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THE ROLE OF SPECIAL ECONOMIC ZONES IN AFRICAN COUNTRIES DEVELOPMENT AND THE CHINESE FDI

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1. INTRODUCTION

The Chinese Government's policy of "going out" encourages Chinese companies to pay more attention to invest in the new markets, like Latin America, especially Africa. It promotes the establishment of more and more Chinese overseas industrial and trade zones. They not only help increase demand for Chinese-made machinery and equipment, reduce investment entry and operating costs, but also assist China's efforts to boost industrial restructuring at home and nurture companies to move up the value chain. They also provide a stage for less experienced small and medium-sized enterprises (SMEs) overseas. For the African countries, they can learn from the experience and lessons from the Special Economic Zones (SEZs) established in China. The SEZs have proved to be particularly relevant for Chinese development in the past 35 years, since they were created in 1979, they played a decisive role for development of places like Shenzhen, Zhuhai, Xiamen, Shantou, Hainan and Shanghai.

SEZs are geographically delimited areas, offering certain incentives that aim at overcoming investment barriers at a national level like preferential tax. They vary in size and scope and operate under different regimes such as Economic and Technical Development Zones (ETDZs), Free Trade Zones (FTZs), Export Processing Zones (EPZs) and Industrial Zones. SEZs are development tools that in several countries have helped to stimulate economic development by attracting local and foreign investment, enhancing competitiveness, and facilitating export-led growth. At the beginning the Chinese SEZs began by being EPZs with export-oriented production, normally with low-value added products like apparel, footwear, toys, electronic goods, but gradually they progress and started to produce high-value added products by introducing high-technologies and other strategies.

China learned the SEZ experience from Shannon, Ireland and learned from Japan their "Export-Oriented Growth Model", and practices the model firstly in the SEZs. As proved to be successful, according to the GDP growth of these cities, Chinese government now is trying to coordinate also with Africa guided by this policy. In 2006, the development of overseas zones was given significant priority, as the Chinese Government announced at the Forum on China-Africa Cooperation (FOCAC) its intention to establish up to fifty special economic cooperation zones abroad. The zone projects are still in early stages of implementation. MOFCOM reported that as of June 2010, a total amount of US\$700 million had been invested by Chinese companies in the construction of 16 zones. MOFCOM also reported that over 200 companies were operating in these zones and the initiative had generated investments worth US\$2.5 billion. (World Bank, Final Report, January 2011)

This paper aims to characterize the Chinese SEZs model and its contributions to Chinese economic development and to research if this model can be replicated in African countries. We will analyze the empirical cases of Chinese IDE in SEZs in African Portuguese Speaking Countries and its role to improve the competitiveness of these countries domestic markets, utilizing the case study methodology.

In this case study, we are going to research if it's possible to apply the well succeeded Chinese SEZs model in Africa. So our research questions are:

1. What characterizes the Chinese SEZs model?

2. Is it possible to apply the Chinese SEZs model in African countries? And what is its role?

2. LITERATURE REVIEW

2.1 The establishment of SEZs in China and their contributions to Chinese economic development

The economic situation of China in 1978 called urgently for a systematic reform after the ten-year Cultural Revolution (from May of 1966 to October of 1976) that left the country in absolute poverty. In 1980, it was a rural country with 69% of the population employed in agriculture that only generated 30% of the income; the per capita income was in that time of 616 RMB in rural areas and the Foreign Direct Investment (FDI) and the foreign trade were insignificant (OECD, 2002). To answer this urgent call, Deng Xiaoping, chief architect of the “Reform and Open-up” Policy, launched an economic reform in 1978. At that time, the reform was not well received by all. Because since the creation of the People’s Republic of China, although with different phases, the economic model practice by Chinese Communist Party was always a very controlled and closed centralized planned economic model. But the classic models of economic growth, based on closed planned protected markets didn’t proved to be successful and sooner or later, with or without political democratization changes, the great majority of countries that applied that model initiate a transition to modern market system and begun to growth after the reduction of barriers to international trade and investment (Ilhéu, 2005). The Reform and Open Door Policy of the Economic Sector were enforced after being approved by the Communist Party Congress, it was a Reform made from inside the party and it got by surprise many people in China and not everybody saw the foresight of this reform. Cautious in a pragmatic way Deng decided to test the efficacy of market-oriented economic in a centrally planned economy and controlled environment. Due to lack of experience, the government decided to “open” gradually from the coastal cities to internal China. Therefore the first SEZs were established in the strategic located cities like Shenzhen.

In November 1978, farmers in Xiaogang, a small village in Anhui Province, pioneered the “contract responsibility system,” which was subsequently recognized as the initial impetus for far-reaching and ultimately successful rural reforms in China. The following month, the Third Plenum of the 11th Congress of the Chinese Communist Party adopted the “Reform and Open-up” Policy, and in July 1979, the Party Central Committee decided that Guangdong and Fujian provinces should take the lead in conducting economic exchanges with foreign countries and implementing “special policies and flexible measures.” By August 1980, Shenzhen, Zhuhai, and Shantou within Guangdong Province were designated as special economic zones (SEZs), followed by Xiamen in Fujian Province in October 1980. The four SEZs were quite similar all comprised large areas within which the objective was to facilitate broadly based, comprehensive economic development, and enjoyed special financial, investment, and trade privileges. They were encouraged to pursue pragmatic and open economic policies that would serve as a test for innovative policies that, if proved to be successful, would be implemented across the country more widely. The four SEZs were located in coastal areas of Guangdong and Fujian, which had a long history of contact with the outside world and were near Hong Kong, Macao and Taiwan. For example, Guangdong province is one of the biggest hometowns of Chinese overseas. The

choice of Shenzhen was especially strategic because of its location across a narrow river from Hong Kong, the principal area from which China could learn capitalist modes of economic growth and modern management technologies. (Yeung, Lee and Kee, 2009) Since their establishment in 1980 the SEZs have made critical contributions to China's success and rapid economic development. In 2006, the five initial SEZs accounted for 5% of total merchandise exports, and 9% of total FDI inflows. At the same time, the total GDP of the majority of the state-level SEZs (including the seven comprehensive SEZs, ETDZs, HIDZs, and FTZs) would account for about 18.5% of China's total GDP and about 60% of total exports. In 2007 the total GDP of the major state-level SEZs accounted for roughly 21.8% of national GDP, (See Table 1) The SEZs are also a major platform for attracting FDI and hosting new and high-technology firms to China, especially in the HIDZs and ETDZs, being in fact the engines of China's high-tech industries and contributing greatly to its technology upgrade, as well as adoption of modern management practices.

Table 1

Table 1.3 Performance of Initial Five Special Economic Zones and National Economic and Technological Development Zones, 2006

<i>National Indicator</i>	<i>SEZs</i>	<i>ETDZs</i>	<i>China</i>
Total employment (millions)	15	4	758
as % of China total	2.0	0.5	100
Real GDP (RMB 100 millions)	9,101	8,195	183,085
as % of China total	5.0	4.5	100
Utilized FDI (US\$100 millions)	55	130	603
as % of China total	9.1	21.6	100
Merchandise exports (US\$100 millions)	1,686	1,138	7,620
as % of China total	22.1	14.9	100
Total population (millions)	25	—	1,308
as % of China total	1.9	—	100

Source: National Statistics Bureau 2006.

Note: — = not available.

Source: Zeng(2011)

Being successful the experience of the first launched SEZs, gradually the Chinese government extended it to the inland regions, sought to focus less on fundamental industries and more on technology-intensive industries. Besides, other types of SEZs in China, including high-tech industrial development zones (HIDZs), free trade zones (FTZs), export-processing zones (EPZs), and others have also been established.

The SEZs, most of all, successfully tested the market economy and new institutions and established role models for the rest of the country to follow. Free zones have existed for

a long time. They were originally established to encourage entrepôt trade, and mostly took the form of citywide zones located on international trade routes. like Gibraltar (1704), Singapore (1819), Hong Kong (China; 1848), Hamburg (1888), and Copenhagen (1891). The first “modern zone” was established in Ireland (Shannon, located at Shannon International Airport) in 1959. It offered investors secure access to European markets, with preferential tax. Since then, a variety of different zones were set up. According to World Bank (April, 2008), special economic zone is a generic term that encompasses the recent variants of the traditional commercial zones. The principles incorporated in the basic concept of a special economic zone include:

- Geographically delimited area, usually physically secured (fenced-in)
- Single management/administration
- Eligibility for benefits based upon physical location within the zone
- Separate customs area (duty-free benefits) and streamlined procedures.

This generic special economic zone concept has evolved over time, resulting in a large variety of zones with differing objectives, markets, and activities, including: Free Trade Zones (FTZ) and Export Processing Zones (EPZs). Free trade zones, also known as commercial free zones and free commercial zones, are small, fenced-in, duty-free areas, offering ware housing, storage, and distribution facilities for trade, transshipment, and re-export operations, located in most ports of entry around the world. A leading example is the Colon Free Zone in Panama. Export processing zones, industrial estates offering special incentives and facilities for manufacturing and related activities aimed mostly at export markets, typically take two forms. In the traditional EPZ model, the entire area within the zone is exclusively for export-oriented enterprises licensed under an EPZ regime. Hybrid EPZs, in contrast, are typically sub-divided into a general zone open to all industries regardless of export orientation and a separate EPZ area reserved for export-oriented, EPZ-registered enterprises (World Bank, 2008). The first zone to bear the name of EPZ was set up at Ireland’s Shannon International Airport. The major purpose of the Shannon EPZ is to promote export industries, taking advantage of local labor and special trade and tax incentives provided within the zone. It is the Shannon-type zone that many developing countries seem to have been interested in emulating, especially since 1970. (Sit. V.F.S., 1985). The idea of “Economic and Technological Development Zones (ETDZ)”, or simply the “Development Zones” first began in 1979-1980 after the “Open-up” in China. “The state-level ETDZ is a relatively small piece of land carved up in the coastal cities and other open cities. It attaches great importance to improving hard and soft investment environment and adheres to the policy of “mainly developing the high-tech industry, focusing on industrial projects, absorbing foreign fund and building up export-oriented economy” to strive for a fast and sound development. Serving as “windows and bases” in the fields of opening-up, capital attraction, export enlargement, hi-tech development and regional economy promotion, it now becomes a powerful engine

in developing regional economy and plays an important role in adjusting regional economy and industry structure. As a matter of fact, The ETDZs have scored great achievements and become the hot places for foreign investment and main drivers of export.” (National Economic Technology Development Zones site, 2014). By April 2010, the number of state-level ETDZs increased to 69 from 14 by the end of 1988 (China Knowledge Online, 2009). With the development of these economic zones, it has created a growth (national GDP) in China's economic by creating more job opportunities and encouraging on foreign direct investment.

So we can conclude that most of the SEZs in China, though differing in performance and speed, are quite successful. Together, they have formed a powerful engine to drive China's reform process and economic growth.

1.1.1 Reflections on the Experiences of China's SEZs: Major Factors for Success and Lessons Learned

Less developed countries (LDC) now look admiringly at China's economic modernization and development and wonder what experience and lessons they may learn from the success. According to Zeng (2011) and Yeung, Lee and Kee (2009), the SEZs, by the above data, accelerate the pace of China's economic revitalization, by the following factors:

- a) **Strategic location advantages.** The first SEZs of China are all located in the coastal cities. It has been taken into consideration that these cities may have either better links to the international market or better historical trade relations and experience, for example, Guangdong province is one of the biggest hometowns of Chinese overseas. From then on, infrastructures, such as airports, and railways have been built, and capital, high-technology, as well as management skills have also been acquired. The location advantage, close to Hong Kong, Macao, Taiwan, combined with the advantage of labor, land, and natural resources, allowed the Pearl River Delta region to emerge relatively quickly as one of the world's major manufacturing bases. The SEZs also became the showcase of China to communicate the outside world the result of its economic reform. It also works as a platform between inland regions and the world. With these advantages, they developed the exports, tertiary industry, etc.
- b) **Foreign Direct Investment (FDI) and the Chinese diaspora.** The strategic locations and later-built infrastructures of the SEZs have been contributing to attract more FDI. The Chinese Diaspora also contributed to attracting capital investment, technologies, and management skills through its connections with foreign entrepreneurs, playing a very important role in the success of the SEZs. At the same time that the SEZs were opening up in the 1980s, Hong Kong, Macao, and Taiwan were also beginning to upgrade their industrial structure and transfer out their labor-intensive manufacturing sectors. The cheap labor and good infrastructure in the SEZs, as well as the Open

Door policies coupled with generous incentives, provided a great opportunity for FDI to flow into China from the diaspora. Given the culture, language, and location advantages, such investments were dominant in the beginning stage, especially for the early SEZs.

- c) **Preferential policies and institutional autonomy.** To encourage investment of national and foreign firms, the SEZs had in place various preferential policies, including preferential fees for land or facility use, reduced duties on imports, duty-free imports of raw materials and intermediate goods to be incorporated into exported products, rapid customs clearance, the ability to repatriate profits and capital investments, flexibility in hiring and firing workers, among others. In addition, the SEZ governments are able to make timely adjustments to relevant policies and regulations based on business needs and market conditions, as well as on development stage. Favorable policies were also in place to attract skilled labor, including the overseas diaspora, like education for their children, social benefits for the elders, etc. The central government had tried to decentralize its power and helped creating an open and conducive legal and policy environment for the SEZs. At the same time, the local governments made a great effort to build a sound business environment. They not only put in place an efficient regulatory and administrative system but also good infrastructure. These factors were critical to attracting the right talent.
- d) **Tenacious determination and willing of performance from the central government to the local government.** The Chinese government was very determined to make great changes in the economic sector, although the “Open-Door” policy didn’t reached a consensus in the Central Committee. Such determination ensured a stable and supportive macro-environment for the “Reform and Open Door” policies to prevent political opposition and temporary setbacks from undermining the economic experiment with the special economic zones. With the success of the Chinese SEZs, the government, at various levels, has played a very important role, from building better infrastructure to technology innovation introduction. In addition, the local government has tried to use the special powers given to the SEZs to create an efficient regulatory system and a conducive business environment, which make the SEZs attractive to investors. Such interventions are quite necessary and also very appropriate. This is one of the most important factors for the success. No matter how strategic the locations are, or how innovative and efficient the human resources are, the government always has to play an indispensable role in the entire reform.

The Chinese experience suggests that a gradual approach works better than abrupt changes. The SEZs are seen as the laboratories to test the new policies so that the policies can be adjusted in time according to the result of application in the SEZs. Serving as examples, despite great disparities in performance and speed of growth, the SEZs compete between them to have a better result or at least better demonstration effect. Such

a competition puts great responsibility on the government officials in charge of SEZs. So they all have to plan clear goals and program in targets for GDP growth, employment, exports, and FDI.

Nonetheless, China's SEZs have played, and are still playing important roles in China's economic transformation, serving as a good example not only for the inland region of China, but also for the other developing countries. The above factors are not necessarily all that have contributed to their success, but they do capture some of the key elements that might be useful to other developing countries that wish to learn from China's industrial experiences. According to Zeng (2011), the lessons to be learned from the Chinese SEZs are:

- a. **The policies and development model need to be adjusted according to the stage of development.** The development of SEZs should follow the rules of economic development and adjust its policies in time. For instance, at the beginning of the Opening Policy, to attract FDI, the preferential tax policies of the government for foreign investors were considerably generous, comparing with those of inland China. But with the increasing growth of FDI flows, the tax policies were adjusted gradually according to the different phase of development. In terms of development model, moreover, with the rapid economic growth and increasing environmental challenges of recent years, greater emphasis is now placed on “green” and social development. In the medium and long term, the sustainable development has to be put on the agenda of model shift.
- b. **Avoid unnecessary waste of resources and excessive pursuit of GDP growth in number.** The government, or to be more exact, the state, invest much capital during the establishment of SEZs in several areas. The inspection system was not very strict with the investments. So some local governments took advantage of the goodwill and generosity of the central government, and asked for excess amount of money that they actually didn't need, causing the unnecessary waste of state capital. Under the pressure of competition among the SEZs in terms of economic growth, as referred above, some local authorities' pursuit blind economic growth and employment rate increase only by excessive infrastructure construction. Instead of seizing the opportunities to invest in the needed sectors, ignoring their own constrains and capacity, they invest in speculative construction. Later, the excessive construction even caused the bubble of the real estate market in some cities.
- c. **Intensify technology learning, innovation and upgrading.** If China wants to be a truly innovative nation, the emphasis of investment should be shifted from labor-intensive industry to technology-intensive industries. The government should increase innovation and high-technology by increasing investment, building R&D infrastructure, and offering special incentives to attract high-tech firms. In addition, the government has also to design policies to attract high-quality scientists and engineers.

The world development community should pay close attention to the lessons provided by China's experience. It offers many useful ideas and approaches for other developing countries. However, there is "no one size fits all" approach. All the experiences and lessons need to be adapted to the situations of the particular economy. That is how China learned from Western countries and succeeded, and the same should be true for any country. Meanwhile, China did not simply replicate models for reform but instead explored its own way toward a market economy, incorporating characteristics that fit China's unique situation. Such pragmatism is crucial for achieving any successful reform.

1.2 The dynamic discussion of the model

Economic growth theory is an important branch of economics. It studies the economic system, the quantitative relationship between the influencing factors of economic growth. The establishment of economic growth model is the main method to study the relationship between the number and economic growth. There are many models of economic growth and development, for example, the transition economic model of growth, the Harrold-Domar model, the Lewis structural change model, etc. "One-fit all" economic model doesn't exist. The adaption of the economic models also varies according to the situation, or initial conditions of different countries. In terms of development model of China, the economists have different opinions. According to Heinberg (2011), the fundamental economic model that China has depended on for the past couple of decades consists of producing low-cost export goods to fund investment at home. Zhang (2011), says that there are two main features in China's traditional development model: investment-driven and export-oriented. To know better the development of SEZs and export-oriented growth in China, it is necessary to know some development models.

1.2.1 Definition of transition economy and the two transition models

A transition economy or transitional economy is an economy which is changing from a centrally planned economy to a market economy (Feige, 1994). The transition process is usually characterized by the changing and creating of institutions, particularly private enterprises; changes in the role of the state, thereby, the creation of fundamentally different governmental institutions and the promotion of private-owned enterprises, markets and independent financial institutions (Falke, 2002). These include economic liberalization, where prices are set by market forces rather than by a central planning organization. In addition to this trade barriers are removed, there is a push to privatize state-owned enterprises and resources, state and collectively run enterprises are restructured as businesses, and a financial sector is created to facilitate macroeconomic stabilization and the movement of private capital. The transition model has been applied in China and some Eastern European countries, among others. Due to the different initial conditions during the emerging process of the transition from planned economics to

market economics, countries use different transition models. China and Vietnam adopted a gradual transition model; however Russia and some other East-European countries used a more aggressive and quicker paced model of transition. A central feature of transition is to build market-institutions—legal system, private property, financial system, etc.

The European Bank for Reconstruction and Development (EBRD) developed a set of indicators to measure the progress in transition. The classification system was originally created in the EBRD's 1994 Transition Report, but has been refined and amended in subsequent Reports. The EBRD's overall transition indicators are:

- Large-scale privatization
- Small-scale privatization
- Governance and enterprise restructuring
- Price liberalization
- Trade and foreign exchange system
- Competition policy
- Banking reform and interest rate liberalization
- Securities markets and [non-bank financial institutions](#)
- Infrastructure reform, legal and institutional reform

The initial conditions referred above are:

- Length of socialist period
- Dimensions & geographic location in proximity to West Europe
- Per capita income
- Economic development - useful index is the percent of the labor force in agriculture versus heavy industry
- Trade experience (competitive forces; level of economic openness)
- Resource bases

Transition can be likened to change the organism from one type to another. There are two types of transition models, the Big-Bang, also called shock therapy, and the Gradualism (slow and steady), also evolutionary approach. Big Bang, or shock therapy, on the other hand, is defined by Aslund (1996) as a case in which a country tries to implement a maximum of reforms in a short period of time. This transitional model involves moving quickly to eliminate the old order and to replace it with new organizational and policy

arrangements, for example, markets; transition policies could be implemented rapidly. Normally, the measures taken by the Big bang therapy are all at once and painful but causes immediate, sharp economic collapse. Poland, other Central European countries (Hungary, Czech, Slovenia, and Slovakia) chose the big bang model.

The gradual model emphasizes complexity of organizations; process of learning and adaptation. This approach drew on the analogy of how markets and related organizational arrangements and policies emerged in Western industrialized economies, typically over extended periods of time. The process takes more time but is less painful and avoids collapse in principle. The gradual approach believes that institutional change is path-dependent. The gradual model, on the other hand, may avoid excessive costs, especially for the government budget (Dewatripont and Roland, 1992a; Dewatripont and Roland 1992b), and an excessive reduction in living standards at the beginning of reforms. Contrary to the shock therapy “overnight to do all”, Gradualism also allows trial-and-error and midcourse adjustment. Furthermore, the government can gain incremental credibility for the reforms when reforming at a slower pace. When outcomes of reforms are uncertain to individuals, a gradual or sequential approach splits the resistance force and can therefore increase the chances for survival of the program (Roland, 1994; Wei, 1997). Further, gradual privatization causes the best firms to enter the market first and thus leads to an automatic screening mechanism for financial markets and investors. (Hans and Kanybek, 2011).

1.2.2 The gradual transition model and the SEZs

Chinese Special Economic Zones are rooted in the gradual transition model. Based on this gradual model, China opened gradually its market to the outside world, at the same time testing the efficacy of the functions of Special Economic Zones, making necessary adjustments. They are made as laboratories in testing the reform of institutions, financial and economic new policies and industrialization. According to Kołodko (2004), there are no doubts that a shift to true market economy was not on the agenda in China not only at the turn of the 70s and 80s, but not even yet in the 90s. It had been a long gradual process, lasting about two decades, which has brought China to the breaking point – going from the reforms of the socialist system only to a transition from outgoing socialist centrally planned system to a new open market system. Kołodko (2004) said that “*China’s economic growth and opening up, followed by continuing integration into the global economy, is indispensably linked with the systemic change oriented towards the market system, on the one hand, and export-led growth, on the other*”. Indeed, China’s fast growth – which brought the expansion of GDP seven-fold over last 25 years, or about fourfold in terms of real GDP per capita – wouldn’t be possible neither without gradual marketization of the economy, nor without integration with the world market during the era of ongoing globalization.” The export-oriented growth model is born in the

transitional economy context, first tested in the Special Economic Zones, the first “laboratories” of the gradual transition model.

China, different from the former Soviet republics, including Russia and Ukraine, or the Eastern European countries, has adopted an alternative gradual, evolutionary approach to the transition since the reform started at the end of 1978. This approach is partial, experimental, and especially without large-scale privatization. The Chinese approach didn't follow any pre-determined blueprint. China has become the fastest growing country in the world ever since the transition started. China has also successfully controlled the inflation in an acceptable level. Some economists attribute the China's success to their unique initial conditions, namely, a large agricultural labor force, low subsidies to population, a rather decentralized economic system, and, large amount of rich Chinese overseas. The shock therapy, which attempts to eliminate the institutional distortions simultaneously, causes economic collapse due to the fact that this transition approach neglects the endogenous nature of those distortions. In the case of China, the gradual approach achieves dynamic growth because this approach continues to provide protections and subsidies to the nonviable enterprises meanwhile allowing enterprises to enter into the previously suppressed sectors, which are consistent with China's comparative advantages. In China, the transition started with the decollectivization of agriculture, the improvement of the governance of state-owned enterprise through the enlargement of enterprise autonomy, the promotion of non-state enterprises that face hard budget constraints, and the introduction of a dual-track system to prices and exchange rate before their liberalization. In China, the process did not involve mass privatization. State Owned Enterprises (SOEs) maintained its dominant role in the industrial sector. Through this cautious and gradual approach, these economies have been able to replace the traditional Soviet-type system with a market system meanwhile maintaining remarkable records of growth and price stability during the transition process. The initial objective of the Eastern European countries is to follow the western model of institution reform. However, in China the goal was simply to improve the efficiency of the economic system in her own ways, “crossing the river when feeling the stones”. (Lin, 2004).

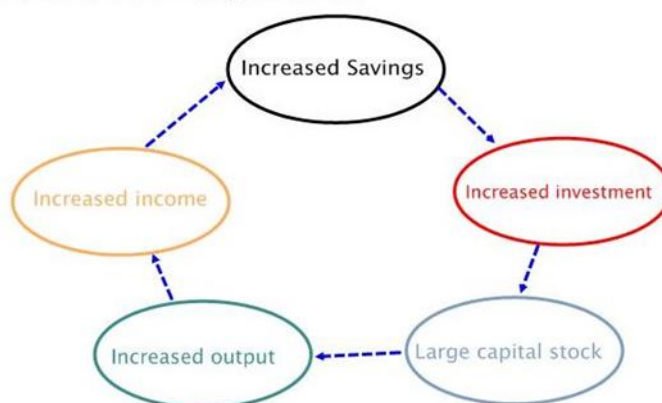
1.2.3 Other economic and development models

At the same time, there are other opinions about the economic and development model. According to Welker (2012), growth in GDP is not the only determinant of economic development, which in order to be measured effectively must account for human welfare determinants such as life expectancy, literacy rates, child mortality rates, distribution of income, and so on. Increases in national income usually mean at least some levels of improvement in access to basic necessities for the average citizen in a developing country. Also, higher incomes mean more savings, which means greater access to capital for investment by entrepreneurs. More investment leads to greater productivity and rising incomes for those who join the emerging industrial and service sectors that usually

accompany economic growth. Furthermore, rising incomes mean more tax revenue for governments, who's spending on public goods like education, health care, and infrastructure results in real improvements in standard of living for not just the emerging upper and middle classes, but the poor as well. Welker (2012) summarized 3 models of economic growth and development:

Harrod-Domar Growth Model

Harrod-Domar Growth Model, the rationale:



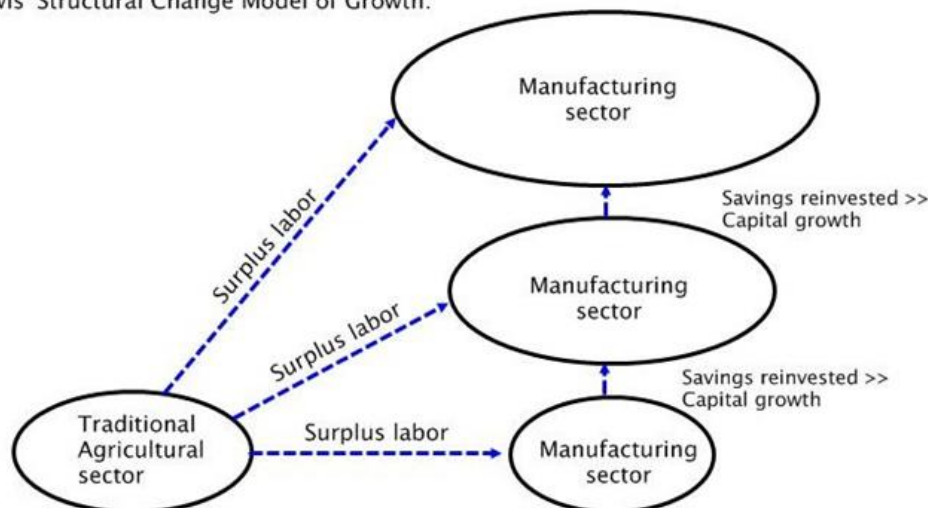
The model was developed independently by Harrod, R.F. (1939) and by Domar E. (1946) and although the Harrod - Domar model was initially developed to help analyze the business cycle, it was later adapted to explain economic growth. Its implications were that growth depends on the quantity of labor and capital; more investment leads to capital accumulation, which generates economic growth. The model carries implications for less developed countries (LDCs), where labor is in plentiful supply in these countries but physical capital is not, slowing down economic progress. LDCs do not have sufficiently high incomes to enable sufficient rates of saving; therefore, accumulation of physical-capital stock through investment is low. The model implies that economic growth depends on policies to increase investment, by increasing level of saving, and using that investment more efficiently through technological advances to increase its productivity. It concluded that:

- Economic growth depends on the amount of labor and capital.
- As LDCs often have an abundant supply of labor it is a lack of physical capital that holds back economic growth and development.
- More physical capital generates economic growth.
- Net investment leads to more capital accumulation, which generates higher output and income.

- Higher income allows higher levels of saving.

Lewis structural change (dual-sector) model

Lewis' Structural Change Model of Growth:



Source: Welker J. (2012)

Many less developed countries (LDCs) have dual economies, the traditional agricultural sector and the industrialized manufacturing sector. The features of the agriculture in this kind of countries are low productivity and low incomes. And these two features lead to low savings and more unemployment. The industrial sector was assumed to be technologically advanced with high levels of investment operating in an urban environment. Lewis (1954) suggested that the modern industrial sector would attract workers from the rural areas. As the development level of agriculture is low, it offers more labor to the industrialized sector to earn better so that the standard of living also increases. Higher wages generate more savings and it means more investment and more capital used to increase productivity in the industrial sector. The higher productivity creates the condition to produce more in less time, meaning more surpluses for sale. It is an incentive for the workers move from low productivity agriculture to high productivity industry. The circle works in this way. At the same time, the number of people depends on the agriculture to make a living decreases, so that the surplus can be sold to generate income.

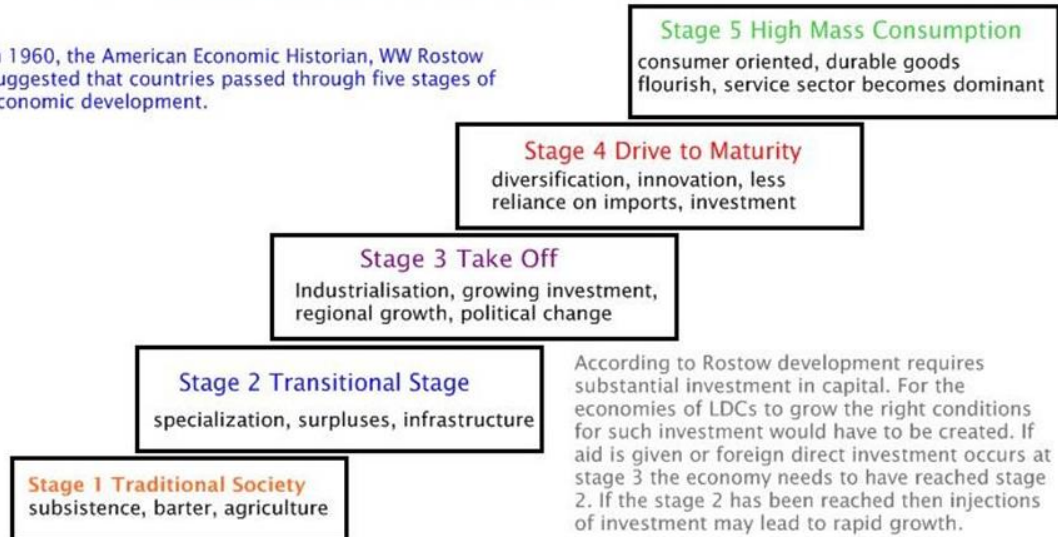
Comparing the Chinese development model to Lewis model, as referred above that China was at that time an agricultural country, so the advantage of China is that it has a lot of surplus labor to work in the manufacturing sector in the newly opened Special Economic Zones at that time. The first SEZs seized the opportunities that Hong Kong, Macao, Taiwan, were transferring their manufacturing industry to the other regions, and develop quickly their own, products like toys, clothes and low technology-added electronic goods.

Rostow's Model – the 5 Stages of Economic Development

Rostow's Model - the Stages of Economic Development

<http://www.bized.co.uk/virtual/dc/copper/theory/th9.htm>

In 1960, the American Economic Historian, WW Rostow suggested that countries passed through five stages of economic development.



Source: Welker J. (2012)

In 1960, the American Economic Historian, WW Rostow suggested that countries passed through five stages of economic development. According to Rostow development requires substantial investment in capital. For the economies of LDCs to grow, the right conditions for such investment would have to be created. If aid is given or foreign direct investment occurs at stage 3 the economy needs to have reached stage 2. If the stage 2 has been reached then injections of investment may lead to rapid growth.

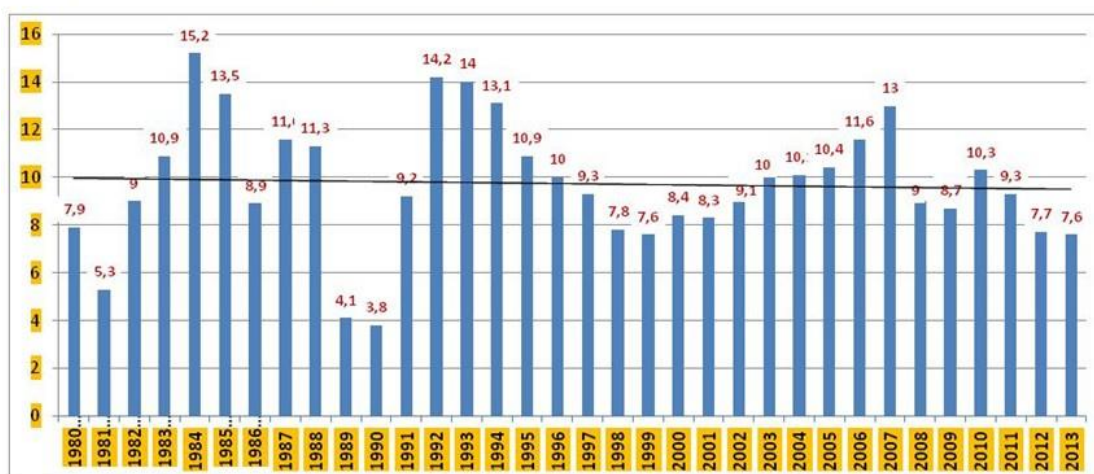
In the case of China in Rostow's model, before the "Open-Up" policy, China is historically considered an agricultural country, corresponding the stage 1 in the model. Also because of the number of population in China at that time, it didn't have the surplus labor for manufacturing sector because it has to resolve first the problem of people's alimentation. Then, when China started the "Open-Up" and started building the Special Economic Zones, then entered in the second stage characterized by transition, surpluses and infrastructure. The government built more infrastructure to sustain and catch up the rapid development and create a better investment environment. When the SEZs are more and more mature and gain more success in industrialization with strategy of export-oriented growth, they are leading the growth of GDP in China (regional growth, referred above in Table 1), they are attracting more foreign capital to establish companies or invest in the local companies (growing investment). China has progressed much more on the way to industrialization. The SEZs themselves serve as the laboratories of political changes. China is now trying to change the model of development from export-oriented to consumer-driven. In fact, China is in the transfer from stage 3 to stage 4, making more innovation, technology innovation, etc.

1.3 Chinese SEZ model of development and its outcome

As referred above, Kołodko said that “China’s economic growth and opening up, followed by continuing integration into the global economy, is indispensably linked with the systemic change oriented towards the market system, on the one hand, and export-led growth, on the other” (Kołodko, 2004). Indeed, China’s fast growth in GDP (Chart 1) wouldn’t be possible neither without gradual marketization of the economy, nor without integration with the world market during the era of ongoing globalization.

Chart 1

GDP growth rate 1980-2013 9.8%^a



Source: National Bureau of Statistics (NBS) of China

In the first 30 years of fast economic growth and development, China growth rate of surpasses the values registered by USA and Japan during their first 30 years of development and even the previsions which were done by the World Bank (Table 2).

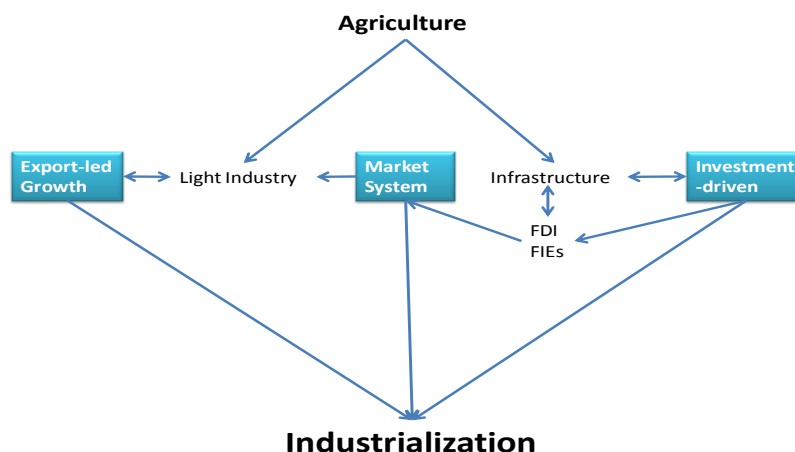
Table 2: Comparative Growth Rates in First 30 Years of Development US-Japan-China

	US	Japan	China*
	1870-1900	1950-1980	1980-2010
Growth of GDP	3.9	7.7	8.1
Share of world output at outset	15.4	3.2	3.6
Share of world output at end	25.7	10.1	15.4
Change in share	10.3	6.9	11.8
Share of world exports of manufactures at outset	3.8	3.4	0.8
Share of world exports of manufacturers at end	14.7	11.2	6.4
Change in Share	10.9	7.8	5.6

Source: Adapted from World Bank Database

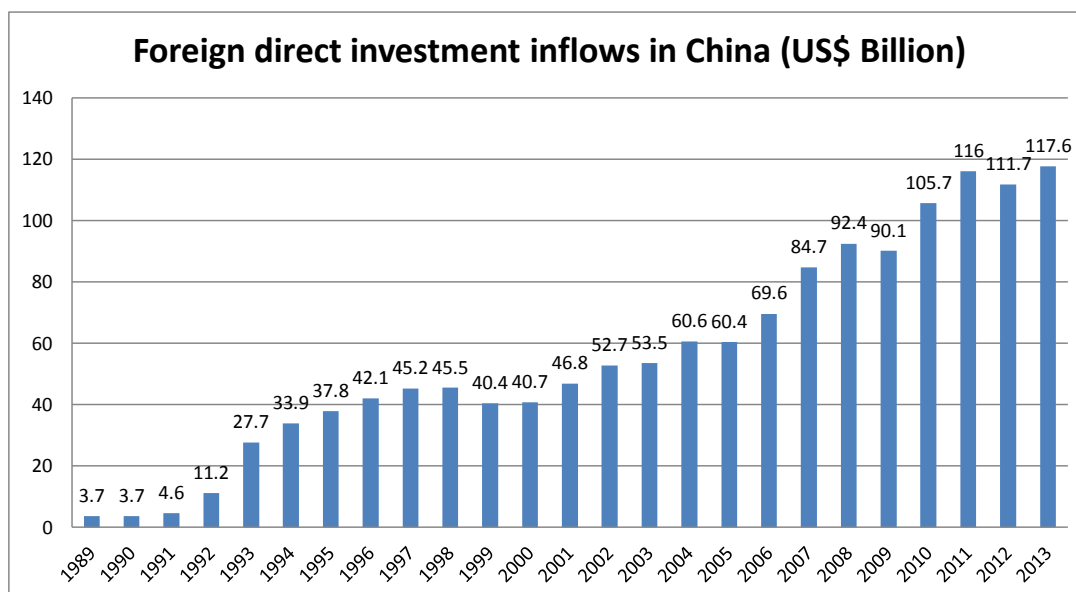
* Forecast: China here doesn't include Special Administrative Region (Hong Kong and Macao), or Taiwan.

China is historically considered an agricultural country as referred above (69% of employment in agriculture in 1980), and the leading strategy of Chinese development model is gradualism (gradual transition model). With the gradualism as guidelines of “Reform and Development”, China opens his door to the world gradually, starting by establishment of Special Economic Zones in the coastal cities in the south of China, making test of the policy of financial, industrial and economic development. The SEZs, according to their situation and socialist modernization requirement, started the industrialization by manufacturing. So we propose to analyze the following model:



The objective of the “Reform and Open-up” policy is to change China from an agricultural country to industrialized country. Also at that time China didn’t have the basic conditions to develop heavy industry, so chose to develop firstly from light industry and the infrastructure construction. They seized the opportunity of transfer of manufacturing and out-sourcing service from Hong Kong and Taiwan to inland Chinese cities because of the similarity of language and culture. The local government dedicated more than ever before in building infrastructure to attract more foreign investors to invest and build factories. By granting special investment incentives to foreign investors, it was hoped that an export-oriented industrial base might be created in the SEZs via foreign capital and technology. The FDI is also indispensable in financial support in infrastructure-building at the beginning of the SEZs. Global foreign direct investment (FDI) rose 22.7% in 2011, to its pre-crisis level. Some 40% of those investments were directed to developing economies. In 2011 many developing countries continued to implement policy changes to further liberalize and facilitate FDI entry and operations and to regulate FDI. The largest recipients of FDI inflows were Brazil, China, India, and the Russian Federation, accounting for more than half of inflows to developing economies. China is the largest recipient of FDI in emerging countries and the World second following the USA (See chart 2 the variation of FDI in China during 24 years) (UNCTAD, 2013). So FDI is playing a very important role in this model of development. Besides being a characteristic of investment-driven development model, the FDI brings experience, new technologies and Diasporas. Indeed, one of the key reflections from China’s experience in developing their SEZs was their success in working with established foreign developers. They helped implement, at the very beginning, Chinese SEZs with their proved successful development pattern, experience and practices. This is a great help to accelerate the progress of Chinese SEZs towards the internationalization. At the same time when China is “crossing the river while feeling the stones”, they are also learning measures of management and the establishment of the new policies quickly from their investors instead of exploring all by themselves. The beginning of the “Open-Up” policy relied on the help of lots of Chinese overseas. According to the data in the report of OECD in 2002 (OECD, 2002), about 80% of foreign investment in the 80’s came from Chinese diasporas, of which 50% from Hong Kong, 15% from Asian countries and the rest mainly from the USA, Australia and Europe (Ilhéu, 2006). By the similarities of language and culture, it takes less time for the investors of Chinese Diasporas to integrate into the rapid development and growth of SEZs. And for the Chinese, they have more facilities in collaborating with these kinds of Foreign Invested Enterprises (FIEs). The Chinese overseas also helped opening more widely the Chinese oversea market for the export goods. The market system, either national or international, is a necessary condition for the export-led growth. “Since the SEZs were largely based on the market system, their emergence has therefore created a *de facto* economic laboratory where policies of economic reforms might be tested prior to their introduction elsewhere in China” (Wong, 1987). Although China hasn’t fully realized the objective of industrialization, the three factors: export-led growth, market system and investment-driven are that contributed most in the process of the realization of the objective.

Chart 2



Source: National Bureau of Statistics (NBS) of China and Invest in China (MOFCOM) (1994 – 2013), EIU (2002-2014).

Now Chinese goods — from T-shirts and air conditioners to iPod components and furniture — are for sale in almost every country on the planet. “Made in China” is appearing much more in the daily products people use and buy. As the world’s largest exporter, China produces more toys, shoes, car parts, and computers than any other country and employs about 99 million people in manufacturing by the end of 2009 (BLS, U.S. Bureau of Labor Statistics). The manufacturing industry forms the backbone of the Chinese economy, producing 44.1% of GDP in 2004 and accounting for 11.3% of total employment in 2006 (The China Perspective). All of the above is because China is gearing its manufacturing industries toward exports for the rest of the world. As a result it was a success because China is currently one of the fastest growing countries and significantly influencing the global economy. From the past two decades, China has become an industrialized country for one reason is because the development of these economic zones. In which encourage foreign direct investments, where trading, exports of manufacture goods, became one of the main aspect of economic growth. Consider the facts.. The share of tertiary graduates in the labor force rose to 2.7 percent by 2005, accounting for 16.2 percent of GDP growth (Zhang, 2014).

Thanks to the leading role of Chinese SEZs in the development and its great contribution to the Chinese rapid economic growth, China has now having more available capital as outward FDI (OFDI). The amount of Chinese OFDI reached about 90 billion US\$ by the end of 2009. Not only the amount but also the rationale of Chinese outward FDI in Africa is increasing, from 3% by the end of 2003 to 10% by the end of 2008 (China Statistical Year Book). It reveals the changing of investment focus and new Chinese strategy of development. China, in the last years, has paid much more attention in the investment in African countries. They are criticized to be natural resource extractors, or new colonialism, but China always adhere to the mutually beneficial and win-win situation as the guidelines. OECD (2008) categorizes Chinese OFDI in five types of

projects: resource-seeking, market-seeking, strategic-assets seeking, diversification-seeking and efficiency-seeking. Also because of the rapid economic growth of China, growing manufacturing capacity, population size and massive resultant demand, China desperately needs raw materials from Africa to sustain its economic growth, and it needs to find alternative markets to export its commodities to and reduce its dependence on Western markets. As labor costs grow in China, the relocation of certain industries may be beneficial to its economy. In these years of investment in Africa, China started collaborating more and more with the local government, granting loans and financing the construction of infrastructure in the host country. The development of African countries also requires more and more involvement of China. One of these involvements is to collaborate with the African countries in the establishment of SEZs.

How can we interpret the strategic drivers of China's "expansion" to Africa? China needs commodity and energy assets. Without securing a predictable international supply chain of oil and key metals, China's economic growth will be undermined. Maybe just because of the strategic view of China and its objective, the location of China's SEZs has been always chosen in the infrastructure strategic locations, like Chambuchi and Lusaka in Zambia, Mauritius, Nigeria, Ethiopia and Egypt (strategic location at the cross roads of three regions: Europe, Asia and Africa). In 2009, China approved: 1) \$450 million worth of investments to establish two special economic and industrial zones in Zambia, in Chambuchi and Lusaka, concentrating primarily on copper mining; 2) the Mauritius Jinfei Economic Trade and Cooperation Zone. China is expected to invest up to \$750 million in the next ten years. The SEZ in Mauritius is intended to serve as a manufacturing hub where garments, electronic products such as computers, and TV sets will be assembled. Meanwhile China confirmed its intent to proceed with the establishment of SEZs in three other countries: Nigeria (two zones), Ethiopia and Egypt. In Nigeria, China plans to invest up to \$500 million in two SEZs that will focus on manufacturing machineries and mineral extraction. In Ethiopia, China has pledged to invest \$100 million in an industrial park where electric machinery and iron works will be the main activities. In Egypt, the planned SEZ will be located in the south of the Suez Canal where China is committed to invest \$700 million. (Horta, 2010).

From January to October 2012, non-financial direct investment of China in Africa amounted to US\$ 1.5 billion, realizing a 17% rise year on year. Africa has become one of the emerging destinations for overseas investment of Chinese enterprises; and over 2,000 Chinese enterprises settled in Africa, involving various fields as agriculture, telecommunications, energy, processing and manufacturing as well as catering etc.. Investment gives Africa the possibility of overcoming traditional obstacles to economic growth, namely lack of capital finance and infrastructure. To further guide Chinese enterprises to expand their investment in Africa, Chinese government actively set up investment platform, and launched such measures as China-Africa Development Fund, economic and trade cooperation zone and Special Loan for the Development of African SMEs etc. successively. At present, over 140 enterprises has signed agreements to settle 6 economic and trade cooperation zones in five African countries set up by Chinese enterprises, while China-Africa Development Fund had over 50 selected projects in 30 African countries and Special Loan for the Development of African SMEs supported over 20 projects. (MOFCOM).

Over the past decade, the economic cooperation and trade has grown further. Trade between China and Portuguese-speaking countries, which was merely US\$5.6 billion in 2002, grew to US\$128.8 billion in 2012, with an annual growth rate of 37%, far higher than that of the global

trade for the same period. China has become the largest trading partner and largest export market of Portuguese-speaking countries. Two-way investment has been dynamic. Portuguese-speaking countries have opened more than 800 companies in China, and Chinese investment in Portuguese-speaking countries is approaching US\$30 billion. (MOFCOM).

China has provided a total of RMB 4 billion concessional loans to Portuguese-speaking countries in Asia and Africa, cancelled RMB 230 million mature government debts, offered zero tariff treatment to over 95% of exports from Portuguese-speaking countries in Asia and Africa, and trained over 5,000 trainees from Portuguese-speaking countries. The agricultural technology demonstration center in Angola, the national stadium in Cape Verde, the Canchungo hospital in Guinea Bissau and other projects built by China have all become symbols of friendship between China and Portuguese-speaking countries. (MOFCOM).

3. METHODOLOGY

For answer to the second question of our research “Is it possible to apply the Chinese SEZs model in African countries? And what is its role?”, we will follow the empirical case study methodology, we will research the Chinese FDI in Africa, through SEZs projects including its development objectives, investment structures, current status and performance, and the short to medium term plans. This is a working paper and although we plan to research several experiences of the investment of China in African SEZs we are going to begin with the case of Mozambique a Portuguese-speaking country in southeast coast of Africa, a previous Portuguese colony and with strong links with China. In our empirical case study we will analyze secondary data sources mainly Mozambique government and population opinions related to SEZs projects in the country.

As per de conclusions of the theory research we performed on the effect of the SEZs in the in the accelerated development of China, we are going to verify if we can find the factors of success of the Chinese SEZs in Mozambique:

Factors of Success from the Chinese SEZs	References
Government commitment	Zeng (2011), Yeung, Lee and Kee (2009)
Strategic location advantage	Zeng (2011) , Yeung, Lee and Kee (2009)
Overseas diaspora to attract capital investment	Zeng (2011) , Yeung, Lee and Kee (2009)
Policies according with the stage of development <ul style="list-style-type: none"> - Avoid unnecessary waste of resources and excessive pursuit of GDP in numbers - Intensify technology learning, innovation and upgrading 	Zeng (2011)
Factors of success from the economic growth and development model	References
Gradual transition	Lin (2014)

Policies to increase investment (physical capital)	Welker (2012); Harrod, R.F. (1939); Domar, E. (1946).
Surplus agricultural labor	Welker (2012); Lewis (1954)
Shift from agriculture to industry	Welker (2012); Lewis (1954)
ODA and FDI	Welker (2012); Rostow (1960)

In the first case we are going to research we are going to focus the Manga-Mungassa (Beira) Special Economic Zone, set up in May of 2012, is managed by the Chinese private firm, the Dingsheng International Investment Company, which plans to invest 500 million US dollars (All Africa, 2012, November 5th).

3.1 Empirical Case Study

After the independence of Mozambique in 1975 from Portugal, this country has passed through difficult times without a model of development and without significant economic growth until recent times. The discovery of important reserves of natural gas called the attention of many investors and give a new breath of hope for its development. In last five years the average GDP growth rate was about 7.2%. Mozambique can became world's third largest exporter of liquefied natural (Rigzone, 2012, May 23rd)

So the tendency of growth made the country to find new ways and measures to break through the barriers and limits and get through the difficulties in economic growth by finding new ways and learning experience of development from other countries, for instance the SEZ from China. In terms of expertise transfer, Mozambique has taken active steps in learning about China's SEZs experience and using this blueprint to attract foreign investment.

Mozambique was the 6th African country in terms of attraction of foreign investment between 2007 and 2012, which grew at an average annual rate of 33%. Mozambique ranks 6th out of 46 Sub-Saharan Africa countries in terms of investor protection (BES, 2013).

We are going to research following propositions:

P1. The Government of Mozambique is committed to SEZs model of development

In March 2007 a delegation from the Mozambican Ministry of Agriculture, Finance and Development and the Central Bank spent several weeks in China learning about SEZs. The concept was approved by the Council of Ministers in March 2007, and the first SEZ was established in Nacala in 2009. This SEZ aims at maximizing the potential of the coastal areas. Nacala will have an oil refinery and other processing plants, where the main objective will be to import raw materials and then process them and do the value adding in Mozambique. An additional oil refinery will be built in the deep-sea port of Ponta do Bela in the south, which has also been approved by the Council of Ministers. Chinese

companies like the information technology giant Lenovo have expressed interest in the creation of these industrial parks so that they can have greater representation in Mozambique with more computer assembly plants and factories. (Roque, 2009).

The Special Economic Zone Manga-Mungassa was approved during the 18th Session of the Council of Ministers, on 29th of May in 2012. To accelerate the development of SEZs and respective EPZ the Mozambique Government created GAZEDA Office (*Gabinete das Zonas Económicas de Desenvolvimento Acelerado*, GAZEDA, in Portuguese), that is responsible for this SEZ development, promotion and management and respective investments. All the enterprises that operate in SEZs and EPZs have to register in GAZEDA.

The Manga-Mungassa SEZ, located in the City of Beira in Sofala Province, with a surface area of 217 hectares, with expansion possibilities, is the second Special Economic Zone to be established by the Government in order to stimulate the country's economic and social development. The SEZ is specifically directed to the area of logistics and industrial. The project includes the construction of an International Logistic Center, with the objective of maximizing the potential of Corridor Beira. The project also includes the construction of hotel units and residential villas with supporting services, as well as an industrial area under the Export Processing Zone, which will receive domestic and foreign investors for the implementation of manufacturing. The establishment process for this SEZ will comprise three phases. The first phase, which is called the phase for "logistical arrangements" will comprise the construction of warehouses to store commodities and is at a final stage. The second, known as the "operational phase", will comprise the construction of a three-star-hotel, a village, an exhibition center, recreation areas and artificial lakes. The last phase will be the "Establishment of the Free Industrial Area Phase", in which high technology units will be set in place. The Manga-Mungassa SEZ will be under the management of a Chinese private firm, the Dingsheng International Investment Company of Sogecoa Group, which plans to invest an approximate amount of US\$ 500 million (All Africa 2012, November 5th). The investment include the construction of infrastructure, including water, power, internal roads, and industrial sheds, among others. It is foreseen the creation of over two thousand jobs for Mozambicans, while the highest percentage may be in the construction phase. (Jornal Domingo April 7th).

Several groups of high leadership have visited SEZ cities in China to try to learn more experience. From the first SEZ established in 2009, until now, Mozambique, under the help and supervision of GAZEDA, has built the Manga-Mungassa SEZ, Beluluane Industrial Park, the Locone and Minheuene Free Industrial Zone and the Crusse and Jamali Integrated Resort. And the government approved, on 6th of May of 2014, the creation of Mocuba SEZ, in Zambézia Province. At least, they are showing their determination in creating more conditions and looking for more chances and more new measures of creating jobs and generating wealth for the country's social and economic development.

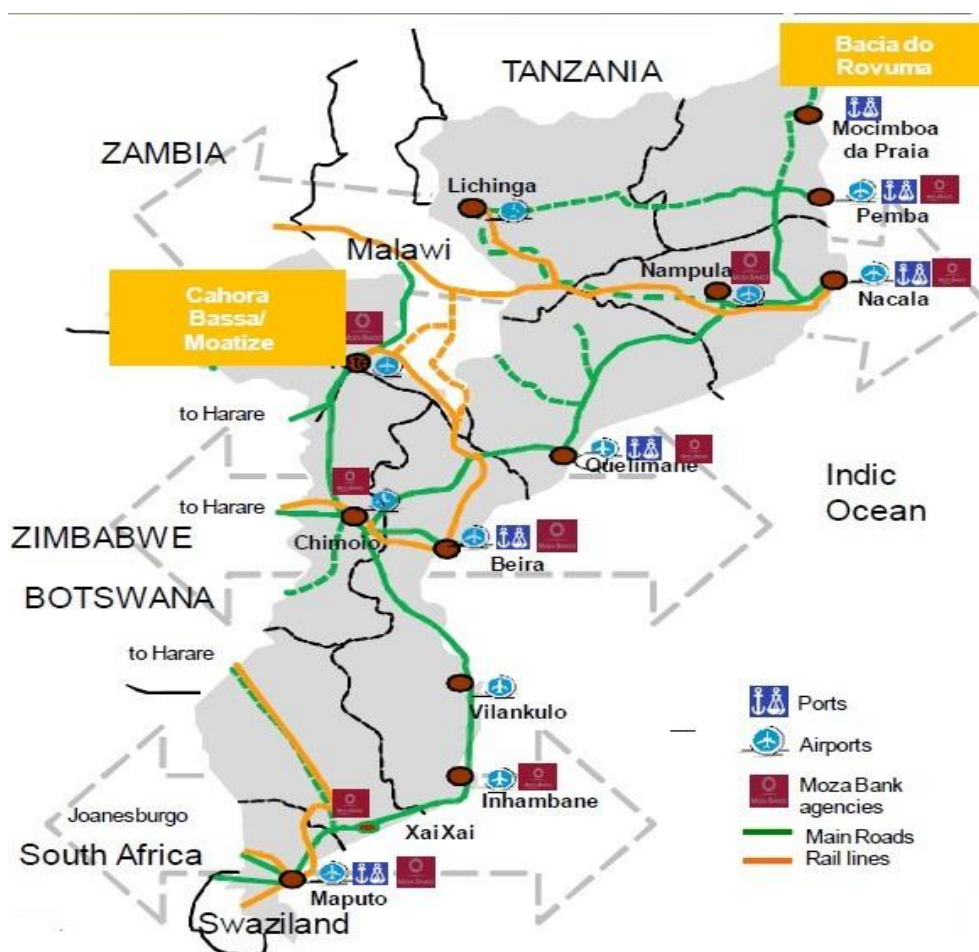
Daniel Nalá, the Director of GAZEDA, once said in an interview to *Jornal Domingo* of Mozambique that "China is one of the examples of success and that economic and social development in the last 30 years has been driven by the Special Economic Zones model, being currently an unavoidable reference in this field. (Translation from Portuguese by the author)".

So we can conclude that the Government of Mozambique is committed to SEZs model of development.

P2. Mozambique has strategic location advantages. Mozambique is a natural gateway to enter the its bordering countries such as South Africa, Swaziland, Zimbabwe, Zambia and Malawi. The first SEZs of China are all located in the coastal cities. In the case of Mozambique we have to know that there are “three corridors”, strategically located in Mozambique. The first is Nacala (“Zambia-Malawi-Nampula-Nacala”) corridor, the second is Beira (“Zimbabwe-Beira”) corridor, and the third is Maputo (“South Africa – Swaziland - Maputo”). The first SEZ established in Mozambique is located in Nacala, and is focusing industries like oil refinery, etc. The second SEZ was established in Manga-Mungassa, in Beira city, Sofala Province. The third corridor cross the capital of the country, Maputo. The Manga-Mungassa could be a choice of SEZ is contributed by the following factors: a) the modernization of the coal terminal at Beira Port, inaugurated in June 2012, has equipped the port with a modern facility for reception and unloading of railcars, warehousing and loading of ships; b) the railroad line connected to the other two main strategic corridors. By the two advantages in transportation, the Manga-Mungassa SEZ grant the access to other neighboring countries, as well as their access to the outside (via India Ocean). Now the infrastructure and logistic arrangement phase in Manga-Mungassa is nearly completed and it is starting the operational phase. The three main logistics corridors (Maputo, Beira and Nacala) serve, not only as the coal exports, but also to promote the development of other sectors of the national economy and the link to neighboring inland countries. These facilities are also indispensable for promoting development in the interior of the country. The Strategy for the Development of Transport System (*Estratégia para o Desenvolvimento do Sistema de Transportes*, in Portuguese), currently being implemented, aims to conduct a profound transformation in terms of logistics infrastructure in the country. The ports of Maputo, Beira and Nacala are key elements in the promotion of the development of their respective hinterlands, being true potential development corridors. The capacity of the Sena Railway Line is to be doubled to 6 million tons per annum by 2013, although this will still be insufficient to meet expected demand. Once this first phase is complete, the state-owned company, *Portos e Caminhos de Ferros de Moçambique* (CFM), plans to continue work with a view to increasing capacity on the Sena Line to 20 million tons per annum by 2016. In the meantime, the modernization of the coal terminal at Beira Port, inaugurated in June 2012, to allow the processing of 6 million tons per annum at a cost of USD 200 million, has equipped the port with a modern facility for reception and unloading of railcars,

warehousing and loading of ships. Equally important will be the planned repair works on the Machipanda Line, connecting Beira with Zimbabwe (BES, 2013). In the near future, they would take advantage of their better infrastructure, such as airports, ports and railways, to gain more capital, high-technology support, and learn management skills from the investors.

Chart 3- Mozambique Location



Source: BES, 2013.

We can conclude that Mozambique has strategic location advantages

P3. Mozambique has overseas Diaspora to attract capital investment. Mozambique being for 477 years ruled by Portuguese administration is well integrated in the Portuguese network of Portuguese Language and Culture now a member of Portuguese-speaking countries community (CPLP, *Comunidade dos Países de Língua Portuguesa*,

in Portuguese), created on 17th of July of 1996, include all of the 8 countries with Portuguese as official language. The objective of the community is to: i) enforce the political and diplomatic cooperation between its member states, in particular to strengthen its presence in the international arena; ii) deepen the cooperation in all areas, including education, health, science and technology, defense, agriculture, public administration, communications, justice, public safety, culture, sports and media; iii) realize better the materialization of projects for the promotion and dissemination of the Portuguese language. Macau since 1999 a Special Administrative Region of People of Republic of China, received the same cultural heritage during almost 500 years, and China recognized the importance of such heritage as well as the relevance of the business network of the Portuguese Speaking Countries community, and create in Macau in 2003, the Forum for the Economic and Trade Relations between China and the Portuguese Speaking Countries and the XII Five Years Plan of China formulated the directive of support the construction of a services platform in Macau to accelerate the commercial cooperation between China and the Portuguese Speaking Countries liking the Portuguese and the Chinese diasporas with the objective of business cooperation.

As an outcome Chinese government and Macau local government is always boosting the role of Macau as a service and business hub between Chinese and Portuguese-speaking countries. In addition, the FOCAC (Forum on China-Africa Cooperation) is also a platform to deepen the comprehensive cooperation between Mozambique and China, also with other African countries. The Macau secretary for the Economy and Finance, Francis Tam, announced, on 27th of March of 2012, the creation of the Fund for Cooperation and Development between China and the Portuguese-speaking Countries with initial capital of US\$200 million, of which US\$50 million will be the responsibility of the Macau government (Macauhub).

The President of Republic of Portugal, Cavaco Silva, during its official visit to China in May 2014 reinforced that Portugal could serve as a platform in Chinese investment in Portuguese-speaking countries, this also means that Portugal, can intermediate the options for Mozambique to access Chinese market, one of the biggest emerging consuming markets nowadays, and attract capital investment from Chinese enterprises sources now also big investors overseas.

Portugal, for instance, is integrated in the European Union having access to a market of 504 million of consumers, but also keeps good relations with the African countries, especially Angola and Mozambique that speak Portuguese. Portugal also considers Brazil a brother country maintaining close political, economic and cultural connections, with this countries, being each time more the number of reciprocal investments and emigrants. In the first quarter of 2014 Portugal was presented as the largest foreign investor in Mozambique and that creates more jobs, the Portuguese Prime Minister, Pedro Passos Coelho, reiterated, during the visit of Guebuza, that in 2013, FDI by Portugal in Mozambique totaled €130 million and created 10,000 new jobs. Payments from the €134 million credit line for business cooperation, according to Passos Coelho, are a sign of

Portugal's wish to raise the awareness of international investors of Mozambique as a destination for their investments. According to Mozambique's ambassador to Portugal, José Augusto de Jesus Duarte on 30th of June of 2014, Portuguese companies have invested around US\$1.5 billion in Mozambique. (Macauhub). Recently Armando Guebuza, chose Portugal for his last official visit as State Leader, and showed in a conference that was attend by hundreds of Portuguese entrepreneurs the close bilateral relationship and referred the relevance of Portuguese investment there asking them to reinforce it and mentioned that the skilled labor, normally imported by Mozambique companies especially from Portugal was welcomed.

So we can conclude that Mozambique has overseas Diaspora to attract capital investment.

P4. Mozambican policies and development model are according to the stage of development. According to the increasing percentage of the mining extractive in the share of GDP, the Mozambican government begun to adjust their policies according to the development of industry. Besides, with the tendency of developing SEZs, the government establishes the SEZ office, especially responsible for the development, strategic plan, and projects approval of the SEZs.

Mozambique hasn't reached the phase of moving up value chain yet of intensifying technology learning, innovation and upgrading. It is still in the transition from agricultural leading economic growth and there is not enough technological specialists, neither basic conditions for the innovation and more technology learning. Infrastructure shortcomings continue to represent a significant obstacle to improve productivity in Mozambique. The investment of Mozambique government in the process doesn't allow us to verify if there are waste of resources and excessive pursuit in GDP in numbers because the statistics and official documents available are not enough developed for this kind of analysis.

So we cannot conclude that the Mozambican policies and development model are according to the stage of development

P 5. Mozambique has factors of success from its economic and growth development model

Gradual transition. . Mozambique has successfully transitioned from a centrally-planned to a market economy since the end of the civil war. In 1987, the country started restructuring its economy under a structural adjustment program that led to a privatization process and the emergence of a stronger private sector.

During the process of implementing the SEZs, the government chooses the gradual experiment. The first SEZ, Nacala, was implemented in 2009 and then little by little, other

industrial park and EPZs During the process of implementing the SEZs, the government chooses the gradual experiment. The first SEZ, Nacala, was implemented in 2009 and then little by little, other industrial park and EPZs.

Policies to increase investment (physical capital). Since the country needs physical investment, it is also offering preferential tax, reduced procedures in the customs, and other measures and incentives to attract more investors.

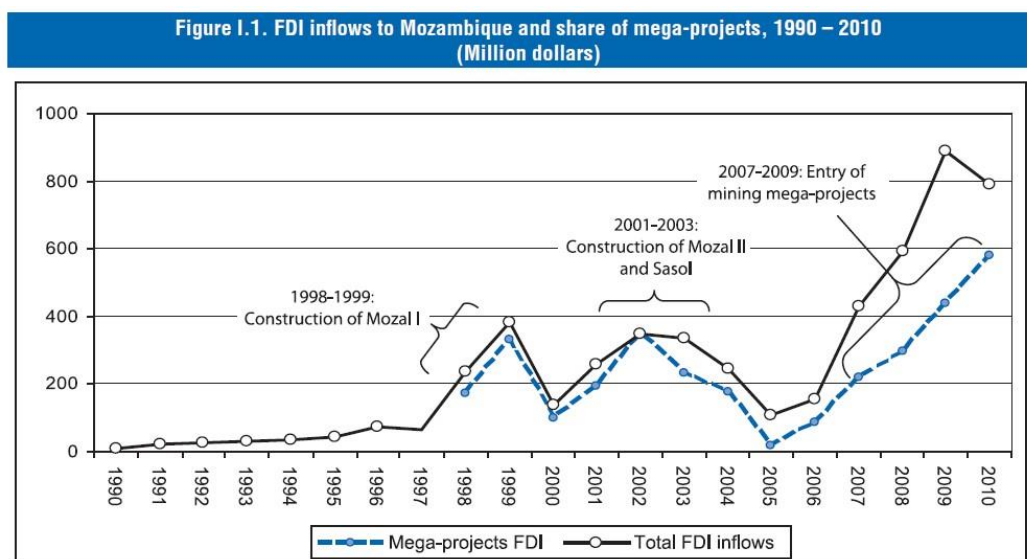
Surplus agricultural labor. The population of Mozambique is approximately 24 million, with 81 percent of the labor force involved in agriculture by the end of 2009 (Fox, 2011), also considered an agricultural country. And by the end of 2010, the GDP share of agriculture is 30.9% (Ulandssekretariatet, 2012).

Shift from agriculture to industry. Reflecting the rapid start-up of coal production and exports, GDP grew by 7.2% in 2012 and in 7.1% in 2013 (The World Bank). The extractive industry was the fastest-growing sector (by 39.25%), while the transport and communication sector also performed strongly (IMF database). Transparency in the natural resource sector is tantamount for good economic management and confidence. The government commits to continue to implement a best-practice framework to improve the transparency of the natural resource sector.

Official Development Assistance (ODA) and Foreign Direct Investment (FDI). During the past decade Mozambique has consolidated its position as one of the largest recipients of ODA in the world, with steady growth. The aid inflows into Mozambique increased from around an annual average of just over US\$ 900 million during the 1990s to an annual average of over US\$ 1.3 billion between 2000 and 2005. This volume of aid is equivalent to 22% of Mozambique's gross national income, approximately US\$ 64.4 each year per person, in a country with a GNI *per capita* of barely US\$ 31 in 2005. The donor support to the Mozambican government currently accounts for over a quarter of total public spending. (Rodríguez, 2008) The strategic locations and later-built infrastructure of the SEZs will of course contribute to attract more FDI. The Portuguese-speaking countries Diaspora, especially Portugal, could help introduce more FDI. According to the referred ranking of Mozambique in investor protection, as well as the return rate of investment, they are becoming more and more attractive to foreign investors. As reforms since the end of the civil war gained momentum and as the peace and security were re-established, FDI inflows began to pick up in the late-1990s. While annual FDI inflows averaged only \$32 million during 1991-1995, they grew more than fivefold to \$179 million per annum in 1996-2000 (table 3). Although the pace tapered off, the trend was sustained during the first half of the 2000s averaging \$258 million per year and then almost doubling in the second half of the decade reaching an historical high of \$890 million in 2009. One of the most important factors in Mozambique's FDI attracting success is the large-scale investments in the industrial sector and extractive industries, the so-called "mega-projects". (UNCTAD, 2012) FDI in the natural resource sector (especially coal and gas) has resulted in rapid import growth; although

Mozambique's net international reserves (NIR) continued to strengthen. Substantial historical data revisions and new information on FDI (and related imports) in the natural gas sector resulted in an upward revision of the current account deficit after grants from 13.3% of GDP to 25.8% in 2011 (IMF site).

Table 3: FDI inflows to Mozambique 1990 - 2010



Note: figures for 2010 are preliminary. Share of mega-projects for 1998-2000 are UNCTAD estimates.
 Source: UNCTAD FDI/TNC database and Bank of Mozambique.

Source: UNCTAD, 2012.

So we can conclude that Mozambique has factors of success from its economic and growth development model.

CONCLUSION

After analyzing the situation of SEZ in China and verifying other economic growth and development model, we propose a Chinese SEZ model for analysis, that is: In the gradual transition from agriculture to industrialization, turning to market system, depending on export-led growth and investment-driven, developing infrastructure with FDI, and then light industry for export. From the comparison of Mozambique's actual conditions with Chinese proved successful factors of SEZ and other factors from economic growth and development model, we can see that most of the factors in Mozambique is in line with those of China and other development model. So we conclude that the Chinese SEZs model could be successful in its application in the Manga-Mungassa special economic zone.

As this is a working paper, the authors will continue to investigate and enrich their investigation and working results, namely deepening the study of Mozambique documents, namely, government development plans and reports.

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