"CHINA'S SPECIAL ECONOMIC ZONES IN AFRICA: THE EGYPTIAN CASE"

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ABSTRACT

The purpose of this paper is to better understand the rapid expansion of foreign direct investment (FDI) from China to Africa and the role that China's special economic zones (SEZs) in the region play in this process. To date little is known about Chinese SEZs in Africa and the factors driving China to establish such zones within the region and concomitantly, the factors driving host countries in Africa to accommodate these zones. This study focuses on the Egyptian Suez SEZ, and is based on interviews with Egyptian Ministry of Investment officials and field visits to the Chinese led Suez SEZ to gain an understanding of the role that the SEZ plays in the process of the internationalization of Chinese firms within Egypt, and Africa more generally. The paper discusses whether Chinese SEZs in Africa represent a new model of development. Whilst the relative infancy of the zones do not allow for a conclusive assessment of their performance, we can nevertheless draw from preliminary observations and comment upon the strategic purpose of the Chinese SEZ model in Africa.

KEYWORDS

JEL CLASSIFICATION: Internationalization Theories; Special Economic Zones; China; Egypt; Africa

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1. INTRODUCTION

There is now considerable interest in China's growing overseas foreign direct investment (OFDI) and the internationalisation of Chinese firms, as well as more generally in the economic influence of China overseas. By 2007 more than 5,000 domestic investment entities had established nearly 10,000 overseas enterprises in 172 countries (MOFCOM, 2008). The African continent, where the number of investments is widely believed to be significantly underestimated, had become an important recipient of Chinese OFDI. A process of increasing economic integration has been ongoing, with rapidly growing trade and investment volumes. Given Africa's poor growth record, and dismal record in human development, the impact that Chinese trade and investment may have on the region has attracted attention: The bulk of research on China's increasing economic integration with Africa however, has focused on the natural-resource seeking aspects of Chinese investment in sub-Saharan Africa (e.g. Kiggundu, 2008). As yet there are comparatively few studies on the activities of Chinese firms in North Africa although by 2008 North Africa accounted for almost 10% of Chinese OFDI stock to Africa (MOFCOM, 2008). Extant studies addressing Chinese OFDI flows to this region of Africa also emphasise its natural-resource seeking nature (e.g. Abdel-Khalek & Korayem, 2007).

What is of special interest is that no studies have yet explicitly addressed the role that China's special economic zones (SEZs) in Africa play in the process of the internationalisation of

Chinese firms[1]. As such the activities of Chinese firms in Egypt are interesting for a number of reasons: Egypt has been selected by China as one of only five African locations to host a Chinese-led SEZ[2]. In 2008, Egypt hosted almost 600 Chinese firms, around 5% of all officially recognised subsidiaries of Chinese TNCs (GAFI, 2008; MOFCOM, 2008). By 2009, this number had risen to 900 invested firms (GAFI, 2009a). Although Egypt has limited natural resources, Egypt is nevertheless attracting increasing volumes of Chinese OFDI, *much of which has originated from smaller, private manufacturing firms*. This is in contrast to the select state-owned big business groups that have been dominant in Chinese overseas investments to date (Sutherland, 2009).

The paper is organised as follows: Section 2 provides a background to Chinese investment in Africa, with specific reference to Egypt. Section 3 considers some of the Chinese motivations for the creation of Chinese SEZs in Africa. Section 4 presents the case of Egypt's Suez SEZ and investigates in more detail the nature of the zone and Egypt's expectations of the role the zone is designed to fulfil. Section 5 discusses whether the zone is conforming to Chinese and Egyptian expectations and addresses the most significant findings that can be drawn from the case study. The conclusion presents the implications for understanding a Chinese 'Beijing consensus' model of development as applied to the Egyptian case, and more generally implications for African development.

[1] For commentaries see Davies, 2008: "2.7 "Development and Commercial Incentives: SEZs": pp. 25-27; 2007: "Commentary: China's Special Economic Zone Model Comes to Africa": pp. 4-6.

[2] The other locations selected for Chinese SEZs within Africa include, Mauritius, Nigeria, Tanzania, and Zambia. This initiative is rooted within the Beijing Action Plan announced during the 2006 Forum for China-Africa Cooperation (FOCAC).

2. BACKGROUND: CHINA'S OFDI TO AFRICA & EGYPT

China's OFDI in Africa

On the face of it China's stock of OFDI in Africa does not appear to be especially large. In 2008 China's total OFDI stock approached $184 billion, with almost $7.8 billion located in Africa (MOFCOM, 2008). According to figures for 2008, therefore, only around 4% of China's OFDI stock was located in Africa. This estimate, however, may substantially underestimate the real share of Chinese OFDI in Africa for two principal reasons. Firstly, significant volumes of officially registered OFDI may not be for the purposes of expanding international production or the internationalisation of Chinese firms. Registered OFDI to the many tax havens and offshore financial centres, especially the Cayman and British Virgin Islands (CBVI), in China's case, is generally considered to involve the 'round-tripping' of capital (Greguras, Bassett & Zhang, 2008), as well as 'capital augmenting' processes (Sutherland, El-Gohari, & Mathews, 2009). This process involves the establishment of overseas holding companies that can be used to change the registration status of domestic companies, as well as raise capital on foreign stock exchanges. Similarly, considerable shares of investments to Hong Kong may also serve a similar and related purpose (Huang, 2003). If, therefore, we exclude OFDI to these three jurisdictions associated with round-tripping (the CBVI and Hong Kong, which constituted $20bn, $10bn and $116bn, respectively) from the official OFDI data, the African share of Chinese OFDI flows rises to 40% in 2008 and its share of OFDI stock rises to 21% by the end of 2008 (MOFCOM, 2008) (Table 1). Secondly, it is also widely accepted that Africa has attracted large numbers of private entrepreneurs from China. Many of these investors may not be registered in official statistics; although in aggregate terms they may form a substantial amount of Chinese OFDI to Africa.

Another alternative and arguably better way of appreciating the relative importance of Chinese OFDI to the African continent is to compare it with the volumes found in other regions (Table 1). By the end of 2008 total Chinese OFDI stock to Africa ($7.8 billion) exceeding that to Europe ($5.1 billion) and considerably exceeded that to North America ($3.7 billion) and Oceania ($3.8 billion). In fact, Africa had received more Chinese FDI than any other region of the world (including Latin America if we exclude the CBVI from these estimates), except Asia (after excluding Hong Kong from the estimates). In the African case, moreover, it is likely that in terms of numbers of firms created, the number of African subsidiaries considerably outnumbers those from other countries. By the end of 2007, for example, it was reported there were around 10,000 overseas affiliates of Chinese companies, created by around 7,000 domestic institutions in over 170 countries (MOFCOM, 2008). This may be reflected in Africa accounting for the greatest number of Chinese deals signed overseas in 2006 (Reuters, 01/10/2008)[3].

OFDI from China is part of a broader trend of growing OFDI from the developing world. Between 2000 and 2006 this grew at about 31% per annum, growing to around $175 billion, or 14% of the global total (OECD 2008: 70). A larger share of China's OFDI is flowing to developing countries. On the whole, Africa is a large recipient of Chinese OFDI. One reason for these considerable investments in Africa, of course lies in the wealth of natural resources that the African continent provides for Chinese investors. While we do not have a comprehensive break down of investments from China to Africa by range of business activities, it is undeniable that natural-resource seeking type investments are important. The extent of these investments, however, should not be exaggerated. Indeed, when compared to

[3] Reuters. "China Wakes Up To Global Clout of its Small Firms". 10 January 2008.

the profile of other countries investing in Africa, that of Chinese companies may well be less oriented to natural-resource seeking:

> "China's OFDI in Africa has not been particularly skewed towards the natural resources sectors in international comparison. Market-seeking is also a prominent motivation for Chinese enterprises investing in Africa, *especially in the manufacturing and the construction sector*" (OECD, 2008: 67 [emphasis added]).

Table 1: Distribution of Chinese OFDI by Region, stock and flows various years.

Region/*country*	**OFDI flows from China by Region ($ m.)**					**OFDI stock ($m.)**	**OFDI flows from China (%)[a]**					**OFDI stock (%)[b]**
	2004	2005	2006	2007	2008	2008	2004	2005	2006	2007	2008	2008
Total	**5498.0**	**12261.2**	**17634.0**	**26506.1**	**55907.2**	**183970.7**	100.0	100.0	100.0	100.0	100.0	100.0
Asia	3014.0	4448.2	7663.3	16593.2	43547.5	131317.0	32.2	41.9	31.4	34.5	36.0	41.5
Hong Kong	2628.4	3419.7	6931.0	13732.4	38640.3	115845.3	...	...	...	...	...	...
Africa	317.4	391.7	519.9	1574.3	5490.6	7803.8	26.5	16.0	22.3	19.0	40.3	20.9
Egypt	5.7	13.3	8.9	25.0	14.6	131.4	0.5	0.5	0.4	0.3	0.1	0.4
Europe	157.2	395.5	597.7	1540.4	875.8	5134.0	13.1	16.1	25.6	18.6	6.4	13.8
Latin America	1762.7	6466.2	8468.7	4902.4	3677.3	32240.2	7.6	3.2	4.2	5.1	0.4	3.8
British Virgin Islands	385.5	1226.1	538.1	1876.1	2104.3	10477.3	...	...	...	...	...	...
Cayman Islands	1286.1	5162.8	7832.7	2601.6	1524.0	20327.5	...	...	...	...	...	...
North America	126.5	320.8	258.1	1125.7	364.2	3659.8	10.6	13.1	11.1	13.6	2.7	9.8
Oceania	120.2	202.8	126.4	770.1	1951.9	3816.0	10.0	8.3	5.4	9.3	14.3	10.2

Source: (MOFCOM, 2008)
Notes: [a & b] Excluding Hong Kong; British Virgin Islands; and Cayman Islands

China's OFDI to Egypt

By 2008, China was the 28th largest investor in Egypt (GAFI, 2008). However this does not illustrate the rapid increase in investment and the significant number of Chinese firms entering the Egyptian economy since 2000. By 2008 a total of 567 Chinese firms had made investments in Egypt, with a registered capital totalling nearly $225 million and a paid-in capital of $142 million (GAFI 2008)[4]. By comparison, the overall stock of Chinese OFDI in Africa stood at around $7.8 billion by the end of 2008. The entire stock of Egypt's Chinese OFDI came to 1.7% of Africa's total. Whilst Egypt was not a comparatively large recipient of Chinese OFDI to Africa, it was hosting a large number of Chinese firms.

The investment profile of Chinese firms in Egypt is typified by a duality: on the one hand a small number of large firms exist, on the other there are also hundreds of relatively small investments, primarily in the manufacturing sectors. The average registered capital of each firm stood at only $400, 000. Of the 567 Chinese invested firms, 461 were in manufacturing sectors accounting for almost 45% of all inward investments. The largest number of firms were established in textiles (167 firms, accounting for nearly 13% of all Chinese investment in Egypt). The second most popular sector was chemicals (140 firms, again accounting for around 13% of all investment). Following this, engineering (72 firms), construction materials (47 firms) and food (23 firms) were the most important industrial sectors.

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After manufacturing, services were of second greatest importance: 64 services related firms accounted for 30% of China's inward investment to Egypt. In particular, four investments in oil services accounted for around 20% of total investments. These are among the largest single projects undertaken to date.

[4] This approximates MOFCOM's estimates of total OFDI stock in Egypt of $131m, (see Table 1)

Table 2: Chinese Investments in Egypt, 2008

Sector	**No. of firms**	**Paid-in Capital ($m)**	**Registered Capital ($m)**	**Avg. firm size ($m)**	**Share of Investment (%)**
Textiles	161	28.17	28.65	0.18	12.7
Chemicals	140	27.13	29.38	0.21	13.0
Construction materials	47	15.50	15.58	0.33	6.9
Engineering	72	12.94	18.60	0.26	8.2
Food	23	2.96	3.05	0.13	1.4
Metals	11	2.63	4.37	0.40	1.9
Pharmaceuticals	3	0.38	0.38	0.13	0.2
Manufactured metals	1	0.17	0.35	0.35	0.2
Manufacturing woods	3	0.12	0.30	0.10	0.1
Total Manufacturing	**461**	**89.99**	**100.66**	**0.22**	**44.6**
Petroleum services	4	22.34	44.62	11.16	19.8
General services	14	6.43	12.47	0.89	5.5
Warehousing	2	4.40	5.40	2.70	2.4
Trading/financial services	35	2.88	2.95	0.08	1.3
Advisory & consulting services	5	1.19	2.20	0.44	1.0
Medical and treatment services	2	1.10	1.48	0.74	0.7
Transportation	1	0.07	0.07	0.07	0.0
Educational services	1	0.00	0.04	0.04	0.0
Total Services	**64**	**38.41**	**69.24**	**1.08**	**30.7**
Infrastructural construction	1	4.66	5.32	5.32	2.4
Building constructions	2	4.38	43.79	21.90	19.4
Building services	3	1.09	2.16	0.72	1.0
Total Construction	6	10.12	51.27	**8.55**	**22.7**

IT	13	2.34	3.26	0.25	1.4
Telecoms	11	0.20	0.30	0.03	0.1
Information systems	2	0.02	0.02	0.01	0.0
Total Telecoms & IT	**26**	**2.55**	**3.58**	**0.14**	**1.6**
Agricultural land development	2	0.32	0.38	0.19	0.2
Meat/poultry/fish production	2	0.20	0.25	0.13	0.1
Total Agriculture & livestock	**4**	**0.52**	**0.63**	**0.16**	**0.3**
Tourism	6	0.17	0.42	0.07	0.2
Total Tourism	**6**	**0.17**	**0.42**	**0.07**	**0.2**
Total	**567**	**141.76**	**225.81**	**0.40**	**100.0**

Source: GAFI (2008)

Two key observations with regards to the investment profile of Chinese firms in Egypt are firstly; that there are a comparatively large number of Chinese investments in the manufacturing sector. These dominate in textiles and chemicals. This contrasts significantly with China's overall OFDI profile, which is dominated by natural resources, wholesale and retail trade and transport and storage (NBS, 2008). Secondly, natural resources are also of importance. In particular, there are six large projects (Table 3) within mining services and construction. The largest investment by China in Egypt is the Sino-Tharwa Drilling Company. Sino-Tharwa is a joint venture between two state owned entities involving a subsidiary of China's largest TNC, Sinopec (China Petrochemical Group, a large state owned oil and gas producer) and an Egyptian state company (Tharwa Petroleum Company, a subsidiary of the Egyptian Ministry of Petroleum). The Chinese subsidiary of Sinopec is called Sinopec Star, its vehicle for overseas oil and gas exploration. The specific purpose of this company, in line with China's 'Go Global' policy launched in 2002, is to provide 'overseas' oil and gas engineering services. This joint venture operation, established with strong governmental support on both sides, is to look for opportunities in neighbouring countries of the region. It has already drilled 32 wells (totalling 87 thousand meters). By 2008 it had 12 drilling rigs and 4 work-over rigs. Sino-Tharwa has rapidly become the second largest oil-drilling contractor in Egypt (SinopecStar, 2008). The Egyptian-Chinese Petroleum Company, the third largest Chinese investor in Egypt, is primarily a manufacturing operation, though it also carries out service work (maintenance of rigs, for example).This investment complements that of Sino-Tharwa, providing oil drillers and rigs for the service company. Expansion in production capacity of the factory is to reach 20 drilling rigs in 2011, which is the factory's designed capacity, reflecting Chinese investments to expand oil exploration and production in the region.

Table 3: China's Largest Investments in Egypt, 2008

Company	Year	Registered capital ($000s)	Chinese Capital ($000s)	Sector	Activities
Sino Tharwa Drilling	2005	40, 000	20,000	Services	Digging and maintenance of oil and gas wells
Jalala International Marble & Granite (Chit ShengMarble)	2002	10, 000	10,000	Manufacturing	Manufacture and export of marble and granite
Egyptian-Chinese Petroleum Co for Manufacturing Drilling Rigs	2007	12, 000	6. 000	Services	Manufacture and maintenance of oil drillers and rigs
Suez Egyptian-Chinese Estate Development	2001	5, 317	4, 655	Construction	Land and property development for Suez industrial zone
Egyptian-Chinese JV Co. For Investment	1998	43, 750	4, 375	Construction	Development and management of Suez SEZ
Unison Petroleum Services (Leotgi Change & Partners)	2007	5, 000	4, 200	Services	Storage, sales and maintenance of equipment for petroleum industry

Source: (GAFI, 2008)

3. Chinese SEZs in Africa: A New Development Model?

China originally created SEZs within its own borders to attract inward investment and boost export-oriented industries. The zones were designed to be relatively "disarticulated" from the rest of the Chinese economy so as to avoid disruptive competition for the inefficient state sector (Naughton, 1995). This was an innovative way of boosting exports and foreign currency earnings whilst isolating the possible negative impacts on the domestic economy, and by extension social stability. To date, China has begun to establish five SEZs within Africa. These are located in Egypt; Mauritius; Nigeria; Tanzania; and Zambia. It is interesting to examine the extent to which the new SEZs in Africa are intended to fulfil the same purposes as China's original domestic SEZs. It is therefore important to consider what the stated Chinese objectives of the African SEZ policy are. By way of background, an important feature of China's SEZs in Africa is that they have in general been the initiative of the Chinese, rather than the domestic African hosts. In this sense the zones, may be designed to fulfil certain Chinese policy making objectives. The possible rationales of the creation of the zones on the Chinese side include, the promotion of the internationalisation of Chinese business; addressing trade imbalances with African host nations; gaining access to natural resources; gaining direct and indirect access to markets; and possibly to acquire new technologies. We will look at these possible policy objectives in turn.

China's SEZs in Africa may be designed to promote and facilitate the internationalisation of Chinese business in service of its "Go Global" policy, launched in 2002 (Zhang, 2005). A combination of low taxes and favourable investment climates, including the availability of skilled and unskilled labour and simplified laws and procedures within the zones provide incentives for Chinese investments. However, it is interesting to note that these zones are in areas where Chinese investment is already concentrated. The Chinese state may therefore be fulfilling a coordinative function where it aims to ease access to credit and government channels for small and medium scale enterprises (SMEs): "We are setting up the zones to help them [Chinese firms] access resources, and find and get access to local governments, partners and projects that are suitable to their size" (Xing Houyuan, Director of Multinational Business, quoted in *NYT*, January 08 2008)[5]. Related to this, the SEZs may also serve the purpose of maintaining an oversight of private Chinese firms engaging in OFDI.

The zones may also be specifically designed to address the politically sensitive area of trade imbalances: The countries which have designated SEZs are also relatively large recipients of Chinese FDI (Table 4) (Table 5). More noticeably, they are also heavily involved in trade with China, particularly through their *importation* of Chinese goods. None of the countries which have designated SEZs significantly export to China.

5: Multinational Business at the Chinese Academy of International Trade and Economic Cooperation is affiliated with China's Ministry of Commerce: "The academy offers policy analysis, market information, due diligence reports and advice, originally for foreigners seeking to invest in China and now also for Chinese firms seeking to do business abroad" (New York Times, **"**Chinese investors in Africa hear echoes of advice once given on China". 08 January 2008)

Table 4: Largest African Recipients of Chinese FDI & Share of Chinese Trade, 2008

Country	FDI Stock		African Trade with China		
	Chinese FDI Stock ($m)	Share of Chinese OFDI to Africa (%)	Share of total African trade volume with China, (%)	Share of total Chinese exports to Africa (%)	Share of total Chinese imports from Africa (%)
South Africa	3048.62	39.1	16.7	16.8	16.5
Nigeria	***795.91***	***10.2***	6.8	13.2	0.9
Zambia	***651.33***	***8.3***	0.7	0.5	0.9
Sudan	528.25	6.8	7.6	3.7	11.3
Algeria	508.82	6.5	4.3	7.3	1.5
Mauritius	***230.07***	***2.9***	0.3	0.6	0.0
Tanzania	***190.22***	***2.4***	1.0	1.9	0.2
Madagascar	146.52	1.9	0.6	1.2	0.1
Niger	136.5	1.7	0.2	0.3	0.0
Congo DR	134.14	1.7	4.1	1.2	6.7
Egypt	***131.35***	***1.7***	5.9	11.5	0.8
Ethiopia	126.45	1.6	1.2	2.4	0.1
Guinea	96.37	1.2	0.3	0.7	0.0
Gabon	88.14	1.1	1.8	0.3	3.2

Libya	81.58	1.0	3.9	3.2	4.6
Total	6894.27	88.1	55.4	64.8	46.8

Source: (MOFCOM, 2008; NBS, 2008)

Table 5: Selected Trade and Investment Indicators of African Hosts to Chinese SEZs, 2008

	Share (%) of China's total imports/exports and trade volume to Africa by country, 2008			**Share (%) of China's OFDI stock in Africa, 2008**	**Imports/exports of goods services as % of GDP, 2008**		**Primary, manufactured and high-tech exports as a % of merchandise exports**		
	Total	Exports	Imports		Imports	Exports	Primary[b]	Manufactures[b]	High-tech
Egypt	5.9	11.5	0.8	1.7	38.8	33.2	64	31	1
Mauritius	0.3	0.6	0.0	2.9	67.7	53.0	29	70	7.2
Nigeria	6.8	13.2	0.9	10.2	24.7	41.6	98	2	0.3
Tanzania	1.0	1.9	0.2	2.4	27.5[a]	21.7[a]	...	...	1.5[c]
Zambia	0.7	0.5	0.9	8.3	34.3	36.8	91	9	2.3
Totals	**14.7**	**27.7**	**2.8**	**25.5**					
China					*28.5*	*36.6*	*8.0*	*92.0*	*28.7*

Source: (MOFCOM, 2008; NBS, 2008; World Bank, 2009)

Notes: [a] refers to 2006; [b] refers to 2005; [c] refers to 2007

In 2008, for example, Nigeria and Egypt were the second and third largest importers of Chinese exports to Africa, accounting for 13.2% and 11.5% of all Chinese exports to Africa, respectively. Indeed, between them, the five African countries with Chinese-led SEZs accounted for almost 28% of all Chinese exports to Africa. They were not, on the other hand, nearly such important exporters to China (accounting for less than 3% of all exports from Africa to China). *This suggests that one important reason why such zones may have been established is to harmonize trade relations with these nations.* By transferring Chinese production to the nations with substantial imports, it may be possible to reduce the growing trade deficits: “The successful expansion of China’s exports has been increasingly causing a protectionist reaction in many host countries, which has prompted China to substitute direct investments for exports” (OECD, 2008: 68). Thus the zones may be seen as ways of moving jobs to African countries. Following from this, production in the zones in some instances may be designed to substitute for Chinese imports to the host country. Production in the zones, therefore, is not necessarily considered to be export oriented, unlike the orientation of many Chinese SEZs.

The resource-seeking explanation for Chinese OFDI to Africa has been predominant. As such it is possible that the SEZs may be designed to gain access to resources. The Zambian SEZ, for example, is based around a large copper mining project. A further expectation is to expand markets within Africa for Chinese businesses, a market-seeking rationale. Chinese firms, particularly private entrepreneurs, may have a competitive advantage vis-à-vis advanced industrialised economy players within developing countries due to the similarities between markets (Table 6): "*Private companies are the most proactive in our own economy, and in many ways, the African market is suited to smaller players*" (Xing Houyuan, Director of Multinational Business, Chinese Academy of International Trade and Economic Cooperation quoted in Reuters, 8 January 2008).

Furthermore, the SEZs may have a function of indirectly expanding markets. This is the case, for example, with the Mauritius SEZ, which has favourable trade agreements with other African countries. Egypt is also seen as a beachhead for other countries and regions with which it has bilateral or multilateral trade agreements. For example, Egypt's location "at the crossroads of Asia, Africa, and Europe, facing 1 billion customers" and its trade agreements that ease entry of goods into the U.S., Europe, and other Arab and African countries, have been cited as principal attractions for Chinese companies in Egypt (Liu Aimin, General Manager, Egypt-TEDA Investment Company, quoted in *Business Week,* 06 November 2008)[6]. The following section presents the case of Egypt's Suez SEZ, charting its history, design, and development. The case pays particular attention to the stated objectives of this zone and its performance thus far.

[6] *Business Week*. "The New Silk Road". 06 November 2008.

Table 6: Selected Development Indicators of African Hosts to Chinese SEZs, 2007

Country	**HDI rank**	**HDI**	**Population**	**Income**			**Population below income poverty line (%), 2000-2007**		**Adult literacy rate (%), 1999-2007**
				GDP ($billion)	Per Capita Income ($)[a]	Per Capita Income (PPP)	$1.25 a day	$2.00 a day	
Egypt	123	0.703	80.1	130.5	1630	5349	<2	18.4	66.4
Mauritius	81	0.804	1.3	6.8	5971	11296	...	...	87.4
Nigeria	158	0.511	147.7	165.5	1123	1969	64.4	83.9	72
Tanzania	151	0.53	41.3	16.2	420	1208	88.5	96.6	72.3
Zambia	164	0.481	12.3	11.4	927	1358	64.3	81.5	70.6
Total			**282.7**	**330.4**					
China	*92*	*0.772*	*1329.1*	*3205.5*	*2566*	*5382*	*15.9*	*36.3*	*93.3*

Source: UNDP, 2009; World Bank, 2009
Notes: [a] World Bank, 2009: WDI database

4. CASE STUDY: The SUEZ SEZ

Origins of the Suez Special Economic Zone

In 1956 Egypt became the first African or Arab country to establish diplomatic relations with China. This has served as a basis from which to promote bilateral economic cooperation which is governed by an economic cooperation agreement signed in Cairo in 1995[7]. The Agreement for Economic and Commercial Cooperation (AECC) aims at encouraging trade exchange and developing economic cooperation and stipulates the establishment of a joint committee for trade exchange and economic cooperation. The committee's first meeting was held in Beijing in October 1996[8]. Following the committee's first meeting and since 1997, Egyptian-Chinese relations entered into a new phase of unprecedented economic activity. Communications were enhanced between the two countries through official visits, culminating with Egyptian President Hosni Mubarak's visit to China in 1999 in which the signing of a strategic partnership agreement between Egypt and China took place. Following President Hosni Mubarak's visit to China in 1999, Chinese governmental and non-governmental delegations began a series of visits to Egypt with express purpose of gauging the investment climate and exploring the best model for doing business in Egypt.

During the visit made by President Hosni Mubarak to China in 1999, a contract was signed for planning a SEZ between the Egyptian-Chinese Joint Company and the Chinese TEDA Company. This project is considered as the most important development in the economic relations between Egypt and China. The SEZ was to be located in the North Western Gulf of

[7] Egypt and China have signed the following bilateral agreements: Egypt-China Trade Agreement (1985); Bilateral Investment Protection Agreement (1994); Agreement for Economic and Commercial Cooperation (1995); Agreement on the Avoidance of Double Taxation (1999); Agreement for Cooperation in Maritime Transportation (1999); Agreement for Economic and Scientific Cooperation (1999); and Agreement for Establishing Egypt-China Business Council (2002). (Ministry of Trade and Industry, 2009).

[8] Cairo hosted the second session in 2000.

Suez. In October 1999, the Chinese delegation prepared a draft project for building units and warehouses to be utilized for the plants for the purposes of enhancing and promoting investments in the region. Both governments agreed in 2000 that it would be beneficial to encourage Chinese companies to locate in Egypt by employing the unutilized balance of loans extended by China to Egypt to finance the establishment of Chinese projects. TEDA Company implemented the project of plants complex, after approval of the Egyptian party. This was financed by Chinese loans to Egypt. In 2002, Parliament approved the Special Economic Zones (SEZ) Law No. 83 of 2002. This law provided for the establishment of special zones for industrial, agricultural or service activities, designed specifically with an orientation for serving export markets. Incentives and guarantees offered to projects operating in SEZs are listed in Appendix 1. In 2002 President Hosni Mubarak issued a decree to transfer the North West Gulf of Suez area into a SEZ. The decree included measures for developing a model of dealing with investors in the region. The intention was to give momentum to investment, particularly Chinese investment in the region. The Suez SEZ is managed by the General Authority for the Special Economic Zone North West Gulf of Suez.

Location, Construction & Development

The Suez SEZ stretches over 20km^2, 120km from Cairo city and is strategically located directly adjacent to the Sokhna Port, about 45km southeast of Suez city near the southern entrance of the Suez Canal. The basic infrastructure is being provided by the Egyptian government with regards to roads and rail connections, power and water supplies. However, the development approach is to attract the private sector to lead the on-site development of infrastructure and utilities, its management, operation and promotion through "Public-Private Partnerships" (PPPs); and "Build-Operate-Transfer" (BOTs) contractual arrangements. The road infrastructure is in place[9]. A dedicated airport is currently planned to be built. The SEZ is adjacent to the new Port at Sokhna which is the only privately managed port in Egypt. Sokhna Port's construction began in April 1999, when the government of Egypt and the Sokhna Port Development Company (SPDC) signed a BOT contract for the development of the super-structure. SPDC was licensed to operate the port for 25 years. According to that contract, SPDC would design, construct, manage and operate the port on a commercial basis and provide cargo handling services to customers in the SEZ. The Sokhna Port is located on the Red Sea about 40km to the south of Suez. The Sokhna Port is aimed at controlling trade from the south to the north. It has direct access to the Mediterranean & Indian Oceans and proximity to major international markets[10]:

> "The idea [of Port Sokhna] is to capitalise on Egypt's strategic location on the main trade routes between Europe and Asia … It will offer direct access to markets in Europe, the Middle East, Asia and Africa". (Mr. Ibrahim El-Demeiri, Minister for Transport, quoted in *Al-Ahram Weekly*, 22-28 November 2001).

The Sokhna Port is an integral component of the Suez SEZ, and illustrates the importance attached to the SEZ, which is well reflected by Mr Ibrahim El-Demeiri's comments:

> "A Special Economic Zone of about 9,000 hectares, the Suez Special Economic Zone (SSEZ), is the largest and most important development project undertaken by the

[9] During field visits made from Cairo to the Suez SEZ in August 2008, the entire highway route was newly laid tarmac road.

[10] The second new port is located east of the Suez Canal, to control trade movement from the north to the south.

> Egyptian Government in recent years …It is the goal of the SPDC management to develop the port and surrounding area into a trade centre both for import and export goods, providing facilities and services for freight and trade fairs, congress centres, exhibition halls, cargo warehouses, hotels, restaurants, banks, excellent information and communications systems and logistical and distribution services. These should service the companies now establishing in the Suez Industrial Zone, as well as the port users …Our intention is to make El-Sokhna a strategic location for the shipping world and for international firms. It is not a plan for one year, but a plan for between 20 and 50 years". (*ibid*.).

The high quality of the infrastructure compared to competing areas in terms of energy, communications, water, drainage, protection against torrential rains and means of transportation and the port which is envisaged to become a leading global hub location for just-in-time transit operations reflects the significance and importance attached to the SEZ.

With regards to labour supply, Cairo and the Suez Governorate have a combined population of 20 million which will provide the main labour source for the Suez SEZ. It is envisaged that in the immediate term, a dedicated mass transport system for the movement of people to and from the SEZ will be able to accommodate the initial employment surge derived from the SEZ's development and the expansion of its existing operations. In the medium to long term, the Ministry of Housing has allocated land within 10km of the SEZ site to develop the "Ain Sokhna City". This new residential satellite city is designed specifically to accommodate the labour needs of the SEZ. It is estimated that there are currently 1, 600 people directly working in the Chinese-led SEZ (GAFI, 2009b) and a further 12, 000 to 15, 000 people working in adjacent projects (GAFI, 2009b and GAFI, 2009c).

Governance of the Suez SEZ

The decree transferring the North West Gulf of Suez area into a SEZ stipulated for the design of a method for dealing with investors in the region The governance model of the SEZ entails an Authority which acts the regulator, whilst the Main Development Company (MDC) acts as the development arm of the authority. The Authority is managed by a Board of Directors formed by a Decree of the Prime Minister. The Chairman of the Authority acts as Head of the Board Of Directors which consists of Ministries of Trade & Industry; Agriculture; Finance; Housing; Transport; Civil Aviation; Electricity; and Environment each having one representative. One representative from the Governorate in which the Authority is located also sits on the Board. Finally, two financial experts, one expert in legal affairs, and three representatives from development companies and investors complete the Board's composition (GAFI, 2009b). The MDC was established by the SEZ Authority in 2006 to create a master plan for the promotion and management of the SEZs. The final zoning and infrastructure strategy for the Suez SEZ was in place in the second half of 2008.

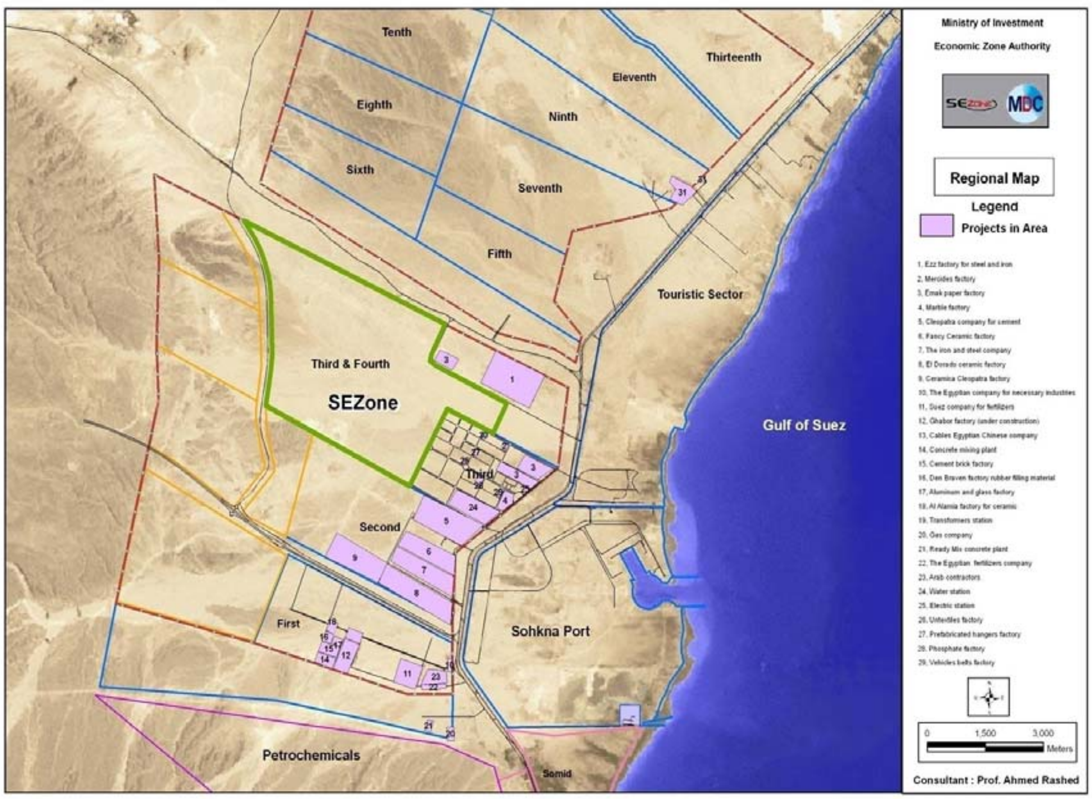
China's Suez SEZ: The Third Sector

China has occupancy and is responsible for the third sector of the Suez SEZ (Figure 1). This is the southern half of the zone which has been undergoing development since 1998. The third sector represents 5-6 km^2 of the entire Suez SEZ which comprises $20km^2$. The development of the sector is being financed, developed and managed by TEDA, a Chinese company responsible for the development of one of China's earliest and most successful economic zones (*China Daily*, 14 Nov 07, *Financial Times*, 30 October 2007). TEDA has a 10% shareholding in the MDC[11]. Tianjin Tianbao Industrial and Trade Co. and Sinai for Investment and Technological Development Co. are have been contracted to execute the

[11] Personal Interview, Eng. Ibrahim, Deputy Chairman of Suez SEZ, 4 August 2008

project (*China Daily*, 20 May 2000). However, whilst the SEZ law was passed in 2002 and the development of the Suez SEZ announced in 2006, the first companies to locate in the Suez SEZ were two construction companies, the Egyptian-Chinese Joint Investment Company in 1998, and Egypt's Suez-Chinese Real Estate Development Company in 2001. They are the fifth and seventh largest Chinese investors in Egypt, respectively.

Figure 1: Third Sector of the Suez SEZ



Source: (GAFI, 2009b)

Chinese Investment in Suez SEZ

Between 1983 and 2008, there were 567 Chinese invested firms in Egypt (GAFI, 2008). Of these 93% were established between 2000 and 2008 and 60% between 2006 and 2008. This reflects the acceleration of Chinese investment in Egypt since the signing of a strategic partnership agreement between Egypt and China took place during President Hosni Mubarak's visit to China in 1999. Of the 567 Chinese firms invested in Egypt, however, only 18 firms were located within the governorate of Suez and only 10 displayed addresses located within the Third Sector of the SEZ. Total Chinese registered capital within Egypt stood at $225 million by 2008 whilst there was $156m registered capital within the Suez. The top four firms within the SEZ accounted for 75% of investment to the Suez SEZ. The two aforementioned construction companies together totalled $37m, whilst Majesty International Marble and Granite (formerly Chit Sheng), had an investment of $45m; and Chinese Egyptian Oil $34.5m, respectively. Of all Chinese firms investing in Egypt, 86% incorporated under the Inland Investment Law and only 2.5% of firms utilized the Free Zones Law – the remainder incorporated under Law 159. Of the 18 firms located in the Suez, 4 utilized the Free Zones law. All the remaining firms utilized the Inland Investment Law of Egypt's investment regime to incorporate, suggesting that many firms were not benefiting from the special incentives offered by the Free Zones Law.

Of the 18 firms located in the Suez, 13 were in manufacturing; 2 were in agriculture; 2 were in construction; and 1 in services. Those in manufacturing included Chit Sheng and Majesty engaged in the extraction and processing of marble and granite. Egypt is one of the top exporters of high-quality marble and granite in the world. Around 70-80 percent of all Egyptian marble exports go to China. The industry has developed rapidly in recent years. This company, established in the Suez SEZ, was created by a Chinese entrepreneur who developed his business from trading marble and granite. The company's growth has been driven by the huge demand for building materials in China. The company is more likely to be privately owned, though details of shareholders are not clear. Egyptian Chinese Shoes is a $1.5m factory, with $300, 000 Chinese invested capital for the manufacture of shoes and rubber sheets. Wide Eye Garments and White Rose Garments are $3m factories for the production of readymade clothes. Ren Thai Egypt Garment Co. Ltd. is a $1.35m semi-finished textile goods manufacturer – possibly a supplier feeding into the garment manufacturers' supply chain, as may be Tianchang Wool Tannery Company, a $5.4 factory for combing, spinning, weaving and dying different fabrics. Shangzhen Egypt is a $1m factory for the production of household appliances and stainless steel goods. Will Bond aluminium is a part owned venture ($11.5m registered capital/$5.75m Chinese invested capital) to produce composite panels for export whilst Chung Tian Tour of Egypt and Almotosichael is a $5.75m wholly owned venture to produce electric- and motor-cycles and cycle parts.

During visits made to the Suez SEZ in August 2008 and August 2009, it was apparent that apart from warehousing and dotted factories, the zone was still very much under construction. It was expected to "take-off" at the close of 2009. As such it is still too early to comment on the overall performance of the zone. We can, however, comment upon its overall strategic purpose and draw preliminary observations from this case with regards to the Chinese SEZ model in Africa.

5. DISCUSSION

A number of points emerge from the Suez SEZ case, particularly when we consider China's stated objectives for the SEZ and Egypt's expectations of the zone, namely trade harmonization; labour creation; export earnings and technology transfer.[12]

Chinese-led initiative to reduce "red tape"

Firstly, it is of interest to note that the construction of the Suez SEZ zone is being carried out by Chinese firms, and the zone itself is a joint venture. The Chinese, as main developers of the zone will have seats on the Suez SEZ Authority which will set out the strategic mission and direction of the zone. The main Chinese developers set up in the Suez in the late 1990s many years before the official announcement of the Suez SEZ in 2006 and before the SEZ Law was issued in 2008, suggesting this joint project has been planned many years before legislation and policy. The Chinese investors have ensured that the General Authority for Foreign Investment (GAFI) will have a "one-stop-shop" administrative services building in the Suez SEZ to provide services to foreign investors. This is being financed by a $20m grant from the Chinese government. The complex will be styled upon an "exact replica" of TEDA in Tianjin[13]. As such it should reduce the red-tape and administrative costs that any Chinese investors face, which was one of the major concerns that foreign investors originally had when investing in China.

Interestingly, in keeping with the idea that the zone is a Chinese initiative, the complex will also be built by the Chinese[14]. Shanghai Construction Group won the bid to build the

[12] Personal Interview, Mr Ahmed Amin, Chairman Suez SEZ and Eng. Ibrahim, Deputy Chairman of Suez SEZ, 4 August 2008,

[13] Personal Interview, Eng. Ibrahim, Deputy Chairman of Suez SEZ, 4 August 2008

[14] Ibid.

administrative and service centre (*China Daily*, 14 November 2007). The foundation stone-laying ceremony for the GAFI building was held in November 2007 (GAFI, 2009c). 60% of the building is expected to be completed and handed over by the Chinese to GAFI in June 2010 (GAFI, 2009c). Further, the Chinese government has also agreed to provide $200m in low interest loans - with a grace period of up to seven years - to Egyptian manufacturers who wish to import production lines and other equipment from China. This comes as part of China's $5bn African Development Fund, founded in 2006 to encourage Chinese investment in Africa (FOCAC). The speed with which the Chinese have moved to develop the SEZ is reflected in the fact that GAFI is currently housed within and leasing office space from the Chinese-Egyptian Joint Investment Company building in the Suez SEZ. This points to the important role Chinese investors have played in establishing both the soft and hard infrastructure of the zone. It points, to some extent, to a process of copying and learning being undertaken by the Egyptian authorities.

Trade Imbalances and the role of the Suez SEZ

Between 1999 and 2008, trade volume between Egypt and China increased by 730%, from $750m in 1999 to $6.2 billion in 2008 (Table 7). This dramatic growth in trade volume is expected to reach $10bn by 2010 making China Egypt's principal trading partner, ahead of the USA[15]. However, the balance of trade also displays a rapidly increasing trade deficit with China, largely due to the significant increase of Egypt's imports from China without being met with an equivalent increase in the volume of exports (Table 7).

[15] The United States is currently Egypt's biggest single trading partner with $6.7bn in total trade for 2006. However, Egypt's Minister for Trade, Mr. Rachid expects China to overtake the US within the next six years (*Financial Times*, 30 October 2007).

Table 7: Trade Flow between Egypt and China, 1999-2009 ($US millions)

	1999	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009** [a]
Egyptian Exports	34.4	102.0	80.3	92.2	101.0	187.9	211.4	216.8	239.7	428.0	288.0
Egyptian Imports	715.9	805.0	872.7	853.0	674.0	1,398.0	1,934.1	2,975.7	4,431.5	5,810.9	3,301.6
Trade Volume	750.2	907.0	953.0	945.2	775.0	1,585.9	2,145.5	3,192.5	4,671.2	6,238.9	3,589.6
Trade Balance	-681.5	-703.0	-792.4	-760.8	-573.0	-1,210.1	-1,722.7	-2,758.9	-4,191.8	-5,382.9	-3,013.6

Source: Ministry of Trade and Industry, 2009; China Customs Administration, 2008
Note: [a] January-August 2009

Major Egyptian exports to China include oil, marble and granite, raw cotton, industrial carpet, ceramic and sanitary wares, linen, crystal and glass whilst major Egyptian imports from China include beans, chemicals, electric appliances and their components, children toys, sports shoes, fabrics, and garments of all types. (Ministry of Trade and Industry, 2009).

The deepening trade relationship with China and the growing trade deficit in particular are issues that it is hoped the SEZ may ameliorate. Mr. Assem Ragab, Chairman of GAFI, commented that as trade between the two countries is expected to reach $10 billion by 2010, investment of Chinese companies in Egypt may grow at a similar pace (*China Daily*, 14 November 2007). GAFI hopes to attract more than 100 Chinese investors and $100 million to the SEZ at the initial stage of the zone's development (*China Daily*, 14 November 2007). GAFI then intends to attract $2.5 billion in Chinese investment as the SEZ is expanded in phases over the next decade (*Financial Times*, 30 October 2007). Mr Rachid Mohamed, Minister for Trade & Industry points to the sensitivity of the emerging economic ties:

> "Obviously we cannot ignore such a relationship and we need to put in a framework that can really guide our relationship for the next few years and this is the outcome of that discussion we had … to set the scene of how we want to move with China". (quoted in *Financial Times*, 30 October 2007).

Mr Rachid explicitly points out that Chinese FDI may off-set Chinese imports:

> "These are going to be Egyptian companies. Fine, they are going to be owned by Chinese companies, but they are going to be Egyptian factories, they are going to have

to play by Egyptian rules. We prefer that than having shipments of goods coming from China." (quoted in *Financial Times,* 30 October 2007).

Mr Rachid added that factories in the zone would also add value to Egyptian raw material exports to China, such as yarn, cotton and marble and help create a "win-win" situation in the face of China's growing global economic influence. (*ibid.*).

Medium and High-Tech Manufacturing within the Suez SEZ

By 2008 most Chinese firms in Egypt were still small private firms with small scale production in low value-added industries like textiles and shoe making. One purpose of the zone is to attract bigger investors from more high-technology industries[16]. Mr Assam Ragab Chairman of GAFI expressed hopes that Chinese investors would go to Egypt in clusters, which will be beneficial for both Chinese companies and Egypt as it hope a complete supply chain will be developed around each industry. These industries include infrastructure, logistics, electronics, communication and information technology, construction, textiles, car components and chemicals (*Financial Times*, 30 October 2007). The projected industry mix includes light manufacturing, medium industries and logistics and added value services. The Suez SEZ Authority is actively promoting high-technology intensive; high labour intensive and low power and low water consumption industries[17].

Export-Orientation: Egypt as a bridgehead to other markets?

Other than the incentives embodied in the SEZ Law 83/2002, the Suez SEZ offers further incentives, in particular offering Egyptian certification of origin for exporters wishing to take

[16] GAFI is promoting "high-technology intensive; labour intensive; low power and water consumption industries" (Personal Interview, Mr Ibrahim, Deputy Chairman of Suez SEZ, 4 August 2008)

[17] Ibid.

advantage of Egypt's international trade agreements. This includes The EU-Egypt Association Agreement which established a bilateral trade agreement based on reciprocal liberalization for both industry and agriculture. Egyptian products from ready-made garments to furniture and food products now enjoy preferential access to European Union markets. Meanwhile, the Qualifying Industrial Zones (QIZs) agreement with the United States gives manufacturers based in Egypt tariff- and quota-free access to the US market provided their products contain a specified minimum of Israeli content. Corporations exporting from Egypt also enjoy preferential access to the Arab world (through the Greater Arab Free-Trade Agreement) and also to Eastern and Southern Africa (COMESA) and to the Agadir nations. Egypt also has free-trade agreements with the European Free Trade Association (Switzerland, Norway, Liechtenstein and Iceland) and Turkey.

It is possible that the zone will be used primarily as a bridgehead to other non-African markets. This eventuality cannot easily be ruled out given the massive trade surpluses China runs with many of the largest developed market economies. China's development model has, to a significant degree, been saddled upon the strong international demand for Chinese manufactured goods. As such it is easy to see why the Suez zone may become an attractive investment location for Chinese firms wishing to circumvent trade restrictions. In the light of the global financial crisis, and increasing accusations of currency manipulation, it is possible the zone will attract Chinese firms looking to circumvent tariff barriers. If so, it is of interest to ask how the Egyptian side may benefit. If the SEZ becomes little more than a processing zone, with limited linkages to the domestic economy, the gains may not be as significant as originally expected, particularly with regards to reducing bilateral trade imbalances, as currently envisaged.

The Suez SEZ and employment creation

Egyptian regulations stipulate that foreign companies may have a maximum of 10 per cent of their payroll allocated to foreign workers. This suggests that a minimum of 90% of the Suez SEZ workforce will be local: “We are trying to make Egypt a hub for China to export from … The aim is to attract some 50 Chinese-owned factories that would employ 10,000 Egyptians and 1,000 Chinese” (Mr. Ahmed El Sewedy, CEO, El Sewedy Cables and Head of the Egyptian-China Chamber of Commerce quoted in *Business Week*, 06 November 2008). There are currently 1, 600 workers employed in the Chinese Suez SEZ (GAFI, 2009b). It is inevitable that further investment will create Egyptian employment, even if such jobs may primarily be comparatively unskilled low wage positions. Ministry of Housing’s development of a new residential satellite city, “Ain Sokhna City” dedicated to accommodate the labour needs of the SEZ points to long-term horizons and the massive expectations for labour creation that Egypt is placing on the SEZ.

6. CONCLUSION

China is an important trading partner with Egypt and is an increasingly important direct investor in Egypt. Despite this, Egypt is not a country that is particularly rich in natural resources. It is therefore a somewhat different case to some of its neighbours in this region and more generally in Africa. Despite this disadvantage as an investment location, considerable efforts have been made to liberalise and improve the investment regime in Egypt. Efforts have also been made to court and attract Chinese investors, including some of the larger state led actors which to date have been important conduits to Chinese OFDI. Partly as a result of this co-operative approach the Chinese government now sees Egypt as one of five key strategic investment hubs in Africa. This is partly because the Egyptian market stands at a particularly important geo-strategic location, allowing access via the Suez

Canal to Europe. It is also because Egypt is one of the largest existing markets in North Africa and may also provide a hub for further African trade.

Egypt is one of the most populated nations in Africa (80 million). It also has per capita income levels that are not dissimilar to those in China. As such, consumer demand is somewhat similar to those found in the Chinese market. It might be expected, therefore, that Chinese firms might, via their competitive advantages, be able to enter this market. In general Chinese investments in Egypt do reflect this trend: the vast majority are in manufacturing (461 firms from a total of 567 and around 45% of the total Chinese capital stock). This stands in contrast to the overall OFDI patterns from China to the rest of the world, which to date have been heavily driven by large state owned companies, many of which are in areas related to natural resources, trade, wholesale and retail markets, transportation and construction. To date only 10% of China's OFDI stock is in manufacturing. Much of Chinese OFDI has been directed to construction projects, and this is also true of Egypt - around 20% of all Chinese OFDI stock to Egypt was directed to two construction projects.

The creation of the Egypt-China Investment Company marks an interesting watershed in many respects for both China and Egypt. For Egypt it marks the culmination of an economic policy that has made concerted efforts to liberalise its investment regime and expand international trade. In some senses, it marks attempts to engage with 'Washington consensus' type policies – yet it has done so with the help of the 'Beijing consensus', also involving the strong hand of the state (in the form of state industry and active bureaucratic involvement in the creation of the zones). This makes the zone of great interest. For Egypt, moreover, the impacts of the zone are still far from clear. While it is hoped that it create employment, it is also hoped that firms locating within the zone will target the domestic market. It is possible some firms may do so. It is also possible, however, that the zone will attract firms primarily looking to circumvent international trade restrictions, particularly during the current global economic downturn. As such it will be interesting to monitor the extent forward and backward linkages with the domestic Egyptian economy emerge and how effectively potential disagreements are managed as the zone develops.

In China's case, the Egyptian zone also marks a watershed. China has accumulated significant foreign reserves over the past two decades (in excess of two trillion US$). Since 2002 the government has encouraged the 'Go Global' policy. FDI from China has accelerated and significantly expanded. Africa is one of the most important recipients of China's FDI. Indeed Africa received larger flows of Chinese OFDI than any other region in 2008 (when we exclude Hong Kong and the CBVI from official estimates)[18]. This is no coincidence. Many of the low cost goods China manufactures find a natural domestic market in Africa. Africa also has key natural resources that feed into Chinese industry, in the case of Egypt, holds an important geographic position as a trading location (with access to European, US, African and Arab markets). The position of the zone at a major port area, with access via the Suez to Europe, is of obvious significance. The involvement of significant infrastructural investment in transportation, utilities, communication and buildings, moreover, are perhaps illustrative of the strategic trade importance China places on the zone. It is not a coincidence that the state run TEDA, with close links to China's State Council since early in its inception[19], is involved in the Suez project. The high-level meetings between Chinese and Egyptian leaders also

[18] As noted earlier, Hong Kong, the Cayman Islands and British Virgin Islands have been excluded from estimates of Chinese OFDI as they may not directly be involved in the internationalisation of Chinese firms – rather they are used for the capital augmenting activities of Chinese firms (see Sutherland, et. al., 2009).

[19] Early managers of TEDA were closely involved with the ousted reformist listed Zhao Ziyang

symbolise the importance China's political elite place on this zone[20]. It is, therefore, of great interest to consider the underlying features of this zone and speculate upon its economic and political significance, which has been the purpose of this paper.

The relative infancy of the Suez SEZ, and indeed those within Africa, leaves much scope for further work in this area. Future research should monitor closely the activities of firms established in the newly created zones. In particular it will be of interest to consider whether they are different to the numerous businesses already actively involved in the Egyptian market and whether an export focus emerges. Further comparisons, moreover, with the original Chinese SEZ model are warranted, to observe whether Egypt really is importing a Chinese development model, or whether in fact China is exporting a qualitatively different model to its original SEZs.

[20] Egypt's growing ties with China is partly reflected in the two Chinese Presidential visits paid to Egypt in 2000; in contradiction to rules of the protocol in China which gives only one visit for the Chinese President to any country during his term in office (the only exception given is to Russia).

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Appendix 1: SEZ Law 83/2002

Special Economic Zones Law

Overview

In May 2002, Parliament approved the Special Economic Zones (SEZ) Law No. 83 of 2002, which provided for the establishment of special zones for industrial, agricultural or service activities designed specifically with the export market in mind. The law allows firms operating in these zones to import capital equipment, raw materials and intermediate goods duty-free. Companies established in the new zones will also be subject to lower corporate taxes and exempt from sales and indirect taxes. They will also operate under more flexible labor regulations and enjoy other incentives. The law's executive regulations were issued in September 2002.

Currently, one special economic zone is operational in the North West Gulf of Suez; it is managed by the General Authority for the Special Economic Zone North West Gulf of Suez.

Main Provisions

The special economic zones and the authorities that manage them are established by a Presidential Decree. The aim of each authority is to encourage investment (in the economic zone under its responsibility) toward the establishment of projects that are able to compete with comparable ones abroad.

Each special economic zone has a special customs and tax administration system established by its board of directors with the approval of the Minister of Finance.

Incentives and guarantees offered to projects operating in SEZs include the following:

- The projects operating in economic zones may not be subject to nationalization, nor may they be subject to sequestration, freezing of assets or confiscation (except by a judicial judgment). Projects are entitled to decide on the prices of their products and services without governmental interference.
- Projects may terminate the employment contracts of employees in the special economic zones according to terms simpler than those generally prevailing under the Egyptian Labor Law. Projects are also permitted to establish a special system for the social insurance of terminated employees.
- Each project's income tax is 10 per cent of its net income, with the exception of the income derived from the salaries of project employees, which is taxed at a rate of 5 per cent.
- Profits derived from bonds and loans to establishments in the special economic zones are exempt from taxes; and no sales tax, duty or other direct or indirect taxes may be imposed on them.
- The machines, raw materials, spare parts and components necessary for the authorized activities in the SEZs may be imported without permit and are exempt from customs tax, sales tax and all other taxes and duties. The products of those establishments may be exported without permit. They are

subject to the customs tax, sales tax and other taxes and duties only on the imported components of those products when they enter the local Egyptian market.