third quartiles as hinges. Whiskers extend in both directions by the closest of the maximum or minimum value and 1.5 times the interquartile range. Country groupings are detailed in the October 2023 Regional Economic Outlook:

³ Regional Economic Outlook for Sub-Saharan Africa, October 2023 (imf.org)

This relationship underscores the interconnectedness of global economies and highlights the vulnerabilities of developing nations to external economic shocks. For Zambia, where trade and investment ties with China are critical, this slowdown demands a strategic response.

Yet, opportunities emerge alongside challenges. As global markets pivot towards cleaner energy, demand for critical minerals like lithium essential for electric vehicle batteries is set to rise. This shift offers Zambia a chance to capitalize on its resource endowment by fostering deeper collaboration with China, which remains a key supplier of industrial equipment, capital goods, and expertise. By aligning its economic strategies with these evolving trends, Zambia can mitigate the adverse effects of China's economic slowdown while seizing new growth opportunities.

7. Conclusion and Policy Recommendations

Zambia-China trade relations have evolved significantly over the past two decades, with trade and investment flows shaping Zambia's economic landscape. As China remains Zambia's largest trading partner and investor, the concentration of trade in raw minerals and FDI in the mining sector presents both opportunities and risks. While the growth of China's economy has historically been a major driver of Zambia's exports, the current slowdown presents challenges, including fluctuating commodity prices and a shift towards a consumption-driven growth model in China. However, this shift also presents opportunities for Zambia to diversify its economy, enhance industrialization, and strengthen regional ties. Given these dynamics, it is crucial for Zambia to adopt a strategic approach that balances the benefits of its relationship with China while mitigating associated risks.

A summary of the Key Findings in this paper is as follows

- Zambia's economic relations with China have deepened over the years since establishing diplomatic ties in 1964 and this is expected to continue on a positive trajectory, primarily driven by trade, investment, and diplomatic relations.
- Zambia's trade with China is heavily concentrated in raw mineral exports, and Chinese FDI is similarly focused on Zambia's mining sector, with limited diversification into other sectors such as manufacturing, agriculture, and tourism. This concentration in both trade and investment increases Zambia's vulnerability to external economic shocks, underscoring the need for greater diversification in both areas to foster a more resilient and balanced economy.
- Emerging trends suggest a shift towards green energy and digital infrastructure, presenting opportunities for diversification.

In response to these findings, this study draws the following recommendations:

1. Promote Downstream Value Addition

In view of the high concentration of Zambia's trade with China in raw commodity exports, primarily extractive mineral resources, Zambia should prioritize building industrial capacity for downstream value addition, particularly in the copper sector. This requires addressing gaps in technology, market systems, and cost competitiveness to improve production efficiency. Furthermore, strengthening backward and forward linkages across sectors is essential for supporting industrial growth. This includes implementing local content policies to integrate local businesses into supply chains and investing in skills development to enhance workforce capacity.

2. Leverage Regional Trade Agreements

The study findings show evidence portraying Zambia's trade profile revealing a high degree of concentration in two major markets, China and Switzerland, which increases its vulnerability to external economic shocks. To mitigate these risks, Zambia should diversify its export markets by leveraging regional trade frameworks such as the African Continental Free Trade Area (AfCFTA). Expanding trade within Africa can enhance market access, promote regional integration, and reduce overreliance on a few key trading partners. Strengthening resilience against global economic fluctuations is essential, particularly given the empirical evidence of the implications of economic slowdowns in major economies like China for resource-dependent countries like Zambia.

3. Promoting Economic Diversification

Given the heavy concentration of Chinese FDI in Zambia's mining sector, which, while contributing significantly to capital accumulation, has been shown through empirical evidence to generate relatively low employment compared to more labor-intensive sectors such as manufacturing, agriculture, tourism, and textiles, it is crucial for Zambia to promote economic diversification. To achieve broader economic growth and job creation, Zambia should encourage Chinese investments in the labor-intensive sectors. This could be facilitated through targeted incentives within special economic zones (SEZ) aimed at attracting investment in manufacturing, agriculture, and other industries with higher employment potential. Fostering such diversification would not only contribute to economic growth but also improve job creation for Zambia's labor force.

4. Leverage Sino-Zambia Growing Bilateral Relations to Maximize Critical Minerals Exploitation

Given the global shift towards clean energy and the rising demand for critical minerals essential to the energy transition, Zambia is well-positioned to capitalize on its natural endowment of these minerals, especially copper, which is central to the global push for green energy solutions and the development of electric vehicle technologies. As industrialized economies, particularly China, continue to demand critical minerals to support their technology and manufacturing industries, Zambia must strategically leverage its growing bilateral relations with China to maximize the exploitation and export of these resources.

To fully harness this potential, Zambia should integrate its ongoing mining sector reforms into its broader economic strategy. These include aligning with the National Three (3) Million Tonnes Copper Production Strategy by 2031 and advancing the National Critical Minerals Strategy (2024-2028), which are both vital for scaling production, value-addition and diversifying mineral exports. Moreover, it is crucial for Zambia to expedite the development of the Local Content Bill and the Minerals Regulation Commission, which seeks to oversee the governance of the extractive industries. This will not only strengthen Zambia's regulatory framework and capacity to secure favorable investment deals, but also ensure sustainable mining practices and generally improve the business and investment environment.

5. Regulatory Framework and Business Environment

The study findings highlight the deepening bilateral economic relations between Zambia and China, which are expected to continue on a positive trajectory, driven by trade, investment, and diplomatic ties. As these relations evolve, it is crucial for Zambia's regulatory framework, including bilateral investment treaties (BITs), to undergo regular reviews to ensure they remain aligned with modern global developments and provide the necessary policy space to protect the interests of both parties. The reviews should be targeted at addressing arbitrary interpretations and ensuring that legal consequences for breaching laws, as well as litigation procedures, are clearly outlined. Moreover, it is essential to safeguard these processes from corruption and political interference to maintain the integrity and effectiveness of the regulatory system.

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