

## Chapter 14

# The Chinese Special Economic Zones and Foreign Direct Investment in Portuguese-Speaking African Countries: Challenges and Opportunities

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### **ABSTRACT**

*The Portuguese-speaking African countries (PSAC) have been at the forefront of the Chinese presence in Africa. These countries have been no exception in the Chinese strategy to use Special Economic Zones (SEZ) around the globe as an effective tool to promote international trade and foreign direct investment with mainland. However, the establishment of SEZ does not necessarily warrant success in boosting investment and trade. The performance of SEZ worldwide has so far been mixed and many have not performed well for reasons such as poor site locations, uncompetitive policies and lack of differentiation, poor development practices, and bulky processes and ill-designed administrative frameworks. The authors look at two case studies of Chinese SEZ in PSAC, namely in Angola (Bengo SEZ, Luanda) and Mozambique (Manga-Mungassa SEZ, Beira), to discuss their common characteristics. The authors draw lessons on how to make Chinese SEZ in Africa work bearing in mind country-specificities.*

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## **INTRODUCTION**

The first Special Economic Zone (SEZ) was created in Brooklyn, New York, United States, in 1937. Later, the first success history of a SEZ, having significant impact in the development of its region and its country, was observed in Ireland, under the name of Shannon Development. It was created in 1959 and it operates and supports a great deal of Ireland economy and industry still today. However, it was the central role of the SEZ and their remarkable performance in supporting China's economic development model that motivated the increasing interest by researchers, policymakers, and the public opinion.

This model is now studied in both developing and emerging countries as a policy to attract Foreign Direct Investment (FDI), incorporate new technology, promote industrialization, and increase exports. SEZs have been incorporated as a policy tool also in developed countries, where they play the role of facilitator to business cluster development.

This chapter is organized as follows. Section 1 discusses the origin of special economic zones in China, as well as their role in supporting China's economic development model, respectively. Section 2 discusses why some SEZs have been successful in Africa, while others have been not, and notes that some SEZs in the continent are supported by the Chinese government, while others are promoted by private initiative. This section concludes by listing the conditions needed for a SEZ to be successful in Africa. Section 3 takes stock of the SEZs in Portuguese-speaking African countries and makes the connection of these initiatives with the Chinese-led Belt and Road Initiative. This section also presents, looking forward, the potential for more and better SEZs in Portuguese-speaking African countries. Section 4 briefly presents two case studies of SEZs in Portuguese-speaking African countries: first, the Bengo SEZ, in Luanda, Angola, and second the Manga-Mungassa SEZ in Beira, Mozambique. The final section concludes, presents main limitations and suggests further avenues for research.

## **THE ORIGIN AND ROLE OF SPECIAL ECONOMIC ZONES IN CHINA**

As referred in the previous section, the creation, implementation and development of SEZs is contextual to the income-level and economic policies of each country. The aims, objectives, purposes and policies (both domestic and foreign) of Chinese SEZs are therefore contextual to China, as initially pointed out by Stoltenberg (1984) in the context of China's Open-Door Policy.

The economic development model of China was implemented by Deng Xiaoping in 1979, learned from the economic development models practiced after the Second World War by Japan, Singapore and, later, South Korea. These models were based on the implementation of labor-intensive export-oriented light industries. These industries created jobs, prosperity, and significant foreign exchange surplus. However, to initially develop this model, Beijing needed to attract foreign investors that could bring capital, technology and access to foreign markets, so the Chinese government incorporated the SEZs as one of the main pillars of its economic development model. Table 1 lists the main objectives for the creation of SEZ for China.

The strategy to attract foreign investors and to gain access to foreign markets made good use of the Chinese migrants overseas, who were extensively mobilized to that goal. In practical terms, these zones also served as demonstration and experimental areas of domestic political reforms. Table 2 below lists the main benefits for a foreign investor of investing in Chinese SEZs.

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