

Discussion Paper

CHINESE-LED SEZs IN AFRICA ARE THEY A DRIVING FORCE OF CHINA'S SOFT POWER?

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Stellenbosch | February 2013

1/2013

ABSTRACT

This Discussion Paper focuses on Chinese Special Economic Zones as a possible expansion of soft power in Africa. The Chinese government has aspirations to promote development on the African continent, and works according to successful own experiences, amongst which feature the Shenzhen Special Economic Zone and other such experiments. While a success of the SEZs in Africa might contribute to helping establish China's soft power in Africa, continuous commitment by both China and the host countries is necessary for this to happen. Even though the Chinese government's unprecedented support and the high-profile politician's visits have been successful in gaining the support from African governments and elites in terms of the establishment of SEZs, it will take longer to convince the local people since soft power is socially constructed through interaction among various agents. Most of the SEZs are still under construction and have not started operations yet. This prolonged process as well as labour-related issues such as lack of respect for basic workers' rights, alleged violation of minimum wage legislation, and complaints about poor working conditions have resulted in resentment of local population.

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The views expressed in this paper are those of the author.

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LIST OF ACRONYMS AND ABBREVIATIONS

| | |
|--------|------------------------------------|
| AGOA | African Growth and Opportunity Act |
| CSR | Corporate Social Responsibility |
| EPZs | Export Processing Zones |
| FOCAC | Forum on China–Africa Cooperation |
| ILO | International Labour Organization |
| MFEZ | Multi-Facility Economic Zone |
| MOFCOM | Ministry of Commerce of China |
| NICs | Newly Industrialising Countries |
| SEZs | Special Economic Zones |
| ZDA | Zambia Development Agency |

1. INTRODUCTION

Special Economic Zones (SEZs) have been promoted in many developing countries, with the primary objective that host countries will benefit from foreign investment.¹ In the past, SEZs have led some developing countries to export-led growth through industrialisation. Examples of such countries are the newly industrialising countries (NICs) of East Asia such as South Korea and Taiwan, which were able to transform their economies into high value-added economies on the basis of their successful experience of SEZ, in which investors were granted financial, legal or other benefits they did not receive elsewhere in the country. In turn their often positive experiences have become stimuli to other regions (ILO, 1998:3).

China established SEZs in the Eastern coastal areas as part of an Open Door policy, welcoming foreign direct investment (FDI), which was undertaken by Deng Xiaoping with the aim of undertaking major economic reforms. The country designated open areas for FDI in several cities in the province of Guangdong, of which Shenzhen has been identified as one of the most successful cases, specialising in the high-tech manufacturing sector. Learning from the successful experiment of Shenzhen is arguably one of the main driving forces behind China's remarkable economic development (Yeung, Lee, and Kee. 2009).

Based on this successful domestic experience, the Forum on China–Africa Cooperation (FOCAC) summit in 2006 saw the Chinese government pledge to establish SEZs in Africa; this was welcomed by many African countries. Mauritius, Nigeria, Zambia and Ethiopia were selected to host Chinese-led SEZs.² The first Chinese-initiated SEZ was established in Zambia and has been operating since 2007. The rest of them are still under construction and are expected to start operating in the near future (Davies, 2010).

The establishment of SEZs can be seen as an important part of economic cooperation between the Chinese government and African countries, by which the Chinese government tries to share its positive experiences in economic development with other countries. In a slightly different reading, the growing competition among local companies in China could have led the government in Beijing to decide to provide a platform for Chinese entrepreneurs in Africa. This second reading does not seem improbable when we consider China's Go Global or Going Out policies, meant to encourage Chinese enterprises to venture into business outside China. However, the establishment of SEZs is an investment in itself: setting up an SEZ requires infrastructure which can attract investors and facilitate their operations. This is only a small part of the initial cost. Overall, the benefits to be gained by both Chinese investors and host countries are still uncertain; the first reading what led to the establishment of SEZs - experience sharing by China's government – in any case

¹According to Farole (2011:17), SEZs are defined as “spatially delimited areas within an economy that function with administrative, regulatory, and often fiscal regimes that are different (typically more liberal) than those of the domestic economy”. There are various such zones such as export processing zones (EPZs), economic processing zones (EPZs), free zones, foreign trade zones, and industrial parks, among others. They differ in size, scope of business and objective, for example some aim at the growth of domestic business, others at developing export business. However, SEZs are generally open to all activities. In this research, the term SEZs will be used to cover all these variants.

²The reason for the selection of these countries has not been made public by the Chinese. Nevertheless, two potential reasons exist. First, the six countries selected as host countries of Chinese-led SEZs in Africa host sizable Chinese communities. It is possible that this might have influenced the decision of the Ministry of Commerce (MOFCOM) or Chinese developers when they decided to invest in SEZs in those countries. Second, when looking at the Chinese FDI flow into Africa in 2005, Nigeria, Zambia, and Algeria received a relatively high FDI flow. In five years, all host countries have become major Chinese FDI recipients. Considering these two facts, interaction with Chinese businesses and investments can be seen as a significant factor that might have influenced the selection of the establishment of SEZs.

creates an initial positive image, whatever the long-term effects in African countries. In this research, the focus will be on the establishment of SEZs as one of instruments used to expand China's soft power on the African continent.

Soft power is a term which was coined by Joseph Nye in the 1990s when the United States encountered "changing face of power" after the Cold War. Power can be obtained through elements such as coercion, payment and attraction. Coercion and payment can be seen as hard power, while attraction is "the core component" of soft power (Fijalkowski, 2012:96). From the perspective of many African countries in need of development, China's remarkable economic growth is attractive. Due to the fact that Africa receives less than 2 % of the world's foreign direct investment flows (Broadman, 2007), Beijing's SEZ initiative indeed has potential to contribute to African countries' economic development. The establishment of SEZs is expected to contribute to job creation, and technology transfer is pointed out as another positive outcome of Chinese-led SEZs.

However, commentators also cast general doubts on the outcome of SEZs in Africa irrespective of whether they are Chinese-led or not. According to Farole (2011:66), despite the positive effects of SEZs such as attracting foreign investment and supporting GDP growth, the effect of SEZs on unemployment in Africa has been insignificant overall. Additionally, there have been questions about the quality of jobs which were created in SEZs. Should critics be right, these negative issues would, over time, have a negative effect on China's image on the continent?

In addition to the questioned outcomes of SEZs as such, Chinese investment has continuously been criticised with regard to the lack of Corporate Social Responsibility (CSR), environmental and human rights, and especially because of allegations of unduly low wages and long working hours. Many international NGOs such as Human Rights Watch (HRW) have criticised the management practices of foreign investors, with HRW especially focusing on the labour practices of Chinese companies in Zambia (2011). This points to a challenge for Chinese soft power: The Chinese government has been successful in earning support from high level officials and elite groups in African countries. Yet, the agents of soft power are not confined to a certain group. Labour related issues in particular have led to growing resentment against Chinese investors among local Africans, thus putting limits to the growth of China's soft power at the same time as there is a certain amount of elite attraction.

Most Chinese-led SEZs are at an initial stage, and it is still possible for not only the Chinese but also African host governments to ensure their success. The proposed research explores the factors which can bring about the success of SEZs in Africa by adapting a Chinese success story to local conditions. Throughout this process, China's own experience can serve as a useful model for many African countries and further contribute to expanding Chinese-soft power on the continent.

This research will be divided into four sections. Firstly, the conceptualisation of soft power and the reason why the Chinese government has tried to build soft power on the African continent will be discussed. Also, general features of SEZs will be explored through reviewing existing literature. Secondly, a closer look will be taken at SEZs in China, especially the Shenzhen SEZ. What are the success factors of this zone? What are the problems experienced there? Thirdly, the current situation of African SEZs, especially, the case of Zambia will be discussed. At the time of writing, the Chambishi SEZ is already operating in Zambia, i.e. there are some initial effects to be observed and analysed. The establishment of the Chambishi SEZ has led to increased output and job creation – but has it helped to strengthen China's soft power?

This study looks into case studies of Chinese and African SEZs, for which qualitative research will be required. The research is based on secondary sources such as articles in academic journals and books about

labour relations in the SEZs. Primary sources are also used such as official records from the governments, annual reports and various published documents. This enables the researcher to develop a comprehensive view of the SEZs in China, and their implications for African SEZs. Furthermore, it helps to gauge whether African SEZs contribute to expanding China's soft power on the continent, as secondary sources will include statements by other authors about Chinese influence. The research also contributes to providing a close, in-depth view of the successful conditions for SEZs and their further socio-economic implications, including implications for future development in Africa.

Currently, there are a number of SEZs in African countries in the planning stage or in the process of being established. First of all, through this research, it will be possible to draw some lessons from the case of China's SEZs. Even though the current economic environment and historical experiences in Africa are different from that of China when China reaped benefits from export-led industrialisation through SEZs, essential lessons can be learnt from the Chinese experience.

During its industrialisation process, China arguably pursued macro-economic (statistical) growth first. Somewhat as a result of the macroeconomic success of China's reform policy in SEZs, recently, several social problems have surfaced in Shenzhen, as well as in other regions that have SEZs, especially regarding labour relations. Consequently new labour regulations were introduced in Shenzhen in 2008 in order to address these problems. Even though these regulations were formulated in order to mitigate further risk which could halt economic growth, this shows that the Chinese government realised the importance of protecting the local labour force and, at the same time, pursuing sustainable development. African countries can also learn lessons from this experience and should prepare to address problems, if not avoid them altogether in their own development trajectory.

2. OVERVIEW OF KEY CONCEPTS IN THE ACADEMIC LITERATURE

2.1. CHINA'S SOFT POWER ON THE AFRICAN CONTINENT

Power is defined by many international relations scholars. One underlying concept of power is that "it is the ability to get others to do what they otherwise would not do" (Nye, 2006:53). Along with the demise of the Cold War, "the changing face of power" was obvious and the exercise of power based on coercion – so called hard power – faced a new phase. The basic idea of Nye's concept of soft power is that a country can influence another country by using persuasion and appeal rather than by threats with or use of military force has been drawing attention worldwide along with the development of technology, education and economic growth (Nye, 2006:55). There are three ways that a country can influence other countries, these are "coercion, payment and attraction" (Nye, 2009:160). Among these, attraction, which can be defined as the ability to persuade others to change the way they act in the interests of the country doing the persuading, can be understood as one of "the core components" of soft power (Fijalkowski, 2012:96).

Soft power spreads through "culture", "values" and "foreign policies" (Fijalkowski, 2012:96). Like any other country, China has the fundamental ability to extend its power in all three of these ways. Along with its remarkable growing economic and military (i.e. hard) power, China has started to create images which can work as an advance guard for spreading Chinese culture in the broadest sense. The prominent examples for positive 'marketing' of the 'brand China' as a success story are the establishment of Confucius Institutes, and the hosting of the Beijing 2008 Olympics and the 2010 Shanghai Expo. China's power has become more comprehensive, including "coercive economic and diplomatic levers like aid and investment and participation

in multilateral organisations” (Kurlantzick, 2007:6). Above and beyond all immediate interactions, African governments can additionally find the Chinese economic development (the ‘China model’) attractive.

Especially since the 2000s, the Chinese development model has been hailed by many countries which have a thirst for change (Taylor, 2012). Each side’s major interest has been consolidated.³There are several ways that China’s soft power has been spread such as writing off debt from African countries; training more Africans in Chinese universities; sending more doctors to work across Africa; and facilitating major investments in infrastructure, agriculture, and energy. These have worked an effective way of attracting attention from many African governments. Kurlantzick (2007:xi) states “in a short period of time, China appears to have created a systematic, coherent soft power strategy, and a set of power tools to implement that strategy”.

By financing private Chinese companies, supporting public and private partnerships in host countries, using institutions such as the China-Africa Development (CAD)-fund, China has expanded its soft power on the continent. This approach has been strengthened by the visits of high level officials to host countries (Brautigam and Tang, 2012). Since the mid-2000s, the establishment of Chinese-led SEZs has become such a buzzword in Africa, it has been expected to play as the driving force of China’s soft power. Brautigam and Tang (2012) analyse Chinese political economic ties with other developing countries, especially focusing on the establishment of SEZs, using three lenses linking the country’s expanding soft power, internationalisation of its developmental state and resource diplomacy. Taylor and Carmody (2009:11) point out that by establishing SEZs, the Chinese government can mitigate the perception that Chinese cheap imported goods have undermined the local industries.

Despite this remarkable engagement of the Chinese government on the African continent through the establishment of SEZs, soft power is, according to Fijalkowski (2012:96), socially constructed and accumulated. This can only take place over a longer period of time. Also, while it can be fostered by government, it certainly cannot be controlled by it as the persuasion needs ‘the other side’ to be interested and attracted (Fijalkowski, 2012:97). In other words, the Chinese government can play a role as a facilitator, but this is not enough to spread soft power or for it to become deeply embedded in other societies. Chinese engagement in Africa has drawn attention and become one of the most controversial issues in Africa. There are those who have a positive attitude towards Chinese investment in infrastructure projects and the construction sector. Chinese cheap products make it affordable for more African people. Many African people have respect for Chinese workers’ work ethics. Nevertheless, and often at the same time, China is accused of being neo-colonialist and only being interested in Africa’s natural resources. In some places, local people resent Chinese companies’ labour malpractice and resent the environmental contamination. Western countries and commentators are also concerned about China’s expanding soft power on the African continent even though China has highlighted its growing engagement with the international community as ‘peaceful rise’ or, less threatening a ‘peaceful development’ (Lai and Lu, 2012). Especially, Kurlantzick (2007) points out that Chinese growing soft power on the African continent can be seen as undermining the value of liberal democracy and good governance. Even though, Suzuki (2010) argues that many are likely to regard this as a zero sum game between the West and China, which is to be avoided, the Chinese government’s support for so called ‘rogue regimes’ such as Sudan and Zimbabwe has made the international community suspicious of China’s intentions.

³Sino-African relations have a relatively long history dating back to the late 1950s. At that time liberation movements forged relations with China with which they shared certain ideologies. China benefited in that the country does not have any history of colonialism in Africa, this has helped shape and strengthen the concepts of South-South Cooperation and the notion of solidarity between developing countries.

Crucial to this is that there is the issue of the agents who deliver China's soft power and objects of China's soft power. While Fijalkowski (2012:97) points to the importance of credibility in the context of spreading soft power, it should be noted that it is difficult for the Chinese government alone to construct a desirable image of China since various actors, for example, private investors are involved (Lai and Lu, 2012). These dispersed agents cannot be fully controlled by the Chinese government. In terms of the object, if it is only a question of African governments, China's attempts seem to be successful. However, the object of soft power is not a country's *government* but ultimately, a country's *population* (Fijalkowski, 2012).

2. 2. GENERAL TRENDS IN SEZs

The history of SEZs started in Europe; the first SEZ was established in 1929 in Spain and the concept spread to other regions such as Latin America, the Caribbean, Asia and Africa mainly in low and middle income countries (Jauch, 2003:102). SEZs have been established with the foremost purpose of improving the host countries' "foreign investment-led, export-oriented industrialization strategies" (ILO, 1998:3). In addition, many developing countries expect job creation and technology transfer as a result of establishing SEZs (ILO, 1998:4).

Domician (2009:11) lists the positive outcomes of SEZs as "increased competition, high factor productivity, economies of scale and scope". Local entrepreneurs are able to operate business under international conditions; and in that way, competitiveness can be maintained and "finally, it will be possible to transform the economic structure from inward-oriented to outward-looking". Considering that African countries rely heavily on the extractive resources industry, diversification of the economy promoting manufacturing can be another significant benefit of SEZs.

In the hope that these benefits will materialise, host countries need to attract investors by providing various incentives; these incentives can be categorised as "fiscal" and "non-fiscal" (Domician, 2009:11). Fiscal incentives include "tax holidays, exemptions from customs duties and free repatriation of profits". Non-fiscal incentives can be "access to infrastructure and business service, exemption from labour laws, the right to strategic locations and the relaxation of immigration regulations" (Domician, 2009:11). Nowadays, especially in the case of Africa, access to preferential markets like the EU and the US market, can also crucially affect the decision of investors. Several authors such as Davies (2010:24) are concerned about the motive of investors, that is, SEZs are sometimes established only to pursue foreign investors' interests such as creating a corridor to the European or the US market that has rigid protectionist regulations against Chinese companies. For example, the African Growth and Opportunity Act (AGOA) can provide firms with duty- and quota free access to the American market. Since the US has strict regulations against the import of great volumes of Chinese products, Africa can be their half-way station for further destinations. Under these circumstances, it is difficult to expect that Chinese investors consider their social responsibilities or the host countries' or local communities' interests at the micro-level.

Farole (2010:5) raises a question regarding the outcome of SEZs by pointing out that there are many SEZs that did not have a considerable outcome. The reasons very often stem from host governments' "poor locational choice, lack of effective strategic planning and management, and problems of national policy, instability and weak governance", over which the Chinese government has no leverage.

Although many developing countries provide unprecedented fiscal and non-fiscal incentive packages in order to attract investors, there are nowadays many sceptical views about the real outcome, especially in terms of cost and benefits (Farole, 2011:62). Cost is linked to what host governments offer to investors. As mentioned earlier, fiscal and non-fiscal incentives can belong in this category. Some commentators including Jauch (2003) doubt the actual benefit from SEZs, highlighting that the initial cost is higher than the gain. Jauch cites the

case of Kenya arguing that the Kenyan government could have created more jobs by investing in small scale manufacturing or other job creation projects instead of establishing SEZs which needed massive injections of funds. His arguments are based on the fact that host countries pay a price for potential benefits. Also allowing tax holidays or exemptions affects the host government's revenue in the end, and if they cannot reap benefits as wished, host countries' citizens can be affected in terms of loss of welfare (Domician, 2009:12).

It is possible to argue that the country can benefit from newly established infrastructure in the long run, but the benefits are not automatically generated upon establishing SEZs. In many cases, policy makers have not set up long term plans and there is a lack of consultation with local communities. For the generation of benefits, it is essential that host governments set up and implement sound policies. Considering that there is severe competition among many host countries which produce similar products, host countries also need to consider how to gain comparative advantages in a particular industry (Stein, 2008:18). However, host governments often think first of attracting investors and of short-term gains, and long-term assessment is often not conducted properly before commencing with the construction of SEZs.

In terms of job creation, for example, according to ILO (2003), there has been a significant growth of employment in SEZs globally from 50,000 in 1970 to 41.9 million in 2003. Nevertheless, one of the recent reports of ILO indicates that in general the rate of job creation is lower than expected (ILO, 2007). Jauch's argument (2003:102) is in the same context. According to him, in the case of Mexico in 1995, employment in EPZs increased by 10.4%, but the country's total employment outside of EPZs dropped by 9%. This data shows that the overall employment rate remained nearly the same and might indicate internal competition between special zones and the rest of the country. Regarding Africa, Stein (2008:2) argues that only a few countries such as Mauritius, Lesotho, Kenya, Nigeria and Madagascar were successful in creating substantial numbers of jobs as a result of establishing SEZs. Nevertheless, the number of labourers hired was still lower than what was expected. In some countries, SEZs have become cornerstones of economic growth; in other countries the ambitious projects have not yet reaped benefits. What should be understood is that the environment surrounding SEZs is not identical between cases. Each country has its own distinctive characteristics, and host countries should carve out own strategies suitable for their own situations.

Any significant effects in the field of technology transfer have been hardly observed. The degree and efficiency of technology transfer is crucial for host countries' economic growth. According to scholars such as Blanco de Armas and Sadni-Jallab (2002:21 cited in Domician, 2009:14), when the host countries' level of technology is similar to that of the home country, the establishment of SEZs is likely to have a positive outcome. However, considering the situation of African countries where the level of technology is often lower than that of the investing countries, the benefits of SEZs are questionable. This is closely linked to host countries' human resources development. The lack of highly skilled labour in Africa has often been identified as an impediment to economic growth on the continent (Farole, 2011:62). Under these circumstances, it is difficult to expect major positive outcomes from SEZs.

All in all, it is hard to pinpoint any tangible outcome of SEZs on the African continent to date, even though the Chinese government vigorously pushes forward the programme. Although the governments in host countries welcome this gesture, there are several problems to be considered. First of all, there are many agents involved and they are not confined to a governmental level. Since the Chinese government openly announced that SEZs would be in the hands of investors, these private investors are actually the main agents. How much credibility do these investors have and how much leverage to implement policies? What if private actors move their capital to other profitable regions or countries? These questions illustrate that China's soft power faces significant challenge.

2. 3. LABOUR RELATIONS IN SEZs AS AN IMPEDIMENT TO CHINA'S SOFT POWER IN AFRICA

In addition to unsatisfactory outcomes of SEZs in some countries in terms of low gain, technology transfer and job creation, special status for investments in SEZs in general have recently been criticised for being one cause for social problems such as human rights violations including the suppression of basic labour rights, poor working conditions and poor safety conditions (Farole, 2008:33). In the African context, Chinese investment has been criticised for the same reasons. Especially, Chinese investors' malpractices are directly in conflict with ILO conventions that guarantee freedom of association and collective bargaining (Opondo, Unidentified:12). The violation of international regulations by investors has actually undermined China's credibility, which subsequently, as argued above, negatively impacts on its soft power.

There are several reasons for labour malpractice in SEZs. First of all, most of industries in SEZs are textile and light machinery factories, which are labour-intensive in nature (Matambalya, 2007:32). One of the attractive incentives for investors in SEZs is cheap labour and in order to attract investors, wage levels must remain low, which leads to dissatisfaction among labourers. Secondly, in many cases, SEZs remain a trade union free environment. Even though strong labour movements exist in the host country, this tradition does not spill over into SEZs due to the condition that the SEZ must be trade union free made by host governments (ILO, 1998:22). In practice, host countries governments are likely to enact separate labour laws only applicable to SEZs. Even when there are strict laws in place to protect labour in a host country, these laws are often not strictly implemented in practice, due to the government's lack of capacity (in monitoring). The fact that trade unions and NGOs do not exist or have very limited power makes the situation worse (Jauch, 2003:108). This lack of capacity in host governments and the absence of other monitoring agencies has been continuously observed by commentators. Thus, while the Chinese government might be trying to create the image of a "good neighbour", by having Chinese enterprises fail to comply with the local as well as international norms, the international image has been tarnished.

Outcomes of SEZs can vary from case to case. Even though the Chinese government provides unprecedented support, the most significant aspect for success is how host governments plan and direct the zone rather than how much the Chinese government is involved. Furthermore, it is noticeable that in successful cases, the reason that these countries reap benefits from SEZs was that host governments invested heavily in education in order to shift the skill level. SEZs were used as initiators for growth, but were also meant to be 'grown out of'. This is obvious in the case of China. Without parallel and substantial investment and improvement in human resource development, the host country can only remain a supplier of cheap labour. This unskilled labour is likely to produce low quality products with little added value (Domician, 2009:15). While the SEZ could trigger growth in African countries, both the Chinese government and host countries have to realise that investment in human resources is a crucial accompanying step for long term sustainability.

3. THE CHINESE EXPERIENCE OF SEZs

3. 1. BACKGROUND REGARDING THE ESTABLISHMENT OF SEZs IN CHINA

East Asia's remarkable economic growth throughout the 1960s and 1970s was based on rapid, export-based industrialisation, which has been regarded as a successful model for other developing countries to follow (Kuchiki, 2007:1). Many argue that industrialisation is the key to Africa's development and the Chinese government advocates its soft power based on its own experience of industrialisation.

Even though China pushed forward with SEZs programmes in the 1980s relatively later than its neighbours, South Korea and Taiwan, the country's SEZs programme was successful in attracting foreign investment, and adopting advanced technology. This achievement, the Chinese model of economic development, has become the rationale for the country to decide to establish SEZs in African countries (Wei, 2007). Wei (2007:2) argues that "the China model consists of four sub-systems, they are: a unique way of social organization, a unique way of developing its economy, a unique way of government, and a unique outlook on the world". The uniqueness of China might be questioned when considering the experiences of, say, Korea or Taiwan. Not only China but also other so-called new middle power countries are likely to highlight their own experience in overcoming poverty, and transfer their supposedly "unique ways" of development to other developing countries. What lessons can we learn from the Chinese experience?

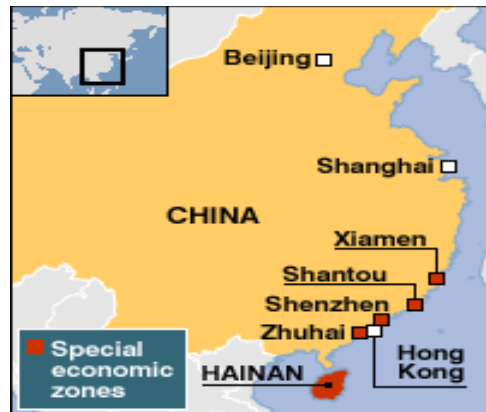
During the Mao era, China experienced substantial economic difficulties due to political experiments with disastrous economic effects, such as the 'Great Leap Forward', which resulted in a massive famine and millions of deaths. In the late 1970s, the aftermath of the Cultural Revolution contributed to a decade of economic collapse in China. Meanwhile, it was obvious that neighbouring countries were performing better economically. According to Yang (1990:230), during the Mao period, China emphasised redistribution in an attempt to reduce regional disparity, and extensive modes of economic growth were preferred. In other words, in order to improve total output, the state emphasised the large scale use of capital, labour and resources; however there was little concern with efficiency. These economic policies turned out not to be successful. In the end, the Post-Mao government recognised that uneven development between the interior and coastal areas was inevitable, and decided to take a new approach by focusing on investment in the coastal areas (Zeng, 2010:56).

SEZs served as an experimental endeavour to overcome restrictions of the economy in geographically limited areas. At the initial stage, China, unlike other Asian countries, had a socialist economy, and there was internal resistance to the country's adoption of SEZs because SEZs programmes have capitalistic characteristics for example the inclusion of foreign investors, which was prohibited under the Mao regime (Wong and Chu, 1984:3). However, Deng Xiaoping's Open Door policy formulated in 1978 promoted the SEZs programmes. In 1982 China declared that it wanted to establish a "market socialism" which is a mixture of state-owned enterprises and an open-market economy, and the importance of SEZs was revisited (Gopalakrishnan, 2007:1492).

Under China's Sixth Five-Year Plan (1981-1985),⁴ the development of SEZs in coastal areas was stimulated. Even though Deng insisted that the reforms per se were not capitalistic, and still based on the socialist framework, the establishment of SEZs inevitably contained capitalistic elements. As a result of this Open Doors policy many areas in the coastal region have been designated "economic open areas" that can enjoy special policy advantages (Yang, 1990:230-231). Initially, there were four SEZs, established in China's Southern coastal regions: Shenzhen, Zhuhai and Shantou in Guangdong Province and Xiamen in Fujian Province, and later the entire province of Hainan was designated as a SEZ. In terms of accomplishment of goals in economic development, differences exist, but Shenzhen is considered to be the most successful zone. According to many commentators, "Shenzhen's SEZ has been serving as China's window to the world and an experimentation field" (Zeng, 2010:56; Yuan *et al*, 2011:4).

⁴China's Five-Year Plans are a series of economic development initiatives. The First Five-Year Plan was implemented in 1953 and the Twelfth Five Year Guideline covers the 2011-2015 period. At first, the plans were influenced by Soviet-style economic model such as state ownership and centralisation of economic planning. However, China soon realised that the Soviet model of industrial development was not suited to China. After the Second Five-Year Plan (1958-1962), China modified the goals and adopted goals appropriate to its own circumstances.

Figure1. Chinese Special Economic Zones



Source: BBC News. 2006. Quick guide: China's economic reform. [Online] Available: <http://news.bbc.co.uk/2/hi/asia-pacific/5237748.stm> [13 May 2012]

Farole (2011:66) notes the significant role of SEZs in the Chinese economy, citing that they already provided 12% of employment in 1995, and this has been increasing rapidly. In general, SEZs in China “accounted for about 22% of national GDP, about 46% of FDI, and about 60% of exports, and generated in excess of 30 million jobs in 2007” (Zeng, 2011). These indications confirm the importance of SEZs in China’s economy and their contribution to job creation (Fu and Gao, 2007:15-16). In addition, SEZs absorb a large amount of surplus labour from rural areas. SEZs and especially the higher wages paid in Shenzhen attract migrant labourers. Actually, the process of urbanisation in China was slow in the 1970s, strong social control and administration systems such as the Hukou System hampered the process. However, during the Sixth Five-Year Plan (1981-1985), the SEZs needed massive numbers of workers from rural areas, and as a result there was a great increase in migration from rural to urban areas (Gu, 2007:159).

3. 2. THE CASE OF THE SHENZHEN SEZ

THE PRECURSOR OF ECONOMIC DEVELOPMENT IN CHINA

Until the late 1970s, Shenzhen relied on primary sectors such as the agriculture and fishing industries and it was hard to find any significant industrial activity in the region. Nevertheless, Shenzhen is located near Hong Kong, and was expected to act as link between Hong Kong’s advanced economy and mainland China (Zeng, 2010:57). Besides the locational consideration, when it comes to the reason that the central government selected Shenzhen as its first test ground, Zeng (2010:57) argues that the region was industrially backward and underdeveloped, therefore the local people, hoping for a higher standard of living, offered little resistance to this new experiment and the rapid change. Due to the industrialisation process in SEZs, the economy of Shenzhen changed from an agriculture-based economy to an industry-based economy within a few decades. As was intended, Shenzhen now has a robust export-oriented economy. From 1979 to 2007, its trade volume increased nearly seventeen times from US\$17 billion to US\$287.5 billion. Shenzhen has maintained its growth rate despite the global financial crisis (Zeng, 2010:59).

What should be noted from the case of Shenzhen is the quality of growth and its evolution to higher-end production. According to Zeng (2010:59), in the past, the tertiary sector in Shenzhen was merely based on “basic services and simple assembly industries”. However Shenzhen now stands out on account of its high-tech industry. It has been successful in transforming its economy, taking it to an advanced level and creating value-added products. Looking at statistics, in 1981 the zones in Guangdong were already receiving 59.8

percent of China's total FDI and Shenzhen was receiving more than a half of this (Yeung, Lee and Kee, 2009:224). In terms of technology, as discussed above, Shenzhen has been successful in moving on to high-tech industries, and this technological upgrade has had a spill-over effect on the overall national economic development. Furthermore, Shenzhen contributes substantially to China being the leader in certain industries on the world stage (Zeng, 2010:62). The employment structure has also changed. The World Bank data show that "total employment amounted to 7.7 million: some 7,000 in primary industries, about 4 million (roughly 54 percent) in secondary industries, and about 3 million (roughly 46 percent) in tertiary industries" by the end of 2007 (Zeng, 2010:59). Not only statistical growth but also the quality of growth in the case of Shenzhen should be considered as the foundation of China's development.

It is possible to observe that the Shenzhen SEZ followed several steps behind this remarkable achievement. Yuan *et al.* (2011:5) note that the Shenzhen SEZ was developed in four different stages: the monomial breakthrough stage (1980-1985); the comprehensive reform stage (1986-1991); the stage of establishing a market system framework (1992-1997); and the thorough reform stage (since 1997). Throughout these four periods, it is possible to observe continuous institutional reforms taking place in order to create conditions favourable for investors. Shenzhen is an illustration for the point that development is a long term process that requires continuous management and thus a substantial skills basis to start with. Furthermore, external environment should be considered as well. In other words, when the Chinese government established SEZs specifically the Shenzhen SEZ, external conditions were different from those of African countries.

Labour relations in the Shenzhen SEZ have changed over time and can be categorised into the same four stages as mentioned above. Simultaneous with industrial development and economic growth, conditions became favourable for labour in Shenzhen. Because of this social development that took place at the same time as rapid industrialisation, Shenzhen's case deserves attention, for example, there have been continuous reforms in "wages, labour mobility, labour contracts, wage determination, and pension insurance", more importantly, Shenzhen's progressive reforms were taken as an example and the concepts spread to other regions as well (Zeng, 2010:65). During the first stage from 1980 to 1985, Shenzhen adopted and executed "a new labour contract system, reforming labour contracts, wages, and pension insurance" (Zeng, 2010:67). Actually, some of these elements such as the labour contract system were similar to what is found in a market economy. During the comprehensive reform stage from 1986 to 1991, Shenzhen focused on "establishing a personnel system and pension insurance". This reform and related policies were adopted by the central government and applied nationwide (Zeng, 2010:68). During the next period from 1992 to 1997, Shenzhen's existing labour system underwent further change. Some social protection or social security systems such as a minimum wage system, pension, medical insurance, and housing subsidies were upgraded. During this period, institutional reforms such as adopting a new management system took place in order for Shenzhen to comply with international standards of labour practice (Zeng, 2010:69). Since 1997 Shenzhen's advanced systems such as the pension system have been adopted by other region (Zeng, 2010:69).

According to the Chinese Ministry of Labour and Social Security, the minimum wage in Guangdong was the highest in the country in 2007. Every province has its own standard ranging from 430 RMB to 780 RMB per month and Shenzhen has the highest wage level. It should be noted that even though wage levels in SEZs have become higher, they were, until recently, still low compared to those in other countries; labour remained the competitive edge of the SEZ. This low wage based on the large size of the labour reservoir has made China's export-led industry competitive in general and the driving force for economic growth. However, currently, many investors in SEZs, especially those located in the Eastern coastal areas, are under pressure to increase wages. This pressure can lead investors to move with investment into inland China, which still has a low level of wage compared to other regions (Fu and Gao, 2007:29). While this might be a spill-over effect of

economic growth into other regions, it can be a challenge for the success history of SEZs in Guangdong and will require adjustments there.

CONDITIONS FOR SHENZHEN'S SUCCESS

There are certain conditions that determined Shenzhen's remarkable development. A key one of these is its locational advantage. Shenzhen is located next to Hong Kong, and Macao and Taiwan, which already had advanced market economic systems, are close by. Therefore, Shenzhen had the advantage of being able to learn about the capitalist mode of economy and about modern systems (Yeung, Lee and Kee, 2009:232). Yeung, Lee and Kee (2009:223) also argue that Shenzhen and other zones established in Guangdong could retain their autonomy from the central political power by being located in these coastal areas far away from Beijing.

Under the circumstances, many commentators (Yeung, Lee and Kee, 2009; Yuan, 2011) point out the importance of the role of government in terms of making policies and policy implementation. Yuan (2011) points out that the Chinese central government played a critical role in the success of SEZs by authorising and ambitiously implementing the reforms. Furthermore, it should be noted that the central government also gave local government space to manoeuvre. Also, according to Yeung, Lee and Kee (2009), the central and provincial governments allowed for the effects of market forces. This collaboration between different governmental levels, and especially government and business, brought about a successful outcome. In the case of Shenzhen, Yeung, Lee and Kee, (2009:226) assert that "private sector-led" development led to innovation.

It is significant that governments at all three levels, central, provincial and local have played important roles in the case of the Shenzhen SEZ. According to Zeng (2010:73), first of all, the central government provided unprecedented support to Guangdong, in addition to building on a clearly capitalist element. According to Zeng (2010:73), in order to create favourable conditions for the operation of the SEZs in this region, transportation, telecommunication, banking and management authority among others, were delegated to the provincial government in order to realise the programme.

At the provincial government level, Zeng (2010:74) points out the importance of the research done by the provincial government during the preparation for the SEZs. During the initial phase the provincial government carried out field research including assessing the local people's perspective. Later this report was used as a case in point for other similar projects in other regions. Furthermore, the provincial government had autonomy from the central government so it could maintain flexibility and devolve power to local governments. As Zeng describes it, "the central government extended authority to the Guangdong provincial government and the special zone government in such areas as planning, pricing, labour, wages, business management, and foreign economic activities"(2010:74).

Lastly, at the local government level, there was increasing flexibility regarding actual economic activities. Power was conferred to the local government in Shenzhen to make rules in accordance with specific circumstances and actual needs. This special treatment by the central government was critical to "policy innovation" and in order to ensure development (Zeng, 2010:73).

As can be seen, this decentralisation played an important role in creating a more market-friendly environment in Shenzhen and this was strengthened by "a series of legislative innovations" (Zeng, 2010:75). Zeng describes how these regulations based on the regulations in Hong Kong and other countries, were later modified to suit the needs of Shenzhen, "the administrative system, environmental protection, urban

management, and cultural development” were continuously modified and strengthened (Zeng, 2010:75). This effort became one of the pull factors for foreign investors by providing a stable FDI legislation regime.

In addition, it should not be overlooked that one of the driving forces for SEZs in China was, and still is, cheap and abundant labour. The Chinese labour reservoir is actually the most attractive factor of its entire economic growth; however, Zhang (2005) argues that labour cost does not entirely determine FDI in China. There are several aspects for foreign investors to consider when they invest, such as “capital availability, competitiveness, regulatory environment, political economic stability, local business climate and openness to regional and international trade” (Dumon, 2009). Nevertheless, Zhang (2005) analysed the correlations between the origin of FDI and how labour influenced investment. In the case of China, cheap and abundant labour – which, additionally, has relatively good basic education and is linguistically and culturally understood – is still one of the most important factors influencing investors from Hong Kong and Taiwan, the largest foreign investors in China.⁵ Investment in human resources should be taken more seriously in this context. The quality of labour can attract foreign investors and therefore benefit China in the long run. Fu and Gao (2007:38) argue that the “quality of China’s labour force has improved very fast” noting that the Chinese people now spend more years on basic education and training. As a result, Chinese firms can absorb a high level of technical knowledge from foreign companies and this has helped them to produce value-added products by themselves (Yeung, Lee and Kee, 2009).

LIMITATIONS OF SHENZHEN’S SUCCESS

As discussed above, Shenzhen’s successful experience in terms of SEZ can provide many African countries with insights. However, the Shenzhen SEZ has also faced several problems. Prior to the attempt to replicate SEZs elsewhere, factors of success *and* the limitations of the Shenzhen SEZ should be noted.

Behind the success story of Shenzhen, problems exist mainly with regard to environmental and labour issues; this paper will focus on the latter. Like most African countries, China’s cheap and abundant labour attracted foreign investors. Recently, Shenzhen has experienced a series of mass strikes. Since 1995 labour arbitration mechanisms have provided workers with legal support, however, these provided only temporary relief and workers’ discontent piled up and at last exploded since 2005 in the form of massive strikes. During the strikes, there was a wave of suicides which drew attention from inside and outside the country (China Labour Bulletin, 2011).

As China becomes integrated into the world economy, new external risks in the strategy of SEZs come to the fore – illustrated not least by the global economic crisis. Even though China has statistically achieved continuous economic growth, many businesses in SEZs are export dependent and have closed down in the aftermath of the global economic downturn (Yeung, Lee and Kee, 2009:235). The current economic recessions in the EU and the US have affected China’s export-led growth and this has aggravated the employment situation in China.

Also, as a result of China’s rising labour cost, local businesses have started relocating their business in inland China or abroad, with negative effects on job creation in coastal China. Consequently, the ability to absorb the rural and laid off surplus workers in SEZs has become a problem for government. As elsewhere, unemployment creates subsequent social and political problems, including political protests, but also various

⁵According to Zhang (2005)’s research For the EU, the US and Japan, China’s potential market was one of the major factors affecting the decision to invest. This shows that not only labour but also other factors should be developed to attract FDI, thus a country should not rely entirely on its labour.

anti-social activities and crimes. If social problems become too prevalent, this potentially repels foreign investors (China Labour Bulletin, 2008).

In order to resolve these issues, the Ministry of Labour formulated the 'Enterprise Minimum Wage Regulation' in 1993 and has developed the implementation of a minimum wage guarantee system, even though this is not specialized for SEZs. Since the introduction of the regulations in 1993, Shenzhen has raised the minimum wage standard. However there is still a lingering problem. The country experiences difficulties applying nation-wide regulations to all provinces uniformly. Under the regulation, local governments are given the autonomy to formulate their own legal minimum wage. The problem is that local governments are not strict regarding labour malpractice under their authority. Thus, difficulties arise regarding the implementation of the law (Chan, 2003:3).

Recently, Shenzhen drafted new labour regulations in 2008. One of the main reasons for this was continuous labour unrests which had repeatedly halted operations. It was feared that foreign and domestic firms would relocate their operations, moving away from Shenzhen, as a result of labour disputes. As a result, in 2008, the local government in Shenzhen prepared the "Draft Regulations on the Growth and Development of Harmonious Labour Relations in Shenzhen Special Economic Zone" in 2008, which was modelled on the regulations of other countries that have advanced labour regulation systems. This showed the government's aspirations to prevent labour disputes developing into "strikes or stoppages of essential services" which could negatively affect productivity (Tsui, 2009:265). Tsui (2009:265) further states that this shows that China has embarked on a "learning process" to create a better environment for workers and so that China can comply with international norms. Just as Shenzhen was the testing ground for China's adoption of a market economy in the 1980s, these new regulations have become another pilot programme.

Some commentators are still concerned about the gap between new regulation and actual practice as discussed above. On the one hand, regulations exist to protect labour, but on the other hand, loopholes can be misused by employers who treat employees unfairly in many other ways such as physical relocation, instead of firing them. As a result, workers voluntarily choose to leave the workplace, while the employers are still acting within the law (Chan, 2002:59).

Several socio-economic problems regarding migrant workers exist, besides the issue of regulations and their actual implementation, since most of workers in Shenzhen are migrant workers from other parts of China. Several problems occur in terms of "low wages, the problems of wage arrears, the lack of written contracts, the long working hours, the short weekly rest periods, the low social security coverage, the poor housing conditions, and the difficulties they face in accessing public services" (Shi, 2008). Most likely related to the socio-economic conditions (not least steep inequality), Shenzhen's crime rate is higher than that of other big cities such as Shanghai (Gopalakrishnan, 2007:1493).

The bottom line is that increasing labour unrest can cause damage to the operation of companies, therefore it is essential to have effective mechanisms to deal with labour unrest through communication. In quite a number of cases, the improvement of working conditions will be needed, and addressing these needs is expected to contribute to improving working conditions for labour in general.

One should note that the Chinese government has chosen to take strong initiatives to protect its workers. The overall success of Shenzhen and improvements in labour conditions show that the role of government is important in this regard. SEZs policies and implementation were harmonised at the central, provincial and local governmental levels. Also, the government de facto borrows from advanced policies from Hong Kong and other foreign countries. It is somewhat surprising that Shenzhen adopted and implemented labour-related regulations at quite an early period of its development. This has positively affected the quality of workers'

lives. Not only in Shenzhen, but in all of China, a crucial aspect is the improvement of basic education. Research actually supports the idea that higher education determines productivity and wage rate (Maurer-Fazio, 1999). Also, higher education can help workers understand the law and their rights and support them to effectively and peacefully address unfair treatment such as discrimination. Shenzhen has continuously adopted and modified labour related regulations in order to improve the situation. Its success will also be measured against delivering on the expected better environment for labour through new regulatory initiatives and the process of socialisation.

Soft power consists of various elements; among these especially values cannot be delivered by the Chinese government solely. Various agents including NGOs and the media at international and local levels are involved in the construction of soft power which is why transplanting this China’s development model is not a simple task. It is one step to build infrastructure, produce goods and hire local people. However, second step is larger: China has experienced that the transfer or creation of “know-how” takes longer.

4. THE BURGEONING OF SEZs IN AFRICA AND THE ACCOMPANYING CHALLENGES

4.1. CHINESE SEZs IN AFRICA: OLD WINE IN NEW BOTTLES?

Many countries in Africa have – over time – launched various forms of SEZs programme such as EPZs and industrial parks in the 1970s; since the 1990s and 2000s the number of SEZs has greatly increased (Farole, 2010). Except for Mauritius which is referred to as one of the successful cases of establishing SEZs, similar programmes in Namibia (Walvis Bay) and Liberia (Monrovia), among others, are considered as having not reaped any visible benefits.

Table 1. Chronological Overview of African SEZs Programmes in Africa

| 1970s | 1980s | 1990s | 2000s |
|-----------------------------|----------------|---|--|
| Liberia, Senegal, Mauritius | Djibouti, Togo | Burundi, Cameroon, Cape Verde, Equatorial Guinea, Ghana, Kenya, Madagascar, Malawi, Mozambique, Namibia, Nigeria, Rwanda, Seychelles, Sudan, Uganda, Zimbabwe | Gabon, Gambia, Mali, South Africa, Zambia, Eritrea, Mauritania, Tanzania |

Source: T. Farole. 2010. Second Best? Investment Climate and Performance in Africa’s Special Economic Zones. The World Bank Policy Research Working Paper. P4.

After this series of unsuccessful experiences since the mid-2000s, the establishment of SEZs modelled on the Chinese SEZs experience has drawn attention and led to many debates concerning their success. There are six Chinese-led initiatives for SEZs on the continent at the moment.

Table 2. Chinese-led SEZs in Africa

| Host Country | Zone | Main Products |
|--------------|-----------|--------------------------------------|
| Zambia | Chambishi | Copper and copper related industries |

| | | |
|-----------|----------|--|
| | Lusaka | Garments, food, appliances, tobacco and electronics. This zone is classified as a subzone of the Chambishi zone. |
| Mauritius | Jinfei | Manufacturing (textiles, garments, machinery, high-tech), trade, tourism and finance |
| Ethiopia | Oriental | Electrical machinery, construction materials, steel and metallurgy |
| Nigeria | Ogun | Construction materials, ceramics, ironware, furniture, wood processing, medicine, and computers |
| | Lekki | Transportation equipment, textiles, home appliances, telecommunications, and light industry |

Source: Brautigam, D., and Tang, X. 2011. African Shenzhen: China's special economic zones in Africa. *Journal of Modern African Studies*, 49(1):27-54. P32.

At the government level, many African countries hope that the establishment of SEZs will be the stepping stone to industrialisation. With the previous experiences, there are understandably already discussions about the establishment of African SEZs. Despite concerns around SEZs in Africa with regard to the previously low return to host countries, many commentators emphasise a number of positive aspects of SEZs especially those led by Chinese which can contribute to building China's soft power in Africa (Brautigam, Farole and Tang, 2010:3; Ancharaz and Nowbutsingz, 2011:12).

Brautigam, Farole and Tang (2010:3) amongst others, forecast the possibility of a success of the zones based on the following grounds: firstly, as discussed in Chapter 3, China has its own successful experiences and know-how regarding the whole process of "planning, developing and operating" of SEZs. Secondly, China has clear policy incentives to show its actual commitment in a situation where it is facing criticism of being neo-colonialist and only interested in Africa's natural resources. Thirdly and closely related to the second point, there exists unprecedented support from the Chinese government to Chinese investors who want to enter new markets. The support comes as financial support including (subsidised) loans, and non-financial support such as trade preference. The situation in China's domestic market has become very competitive, thus the tendency to look for foreign markets has become stronger and this is additionally encouraged by the government along with a Going Out policy. Lastly, beyond the political significance from the perspective of the Chinese government, the administration of the zones is different from other models.

As Brautigam, Farole and Tang (2010) argue, strong political support from China can be a pull factor, on the other hand, Brautigam and Tang (2011:31) also point out that the Chinese government is likely to leave the initiative in the hands of the private sector. In other words, the involvement of the government only takes place at the initial phase of a zone's launch and development and the rest is up to the private investors. Attracting private companies is as important as the operation of Chinese state-owned companies in the long run. This distinctive feature that might contribute to the success of SEZs, however, also comes with problems. Precisely because most of the investors are private, the Chinese government has less control over strategies. Host governments as well as the Chinese government thus need to continuously monitor what is happening and related institutional mechanisms need to be implemented. If done properly, these distinctive aspects can make the Chinese-led SEZs viable and in turn strengthen China's soft power on the continent.

Obviously, several impediments also exist to the burgeoning of SEZs and these can ultimately adversely affect China's soft power on the continent (Brautigam, Farole and Tang, 2010:4). Firstly, most of the Chinese-led SEZs were planned in 2006 and 2007, thus under different economic circumstances. Most of the SEZs are still under construction, and some are ready to operate in the near future. Yet, this prolonged process shows difficulties in implementation, be it a lack of initiative or the absence of a driving force to materialise the programme. Sometime this slow process is related to the "land acquisition and compensation", which is prone to bring about the resistance of local communities. There are, however, also several other obstacles that discourage investors that have to do with broader development challenges in Africa. Even though host countries take trouble to provide efficient on-site infrastructure, the lack of off-site infrastructure in many cases frustrates investors. Brautigam, Farole and Tang (2010) also point to a lack of capacity of host governments with regard to providing stable FDI legislation. Insufficient communication between the Chinese side and host countries has been identified as another problem, in many cases due to the language barriers.

As indicated, the Chinese-led SEZs programmes are at the initial stage, thus it is still possible to improve the situation through paying attention to the experience of China. Brautigam, Farole and Tang (2010:5) make some suggestions in order to achieve success in zones. Firstly, "active engagement from host countries" is highlighted. Even though the Chinese government offers extraordinary support in various ways, it will not be possible to realise SEZs without proactive involvement of the host government. A number of African countries have recently trained their officials through exchange programmes, learning from and replicating the Chinese success factors supported by the Chinese government through Ministry of Commerce of China (MOFCOM) and other institutions such as UNDP.⁶As a result of this shared experience and knowledge, it is expected that host countries take ownership to push forward their own SEZs. Knowledge transfer is one of the typical ways of spreading soft power. Secondly, even though the authors put emphasis on the proactive involvement of host governments in SEZs, Brautigam, Farole and Tang (2010) highlight the importance of getting timing and gradual involvement of local people right, in order to accelerate "operational processes". In the case of Egypt, as the three authors point out, the involvement of local management ended up with Chinese investment being linked to corruption. Thirdly, it is also emphasised that the improvement of off-site infrastructure can boost overall productivity since infrastructure is referred to as a bottleneck of development in Africa in general. Fourthly, the authors highlight communication between the Chinese government and investors, and host governments in order to enforce work environment standards. Furthermore, they suggest a way to mitigate problems derived from language barriers by providing a Chinese version of host countries' regulations. The three authors cite the case of the Mozambique government distributing the Chinese version of regulations to investors in order to improve their understanding of local regulations and to force them to comply. Fifthly, the authors highlight the importance of linkage with domestic markets and local investors. This is also linked to the third point on infrastructure. Lastly, the importance of transparency in the whole process of the establishment of SEZs is crucial. All these factors above should be considered and resolved in order for the Chinese-led SEZs to be successful, and to assist in the building of China's soft power.

⁶For instance, a training programme for ministry officials from Francophone African countries took place in Tianjin, China, in July 2012, supported by MOFCOM and UNDP China. Through the programme, it was expected for African host countries to learn from China's own experience and how they can apply the Chinese experiences to their own SEZs.

4. 2. THE CHAMBISHI SEZ IN ZAMBIA: AN OPPORTUNITY FOR CHINA TO ACQUIRE SOFT POWER?

China and Zambia have had a historically long term relationship, going back to the 1960s; Zambia was the first African nation to sign diplomatic relations with China. In terms of economic engagement, the construction of the TAZARA railway between Zambia and Tanzania is referred to as the start of the burgeoning relations between the two countries (Haglund, 2009). However, in the 1990s Chinese “economic consideration” strengthened the relations, and China has deeply penetrated into the mining industry in Zambia. Based on the mining sector, the relationship between the two countries has developed remarkably (Kragelund, 2008:50).⁷ Even though Brautigam and Tang (2012) argue that Chinese engagement through SEZs is not in general related to its pursuit of natural resources, in the case of Africa, specifically in the case of Zambia, the copper mining can contribute to and accelerate the rapid growth of SEZs.

In conjunction with that, Zambia was transformed to a multi-party democratic country in 1991 after being a one party socialist country since its independence in 1964. The country also has pushed forward the “re-orientation” of its existing economic structure through “privatisation of state-owned enterprises”, “promotion and facilitation of both local and foreign direct investment” and “promotion of exports” among others (Ministry of Commerce, Trade and Industry, 2011). The Zambian government established agencies such as the Zambia Development Agency (ZDA) in order to promote foreign investment in Zambia (Zambia Development Agency, 2012). The Zambian government has shown determination to reform its economy and related policies by establishing ZDA and formulating acts such as the Zambia Development Agency Act, effective from 2007. The Zambian government has also provided several incentives such as land lease, and tax exemption, and ZDA has become the main driver for the project (Mwanawina, 2008:5).⁸

Even though the country tried to push forward economic growth through reform, there was no significant economic recovery until Asian partners became involved. Regarding this, Carmody (2009:1198) shows that the average GDP growth in Zambia has increased during the “Asian-driver-led growth phase from 2003 to 2008”. Carmody also (2009:1198) argues that the “resurrection” of the country’s economy in the 1990s was largely due to the international copper price, which can be linked to soaring demand for this commodity fuelled by emerging economies, not least so China. The influx of Chinese investment in the copper mining sector further influenced Zambia’s economic recovery. Many commentators such as Li(2010) point this out as one of the positive aspects of Chinese investment in Zambia. The contribution to poverty reduction and job creation especially in the Copperbelt has been viewed by local populations in a positive way (Van Bracht, 2012).

At the moment, there are two Chinese-led SEZs; Chambishi (in Copperbelt Province) and Lusaka Subzone.⁹ The Chambishi Zone is the first Chinese-led zone which started operation, but construction in the Lusaka

⁷The mining sector, especially copper mining is one of the largest contributors to the Zambian economy. Zambia was the 8th largest producer of copper in 2009. The Zambian Copperbelt region in particular is known for accounting for more than 45% of the production and reserves of the Central African Copperbelt. China has become one of the major investors. China Non Ferrous Metal Industries Foreign Engineering Construction is one of the major shareholders (Zambia Development Agency, 2012).

⁸The ZDA is composed of 5 different related institutions such as the Export Board of Zambia, Zambia Investment Centre, Zambia Export Processing Zones Authority, Small Enterprises Development Board of Zambia and the Zambia Privatisation Agency (Mwanawina, 2008:5).

⁹In Zambia, there are various types of SEZs. As mentioned in Chapter 1, various terms exist for a zone. The Chambishi SEZ and Lusaka Subzone are also known as Zambia-China Economic and Trade Cooperation Zones (ZCCZ) by the Chinese government, which is the first overseas economic and trade cooperation zone under the authority of FOCAC. It

subzone has recently been completed and investors are now being sought (Ministry of Commerce, Trade and Industry, 2012). The Chambishi Zone focuses mainly on the production and the processing of copper, and related industries. Lusaka Subzone is supposed to focus on the manufacturing sector such as garment-, food-, and appliance manufacturing, among others. The Lusaka Zone is expected to contribute to the industrialisation of Zambia; the manufacturing sector is expected to make the country's economy diversify, also create jobs and make technology transfer possible.

China's share of FDI (at the level of pledges) mainly targets the manufacturing sector (US\$ 900 million) and Mining (US\$ 220 million) and these two zones are expected to contribute to the Zambian economy (Zambia Development Agency, 2012). There were 14 enterprises in the Chambishi Zone by 2011 which have already provided over 3,500 local jobs (Ministry of Commerce, Trade and Industry, 2012). The number of jobs is expected to increase as more enterprises move into the zone. At the end of 2012, the Chambishi SEZ is poised to accommodate 50 to 60 enterprises with an output volume exceeding US\$ 1.5 billion, of which more than US\$ 600 million will be exported, while employing more than 6,000 locals (Brautigam and Tang, 2011). Despite this bright prospect, the number of workers employed by the Chambishi SEZ alone will not solve the national employment problem. In Zambia the rate of unemployment, especially, youth unemployment poses a challenge to social security. 48% of youths aged from 20 to 24 are unemployed (African Economic Outlook, 2012). The government cannot absorb all these new entrants to the job market, therefore, the Chambishi SEZ can be regarded as one important element if the unemployment problem and the accompanying social problems are to be solved. Since the SEZs programme is at a nascent level, it is hard to assess if the Chambishi Zone has made – or will be making – any substantial contributions to the Zambian economy in terms of GDP. The copper industry already contributes nearly 10% to Zambia's total GDP and the government aims to double the number (Reuters, 2012).

The importance of the involvement of local investment should not be overlooked. In the same vein, Brautigam and Tang (2011:37) point to the lack of participation by African partners, who are supposed to be major stakeholders, as one of the biggest problems. The involvement of local people is required, otherwise Chinese partners could reap the sole benefit from the programme. The share of local investors currently is low, which can negatively affect the perception of the local population. Without the involvement of local partners, it is hard to anticipate the occurrence of “spill-over effects”. Host countries need to provision good quality labourers who are capable of absorbing advanced technology. In this regard, Chinese investors could learn from Indian investors. Indian companies, Africa's other major Asian partners, have a system that encourages the training of local African workers in India (Haglund, 2009:642). This can contribute to the host country's technology level and, in fact, is likely to positively influence the expansion of India's soft power on the continent.

Many commentators have observed that Chinese investors bring in Chinese workers even though they can hire unskilled workers locally (Broadman, 2007; Corkin, 2008). This practice has caused local people to resent

is the first Multi-Facility Economic Zone (MFEZ) declared by the Zambian government as well. Different terms are used by the two governments. Actually, in Zambia, the term, Multifacility Economic Zones (MFEZs) is used instead of SEZs and it is defined as “special industrial zones for both export-oriented and domestic-oriented industries”. In addition to the two Chinese-led SEZs, there are the Lusaka South MFEZ developed by Malaysian and Japanese investors aiming to accommodate a variety of industries and facilities, the Lumwana MFEZ which will focus on the manufacture of explosives, and on agro processing, horticulture, fisheries among others, the Sub Sahara Gemstone Industrial Park which is developed by local Zambian enterprise which is a majority shareholder focusing on manufacturing, the Roma Industrial Park which is promoted by a South African company, Interspan Sales Corporation, focusing on light industry (Ministry of Commerce, Trade and Industry, 2012).

Chinese investors. However, Carmody (2009:1199) argues that this trend is being reversed. Chinese investors now increasingly hire locals. This, however, does not yet solve the problem of the Chinese investors often being accused of not complying with local or even international regulations such as minimum wages and labour standards (Amadhila, 2012). This is a major point of debate which arguably undermines China's soft power.

Since copper mining is one of the major contributors to Zambia's economy, the Chambishi SEZ has contributed or has the potential to contribute to the Zambian economy in direct and indirect ways. However, since the Chambishi SEZs and the Lusaka Sub Zone have not yet fully unfolded their activities. Consequently, there have not (yet) been remarkable differences in terms of job creation and technology transfer as a result of the establishment of Chinese-led SEZs. Also, clashes between the Chinese investors and Zambian local workers have negatively affected the image of China. In the next section, the focus will be on labour issues in Zambia. Along with the strong presence of Chinese investment, labour relations between Chinese investors and local Zambian workers have recently deteriorated and this has drawn attention from China and Zambia, as well as the international community. This has negatively affected the perception of African countries' (not least: Zambian) population towards Chinese investment as a whole, and furthermore of China herself.

4. 3. CHINESE SEZs AND LABOUR RELATIONS

Since the Chambishi Zone comprises a large part of the mining sector in Zambia, it will be useful to first examine the mining sector in Zambia in general. Especially, Chinese investors' low-cost strategies are directly linked to these investors' attitude to labour relations. In order to lower their costs, the firms are likely to shed the cost of production; the strategies are directly related to low wages, poor safety records and low environment standards (Haglund, 2009:641).

Recently, along with the increasing investment from Chinese enterprises in the African continent, much research has been done on the labour practices of Chinese firms operating in Africa and these are criticised. Akorsu and Cooke (2011:2739) argue that workers receive a lower wage or a wage which only just meets the minimum global standard, so that management can avoid legal action. According to Baah and Jauch (2009:59), China has ratified various international conventions regarding labour and human rights such as the ILO conventions, the Universal Declaration of Human Rights and International Covenant on Economic, Social and Cultural Rights. However, in terms of actual conformation, questions remain. Chinese firms – in China and abroad – are criticized for not conforming to ILO conventions, not only regarding the minimum wage, but also other prerequisites for workplaces such as occupational health and safety standards (Baah and Jauch, 2009:44). Under the circumstances, labour relations between Chinese investors and local workers are described as tense, and Baah and Jauch (2009:66) point out that Chinese businesses in Africa are criticised in terms of “tense labour relations, hostile attitudes towards trade unions, various violations of workers' rights, poor working conditions and several instances of discrimination and unfair labour practices”. This clearly undermines China's efforts to expand its soft power on the continent.

The critical stories of Chinese labour abuse abound. While an exclusive focus on Chinese (or supposedly Chinese) investments might create a bias, problems are evident. In 2005, there was an explosion at a Chinese-owned factory and there were 50 Zambian casualties; health and safety standards were not sufficiently implemented. In 2008 there was a clash between management and Zambian workers which turned into a violent situation that became a political issue in conjunction with the presidential election and which led to

political turmoil.¹⁰In August 2012, an ethnic Chinese supervisor at Collum Coal Mine in Zambia – in fact, the mine is owned by an Australian citizen of Chinese origin – was killed during the workers’ strike during which workers demanded wage increases.¹¹ Recently, the Zambian government introduced a new minimum wage. According to the law, mine workers are now entitled to receive US\$230 per month instead of US\$150, however, the workers found that they still received the same amount and asked the company to comply with the new regulations. These incidents indicate a substantial level of resentment of local citizens towards Chinese investors and their engagement – and they illustrate, at the very least, difficulties in communication in some enterprises that are (or are regarded as) Chinese owned. The probability exists that similar incidents will occur again and that will taint the image of Chinese investment and operations on the continent.

The series of accusations of Chinese investors’ malpractice has drawn public attention and has made the Chinese government realise the importance of complying with labour standards in host countries (as well as the need for more pro-active public engagement). At this point, it is crucial to look at the Chinese concept of labour rights at home, and even human rights in general. According to Taylor (2009:92), the Chinese concept of human rights highlights the interest of society rather than the rights of the individual citizen. This has underpinned the Chinese development model. This belief also underlies the practice of Chinese business and is applied to their operations abroad. Interestingly, some African countries embrace this concept, putting emphasis on national development (trumping individual claims in cases of conflicting interests), and regard this as the Chinese model of economic development. This general tendency of what is now regarded as a Chinese model of economic development could arguably also be found in other East Asian countries during their development process, such as Taiwan (ethnic Chinese, in any case), but also in South Korea. It should be noted that many East Asian countries achieved remarkable economic growth within only a few decades based on similar values. However, behind their success stories lay the suppression of workers’ rights and top-down managerial styles, which, at later stages of development created challenges for further economic growth.

Despite the existence of criticism of Chinese investors’ malpractice, their work ethics are often appreciated by local people (Lee, 2009; van Bracht, 2012). Chinese investment is hoped to help local population to break the poverty cycle. This is also acknowledged in the Human Rights Watch’s report of 2011 that investigates the abuse of human rights in the Zambian mining sector by Chinese (Human Rights Watch, 2011). This, however, cannot justify the malpractice of some Chinese investors.

It is notable that Chinese companies’ labour practice has improved in general, and this is especially true regarding Chinese-state owned companies. As seen in Chapter 3, the Chinese government has realised the importance of improving the welfare of its own workers in China; Carmody (2009:1197) argues that the Chinese government has now realised the social responsibility of firms, including those operating outside the country. Yet, in cases where private investors operate, it will not be easy for the government to monitor them in host countries and to create sufficient sanctions to make enterprises comply.

Since Chinese-led SEZs are still at a nascent level, they will need time to grow and reach their maturity phase. Investment – including Chinese investment – is crucial to many African countries. At this still initial stage,

¹⁰During the 2008 election, the then opposition leader, President Sata, threatened to deport Asian investors, namely, Chinese and Indian nationals if he became president. He also promised that if elected, he would confiscate the property of foreign companies with less than 25% black Zambian ownership. These comments show that local Zambians have a negative perception of Chinese investors’ practices and their low level of contribution to the Zambian economy.

¹¹Beyond the privatisation of mine sectors in Zambia, parent companies also outsource jobs. According to Sautman and Yan (2011), contract or temporary mineworkers who are hired by sub-contracted companies are paid at rates far below the minimum wage that the Zambian government stipulates.

host governments, investors and local actors such as trade unions and civil society need to work together to bring about benefits for host countries' economy and citizens while, at the same time, creating a conducive business climate for foreign investors.

5. CONCLUSION

SEZs have been vigorously pushed forward by many developing countries, hoping for them to work as catalysts for overall national development. In the case of China, SEZs have contributed to boosting the country's industrialising capacity and have become a driving force of its remarkable economic growth. This inspired many African countries. Simultaneously, the establishment of SEZs in African countries has been regarded as an opportunity to expand China's soft power on the continent. The Chinese government has aspired to teach others their own development experiences, thereby replicating the successful experience of the Shenzhen SEZ, which served as a driving force of China's domestic development. Based on the country's own experience, the Chinese government promised to provide unprecedented support for the establishment of six SEZs in four African countries. The Chinese-led SEZs have been expected to contribute to host countries' economic growth, technology transfer and job creation. However, currently most of them are still under construction and have not yet started operations. In addition to this prolonged process, labour issues such as disregard for basic workers' rights, the violation of minimum wage legislation, and poor working conditions have tainted China's image on the continent. Therefore the success of SEZs is not only a matter of statistical growth but should also comprise the host countries' sustainable development.

Irrespective of the debate on China's soft power, the success of SEZs is significant for host countries' own development. Host countries should be aware that establishing SEZs does not automatically generate positive outcomes, as past endeavours have clearly illustrated. Furthermore, the international economic environment and global production networks in which African states have to succeed nowadays are entirely different to those of China in the 1980s and 1990s when export-led Asian developmental states largely benefited from the global production chain based on cheap production costs. Domestic markets in Africa, for their part, are not of scale, contrary to China's potential. Therefore, it is critical to analyse the country's comparative advantages and competitiveness in the context of the current environment, instead of just building on (supposedly) cheap labour costs. Also, it should be noted that the success of Shenzhen was gained throughout decades and it required continuous adjustments of the planning.

Focusing on the conditions for success of SEZs, African host governments need to continuously engage with and adjust their support to make SEZ programmes successful. In the case of the Shenzhen SEZ, the government had a comprehensive overall plan; it took all possible factors which could bring about positive outcomes into consideration. Much of adjustment was incremental, with goals-setting at higher level and implementation at lower-level of government. From the initial stage, the Shenzhen SEZ received unprecedented support from the Chinese central government. Provincial level, local governments and the business sector were actively involved and played the main roles in terms of innovation. These public-private partnerships contributed to bringing about continuous innovation ranging from legal regulations to technology, and in the end making it possible for the Shenzhen SEZ to become one of the world's high-tech power houses. This aspect attracted not only foreign enterprises but also Chinese local enterprises to come into zones after their own assessment of business viability in the SEZ. In the case of SEZs in Africa, the Chinese government's rhetoric as well as practical support is one of the positive aspects that can possibly lead SEZs to success. However, the Chinese government's political support in and by itself does not determine the success of SEZs; cooperation from host governments and local businesses are determining factors, too.

Secondly, after initially building on cheap labour cost only, China has moved from light manufacturing to information technology, which is a higher value-added industry. In order to do this, well-educated and skilled workers were needed. This aspect should be addressed through investment in human resources in African host countries. The Chinese government faced the same issue. In order to overcome this, what the Chinese government chose to do was to invest in human resources so that workers could absorb new technology from FDI, and subsequently create advanced forms on their own. If host countries rely on cheap labour only, they will eventually lose their competitive edge and will not be able to climb the next step of the ladder.

This need for improvement also includes the labour conditions. China's dismal working conditions were (and are) notorious. However, since continuous strikes and social unrest could risk its FDI inflow, the Chinese government has started taking an inward-looking approach to rectify these problems. For example, Shenzhen adopted advanced labour standards from an early period. In Africa, researchers and policy-makers agree that the regulations for investors should be strictly monitored. Host countries and investors must consider labour issues such as decent wages and proper working conditions, as these aspects will determine not only the success of SEZs in Africa, but also the improvement of the general living standards of the citizens.

The leverage of China in Africa, not least with regard to soft power, depends on the extent to which China shows commitment and respect for its African partners and for the African citizens. Soft power is socially constructed through interaction among various agents, and it is impossible to achieve in a unilateral way. Even though the Chinese government's unprecedented support and the high-profile politicians' visits have been successful in gaining the support from African governments and elites, soft power will have to move beyond the narrow state elites. The crux for China's leadership in this regard is that since the presence of Chinese private actors has become stronger, it is beyond Beijing's capacity to monitor all activities. While the success of the SEZs in Africa can help to establish China's soft power in Africa, their success is not yet certain. For the initiative to become a success, continuous engagement and continuous learning from mistakes on the way by both China and the host countries is necessary.

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