



# Discussion Paper

## CHINA GOES GLOBAL IN EGYPT: A SPECIAL ECONOMIC ZONE IN SUEZ

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## ABSTRACT

This Discussion Paper examines China's economic and technological zone in Suez, Egypt, in view of the Go Global policy. In order to establish a comparative framework for examining whether the Suez Economic & Trade Co-operation Zone was modelled in line with China's Special Economic Zones (SEZs), this paper maps out the key features of the Tianjin Economic-Technological Development Area (TEDA), as Tianjin Investment Holdings was the partner appointed by the Chinese government to develop the Suez zone. Not only does the paper find support for this argument, but also finds evidence to state that the Chinese government has been involved in shaping Egypt's special economic zones projects from the very beginning. The findings also show that the aims of Go Global policy are being realised through the Suez zone. The zone has potential; however, there exist a number of pitfalls of which China should be wary including over-expenditure and Egypt's domestic politics. A surprising finding was that TEDA is set to become a bigger and more important actor in China's Africa strategy, where Egypt is only the beginning.

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## **LIST OF ACRONYMS AND ABBREVIATIONS**

BOD	Board of Directors
CADF	China-Africa Development Fund
CA-TEDA	China-Africa TEDA Investment Co. Ltd
CDB	China Development Bank
COMESA	Common Market for Eastern and Southern Africa
CTMC	China Textile Machinery Company
ECCI	Egypt-China Corporation for Investment
EFTA	European Free Trade Association
EGEMAC	Egypt-German Electrical Manufacturing Company
EGP	Egyptian Pounds
EPHH Co.	Sino-Egyptian Petroleum HH Rig Manufacturing Company
EPZ	Export Processing Zone
ETDC	Economic & Technological Development Zone
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FTZ	Free Trade Zone
GAFI	General Authority for Foreign Investment
GAFTA	Greater Arab Free Trade Area
HIDZ	High-Tech Industrial Zone
km	kilometres
LDC	Low Developing Country
MDC	Main Development Company
MOFCOM	Ministry of Commerce of China
MOI	Ministry of Investment
MOU	Memorandum of Understanding
N.	Nautical
PRC	People's Republic of China
QIZ	Qualifying Industrial Zone
R&D	Research and Development
SETC	Seuz Economic & Trade Cooperation Zone
SEZ	Special Economic Zone
SEZONE	Economic Zone Northwest Gulf of Suez
SIDC	Suez International Development Company

SME	Small and Medium Enterprise
SUMED	Suez-Mediterranean Pipeline
TEDA	Tianjin Economic-Technological Development Area
V.A.T	Value Added Tax

# 1. INTRODUCTION

The fields of politics and economics overlap, as Quincy Wright tells us in his study of international relations (1955 cited in Baldwin, 1985:3). David Baldwin tells us that politics may be an instrument of economics and economics may be an instrument of politics (1985:3). Baldwin speaks of the “techniques of economic statecraft” (1985:3); in other words, powerful states frequently use economic tools in order to achieve foreign policy goals. William Norris says “Economic statecraft can be understood as state manipulation of international economic activities for strategic purposes” (2010:7). He says to effectively achieve the latter, “states must be able to control the behaviour of commercial actors that conduct the vast majority of international economic activity” (2010:7). Consequently, to understand how states use economics to pursue their strategic objectives, we must focus on commercial actors (Norris, 2010:14).

China as the world's second largest economy (World Bank, 2013), like developed countries, employs economic instruments in its rapidly expanding economic and political relations with other developing countries (Bräutigam and Tang, 2012:1). Along these lines, Norris maintains that China is willing to use its economic power to achieve its objectives (2010:13). In line with the development state view on where and why China wields its economic power overseas (Brautigam, *et al*, 2012:1), Jie Yu maintains that China's foreign economic policies have been largely directed at serving its domestic economic and developmental interests (2012:34). She says Chinese firms play a significant role in China's foreign-economic policy benefiting from both governmental monetary and political support (Jie, 2012:37). In order to develop, Jie maintains that Chinese firms are encouraged to act aggressively across the world to acquire natural resources and cutting-edge technologies.

This encouragement is given through the so-called Go Global (zou chuqu / 走出去) policy initiated in 1999. This policy has been eagerly supported by national and local governments, as well as by policy banks, such as the China Development Bank (Jie, 2012:35). Go Global encourages local enterprises to go abroad in search of export markets for home-made products, new skills and advanced technologies, and to invest abroad (Bellabona and Spigarelli, 2007:94). Hence, China is a developing yet economically powerful country. It challenges US military power, with a discourse of peaceful rise (heping jueqi / 和平崛起) and peaceful development (heping fazhan / 和平发展) – where the latter emphasises internal development (Cabestan, 2007:15). These factors make it an attractive model for, and enable it to influence, other developing countries.

Notably, Africa, as a developing continent, has played an important role in China's foreign policy strategy, and on the occasion of the Beijing Summit of the Forum on China-Africa Co-operation in November 2006, Chinese President Hu Jintao announced that China would undertake a number of measures to forge a new type of China-Africa strategic partnership (2006). Among the measures was the establishment of three to five trade and economic co-operation zones in Africa in the following three years, and the establishment of a China-Africa Development Fund (CADFund) (Jintao, 2006). While these zones would be company run, they are approved by the Ministry of Foreign Affairs, benefit from subsidies authorised by the Ministry of Finance, and their progress is monitored by the Ministry of Commerce (MOFCOM) (Brautigam, *et al*, 2012:8-9). The aim of the CADFund is to encourage and support Chinese companies investing in Africa. Its target industries are agriculture and manufacturing, infrastructure and underlying industries including electronic power energy facilities and transportation natural resources including oil and gas and minerals, and industrial parks (i.e. the zones) (CADF). The utilisation of commercial actors – a key feature of China's Go Global policy – in Chinese economic statecraft by means of the zone programme is unquestionable.

To obtain a deeper understanding of how the Chinese state aims to advance its national interests by means of the zone program, it is worth studying a single zone to obtain a micro-level analysis spelling out

who is taking what actions where and what does the answer to these latter questions reveal about China's Go Global strategy.

Initially, five African countries were favoured by the Chinese government to host SEZs including Egypt, Mauritius, Nigeria, Tanzania and Zambia (El Gohari, 2010:4). That said, these zones would be company led, and no company expressed interest to develop a zone in Tanzania (Brautigam, 2012:6). Following the launch of two tender processes in 2006 and 2007, one zone was to be developed in Egypt, one in Mauritius, two in Nigeria, two in Zambia, one in Ethiopia, and one in Algeria (Brautigam, 2012:7-8). This paper will address the zone in Suez, Egypt. But, before doing that, it is necessary to provide some general historical and theoretical background to free zones and their variants as economic tools that have the purpose of stimulating a country's industrial development. This will include setting out the objectives of the different types of zones and their typical characteristics, and a discussion of the cluster-based approach sometimes a naturally occurring phenomenon and other times stimulated within free zones. Following that, this paper will outline the preferential policies offered to enterprises choosing to set-up in China's domestic zones, and it will provide the reasoning behind the location of China's domestic zones. Concurrently, the reader is introduced to Chinese leaders' philosophy to development in the opening-up period, and it provides insight as to the location of zones abroad.

The third section of this paper will examine the Tianjin Economic-Technological Development Area (TEDA), as the partner – Tianjin Investment Holdings – appointed by the Chinese government to develop the zone in Egypt. To begin, it will discuss Tianjin TEDA's location from a strategic and industrial perspective and it will lay out the zone's governing modalities including its linkages to Chinese governmental authorities. Following that, the paper outlines how Tianjin TEDA developed over time from an industrial, investment and land exploitation perspective. The overall objective of this section is to serve as a comparative base for examination of TEDA's zone in Egypt. This section will assist in answering the following broad questions: what similarities in terms of location can be observed; is China seeking to implement its domestic zone based models abroad; how is the Egypt-TEDA administration linked to Chinese governmental authorities; and can similar approaches to industrial and land development be identified?

The fourth section of this paper examines Egypt's zones project. Such an examination necessitates outlining a brief historical background to Egyptian-Chinese relations, and the contents of the relevant laws passed by the Egyptian parliament, which also serves to distinguish among Egypt's zones. The types and activities of zones in Suez governorate are explained in length to determine the existing industrial foundations, which may support or hinder a Chinese SEZ in the region. Then, the paper turns to examining the objectives and administrative composition of Egypt's sole SEZ – the Economic Zone Northwest Gulf of Suez (SEZONE), and the preferential policies offered to enterprises choosing to set-up here, including the offering of Egyptian certificates of origin to products produced by foreign companies.

This fifth and final section examines the joint China-Egypt Suez Economic & Trade Cooperation Zone (SETC-Zone), whose upcoming 6km<sup>2</sup> will be located within SEZONE. This section analyses location advantage and disadvantage of the SETC-Zone in view of global positioning and the surrounding natural environment. The zone's industrial structure is examined to determine whether it is suitable to the local business environment and the approach to land development is analysed, which gives an overview of developments so far, and development plans and potential pitfalls to come in the future. Finally, this paper will reveal the details of how Chinese governmental actors, including the CADFunds, the Tianjin Municipal Government, and the CDB are involved in SETC-Zone.



## **2. OVERVIEW OF THE LITERATURE ON FREE ZONES**

### **2.1. DEFINING AND CHARACTERISING FREE ZONES**

In view of the numerous nomenclatures and terminology applied to free zones including but not limited to special economic zones (SEZ), Free Trade Zones (FTZ), industrial zones, high-tech industrial zones (HIDZs), export processing zones (EPZ) – each with their own functions and characteristics, which are sometimes overlapping – the term 'free zone' will be employed herein when referring to zones generally. For the most part, this paper will follow the typology employed by Meng Guangwen in his case study of TEDA (2003). Here, I will only distinguish between the three types of zones most relevant to this paper. These are special economic zones (SEZ), economic and technological development zones (ETDZ) and industrial zones. Others zone types are defined as the paper proceeds.

#### **SPECIAL ECONOMIC ZONES (SEZ)**

From the work of Douglas Zhihua Zeng, the following definition has been constructed: a special economic zone refers to a large geographically delimited area comprising a complex of related economic activities and services, whose objective is to facilitate broad based comprehensive development, in part by attracting foreign direct investment (FDI) through equity and contractual joint ventures, joint explorations in off-shore oil production, and even wholly owned foreign subsidiaries (2010). Meng provides a similar definition. He says a SEZ is a comprehensive, outwardly and foreign-capital oriented and multi-functional large economic area (2003:83).

Meng has characterised SEZs as being in remote and coastal locations, and in proximity to existing economic centres like Hong Kong, Macao, and Taiwan (2003:96). Similar to Zhihua Zeng, he maintains that the objectives of China's domestic zones are to: attract foreign capital, technology and management experience, promote exports, create employment, and finally, to generate foreign exchange (2010:96). He says that these zones are a special administrative area having a specific juridical statute and possessing independent legislative rights. The industrial branches are industry-processing, services and service trade, as well as agriculture and tourism (2010:97). He classifies SEZs as territorial types meaning the territorial boundaries are defined, possessing high-quality infrastructure, administrative facilities, and trained staff. He also classifies them as either open or enclave types meaning they could have more or less linkages with the domestic economy and either a special policy for customs supervision or a closed customs procedure (2010:19).

#### **ECONOMIC AND TECHNOLOGICAL DEVELOPMENT ZONE (ETDZ)**

ETDZ's are classified among the manufacturing-based second-generation zones that developed on a global scale between the 1940's and 70's in low developing countries (LDC) (Meng, 2003:30). They are different to SEZs in that they are found in either coastal locations or the interior (Meng, 2010:96). Further, Meng says that these zones are in close proximity to ports often functioning as enclaves, but offering convenient transport facilities and a good industrial basis (2003:35). He says the objectives of SEZs aim at comprehensive structural reform, but the objectives of ETDZs focus on the micro-level and include renewed economic development of an old economic centre, for example. Alternatively, ETDZs can serve as a measure for a regional development strategy, as a regional growth pole, or as an experimental area for major structural reforms (Meng, 2003:96). On the governance and industrial structure characteristics, they are classified as an agency of the provincial authority devoted to industry, trade, and service trade only. According to Meng, they have a tendency to develop into a more comprehensive trade zone and a new urban area (2010:96).

#### **INDUSTRIAL-BASED ZONES**

Industrial-based zones have also been classified among the second-generation manufacturing zones

(Meng, 2003:54). These zones emerged when developed countries (DC) in the 1960's began to transfer their industrial and labour-intensive sectors to low developing countries (LDCs) selecting with LDC governments a suitable location on the basis of geographical position, transport facilities (such as ports), existing industrial base, and the preferential policy offered (Meng, 2003:29). Meng tells us that their emergence was a functional evolution where existing commerce-based free ports (FP) and free trade zones (FTZ) developed to include manufacturing sectors (2003:34). In this sense, these zones are primarily dedicated to manufacturing, but trade to export the manufactured products is a subsidiary activity. The aim of LDC governments was to create employment among a high populous – yet labour costs are low, thus advantageous to DCs – foreign exchange, and foreign capital and technology to industrialise and achieve economic development (Meng, 2003:35). Like China's ETDZs, these are most often based on the enclave model (Meng, 2003:35).

### **CLUSTER-BASED APPROACH**

The so-called cluster initiatives have been one attractive aspect of SEZs. In its most basic form, the term cluster is defined as “a group of similar things or people positioned or occurring closely together” (Oxford Dictionary). In economic terms, the cluster concept refers to “a geographic concentration of interconnected firms in a particular field with links to related institutions” (Zhihua Zeng, 2010:5). These can include governmental institutes, think-tanks, or training providers, for example, or clusters can develop downstream industries creating customers, or they can extend laterally to include product manufacturers or industries possessing related skills (Ren, 2008:12). In this way, according to Ren, zones are clusters (2008:10) and entities within a cluster are linked and complement each other (Zhihua Zeng, 2010:5).

The principal aim of clusters is to gain comparative advantage over competitors, and to improve the technological or economic performance for the units engaged (Ren, 2008:12). That said, numerous other benefits also emerge including economies of scale, new enterprise and job creation. The positive forces behind clusters have been cited as: knowledge spill over between firms, specialised inputs and services from supporting industries, and a pooled labour market with specialised skills (Ren, 2008:13-14). The geographical proximity is said to ease social interaction and inter-firm co-operation in turn amplifying innovation and competitive productive systems, reducing transaction costs and attracting investment, in particular, foreign investment (2008: 13-14).

As a result of these benefits, many developing countries have been promoting free zones expecting that they will propel the country's industrialisation (Ren, 2006:8). However, Ren tells us that clusters in developing countries lack the same “dynamic vigor and quality as those in developed countries” [sic], yet, they enhance the countries competitiveness (2008:16). An observation of Zhang, To and Cao is that these clusters tend to be export-orientated, therefore the extent to which they promote industrial development depends on the extent of the firms incorporation into global chains (cited in Ren, 2008:16). In addition, Mark & David have cited three difficulties for pursuing industrialisation by means of clusters (Ren, 2008:19). These include difficulties with identifying clusters and the corresponding firms most suitable for the local economy, developing clusters are unlikely to gain competitive advantage over already established clusters, and difficulties setting up the institutional environment required to support their establishment and growth (Ren, 2008: 19).

The question of whether clusters form using a top-down approach controlled by government or a bottom-up approach where clusters form naturally or accidentally based on needs and market forces is also at issue (Zhihua Zeng 2010:6). It is clear that in either case, cluster formation takes time – and while they are more likely to emerge within industrial parks and export-processing zones, to design an SEZ using solely a cluster-based approach increases the risk of failure for the SEZ unless market signals are clear (*Ibid.* 2010:7). Furthermore, Zhihua Zeng says that natural cluster formation in developing countries is rare (2010:6), thereby implicitly indicating an ‘engineered’ approach to development.

## 2.2. PREFERENTIAL POLICIES

To encourage firms to invest in its zones, China developed “special policies and flexible measures” – often referred to as preferential policies. In short, these included the following: inexpensive land, tax breaks, rapid customs clearance, repatriation of profits and capital investments, duty-free imports of raw materials and goods serving as input for the final product, and a limited license to sell in the domestic market (Zhihua Zeng, 2010:16). To attract labour with the skills and the know-how, including the overseas diasporas, examples of preferential policies put in place include the provision of housing, research funding, and subsidies for children. On the other hand, the terms of other labour contracts included rapid dismissal of unqualified or under-performing employees, and wage adjustment to reflect market conditions. These policies favour those better-off in society and create more precarious conditions for those worse-off (2010:17). SEZs were given the legislative authority to develop municipal laws and regulations including local tax rates and structures, and authority to govern and administer the zones – such measures were deemed necessary to revitalise the economy. For example, in TEDA, the governing authority invited universities to establish campuses in the zone effectively linking education and industry related research (Zhihua Zeng, 2010: 17).

## 2.3. CHOICE OF LOCATION

The choice of location for establishing the initial SEZs and ETDZs can be found in China’s historical trading experiences (see Box 1), and geographical peculiarities. Henceforth, it seems almost natural that the location of the initial SEZs was Guangdong province in the Pearl River Delta and Fujian province on China's east coast. When China's Communist Party leaders decided to open the doors in 1979, they said that these provinces had had a history of experience with the outside world (Zhihua Zeng, 2010:9), therefore, they should lead the economic exchanges with other countries and implement "special policies and flexible measures" (Yeung, *et al*, 2009:223). These “special policies and flexible measures” gave way to the establishment of an initial five SEZs, in a similar fashion that five countries in Africa were singled out for hosting ETDZs.

The three in Guangdong province were Shenzhen, Zhuhai, and Shantou; and the one in Fujian province was in Xiamen, and a fifth one later on Hainan island. In the 1980's, Shenzhen was only a small fishing village with a population of 30,000 encompassing no more than 3km<sup>2</sup> of dilapidated buildings and lacking even traffic lights (Yeung, Lee, and Kee, 2009:223). But, it is situated on the northern border from Hong Kong, until 1997 a British colony, one of the major capitalist economies in the world today. By developing a SEZ here, it was hoped that the new Chinese enterprises would learn capitalist modes of economic growth and modern management technology, from the administrative entities under the Chinese umbrella, yet already integrated into the global capitalist system (Zhihua Zeng, 2010:9). Zhuhai, a popular tourist destination composed of islands, finds itself north of Macau – the old Portuguese colony. Indeed, FDI into the zones primarily originated in Hong Kong and Macau – a share of which was Japanese and Taiwanese (Wei, 1993:76). The advantage of Shantou is that it has a deep-water port being one of the treaty ports in 19th century China (Philips and Gar-On Yeh, 1990:238).

Clearly, the choice of location was strategic (Zhihua Zeng, 2010). The choice was founded on the geographical permanence that these provinces are coastal, which provides them with a triple advantage of

- 1) Location on global commercial maritime routes and access to global trade channels via Hong Kong, Macau, and Taiwan;
- 2) Naturally acquired experience throughout history of conducting overseas trade and exchanging with foreigners; and
- 3) Existing well-developed transport infrastructure and industrial bases. Chinese leaders used the existing advantages and resources available to them in order to develop and modernise China.

In 1984, the government decided to establish an SEZ variant known as economic and technological development zones (ETDZs) (Zhihua Zeng, 2010: 10). In February 1984, Deng Xiaoping said, “In addition to existing special economic zones, we may consider opening more port cities. We would not call them special economic zones, but similar policies could be applied” (Li, Duan, Zhang, 2010:97). 14 ETDZ’s were established in coastal cities in the Pearl River Delta, the Yangtze River Delta, and the Min Delta (Yeung, *et al*, 2009:255). At this time, TEDA was established in the city of Tianjin in north-eastern China. In total, from 1984-94, 29 ETDZ’s were established in coastal cities and six were established in the interior (Meng, 2003:85).

If we are to follow Deng Xiaoping's parole, the presence of a port – a communications hub enabling major exchange in commodities, capital, people, and information between the national and international markets (Meng, 2003:100) – was the primordial factor influencing the choice of location, at least for the initial 14 EDTZs. In the 1990's, when the setting-up of zones moved to the interior, location patterns close to railway and national borders emerged (Meng, 2003:100). For those ETDZs established in Guangdong province and Fujian province, attention must obviously be brought to their close proximity to Hong Kong, Macau, and Taiwan. Beyond that, social and cultural factors must be taken into consideration. Overseas Chinese and returned overseas Chinese with capital to invest at home primarily originate from coastal areas (Meng, 2003:99). Finally, on the political and economic front, establishing the initial ETDZs in remote coastal locations purposely created distance from large cities to prevent undermining existing economic and administrative structures in the opening-up experiment. Once success was observed, later zones were established closer to and even in large and medium-sized urban areas (Meng, 2003:99-100).

### **3. TIANJIN ECONOMIC -TECHNOLOGICAL DEVELOPMENT AREA (TEDA)**

#### **3.1. BACKGROUND TO TEDA**

##### **TIANJIN: A STRATEGIC LOCATION**

Situated in north-east China bordering Beijing to its northwest, and the Bohai Gulf - a section of the Yellow Sea – to its east, Tianjin's strategic and economic importance dates back to the Sui Dynasty (AD 589-618), with the digging of the Grand Canal – eleven times longer (1,794km) than the Suez Canal (163km), and twenty-two times longer than the Panama Canal (82km) (Zhong, 2010). By the Yuan Dynasty (AD 1279-1368), owing to the development of shipping on the Canal and in the Yellow Sea, Tianjin had become a grain transportation hub from south to north China (Meng, 2003:126). Tianjin meaning port of the emperor, where Jin 津 means ferry crossing or ford was named by Emperor Yongle of the Ming Dynasty (AD 1402-1424). At this time, the city was constructed and became a walled garrison for protecting the capital Beijing, 120km away.

##### **BOX 1. China’s economic exchanges with other countries**

China’s economic exchanges with other countries can be traced back to as early as the Tang dynasty (618-907) and subsequent Song dynasties (960-1276) when increased importance was attributed to China’s coastal merchants and when foreign influence and trade arrived in China’s coastal port cities (Horrell, 2008). During the Ming dynasty (1368-1644), China conducted trade across the sea by means of Admiral Zheng He’s (also written as Cheng Ho) exhibitions in the Indian Ocean sailing to the east coast of Africa and to Jeddah on the Red Sea coast. China’s trade with foreign people across the seas occurred in the opposite direction when European sea powers arrived in China. In 1517, the Portuguese began trading with ports on China’s south coast, including near Ningpo (Ningbo) in Zhejiang province; Zhangzhou in Fujian province, in Guangdong province, and in the Pearl River delta. In 1575, Spanish merchants arrived

and began trading with Xiamen in Fujian province on China's east coast. Subsequently, the Dutch arrived in Taiwan, followed by the British, and the French in Canton (Shouyi, 2008).

Britain had had a trade imbalance with China so it sought the opening of more Chinese ports to trade. To compel China to trade, the British bombarded the town of Humen near Guangzhou, the capital of Guangdong province, also home to Macau occupied by the Portuguese in 1557 (Shouyi, 2008). Following China's defeat in the First Opium War, Britain forced China to sign the Treaty of Nanking, which established the concept of treaty ports forcing open five trading ports for the purposes of British mercantile interests (Jia, 2010:5). These were Guangzhou, Xiamen and Fuzhou in Fujian province, Ningpo (Ningbo) and Shanghai. During the Second Opium War (1856-1860), when Anglo-French forces arrived in Tianjin threatening to advance towards Beijing, the treaty of Tientsin was concluded opening more port cities to trade including Tianjin (Shouyi, 2008).

Jia has observed that the treaty ports shared geographical similarities – being along the coastline or the Yangtze River – geographical features making them accessible to trade. He illustrates that the choice of treaty ports by the British was strategic: they wanted to gain access to the whole interior of the Chinese continent, and failing this to obtain free navigation of the Yangtze River (Jia, 2010:7). Just as interesting, he argues that history matters. He maintains that 'human capital and social norms that were cultivated in the treaty ports system, persisted and accumulated over history' affecting people's openness to trade (Jia, 2010:4).

Once Tianjin was established as a treaty port, national and international trade developed significantly, so that by the 1930s, it had become a large industrial and commercial city and financial centre (Tianjin Municipal People's Government, 2007). Prior to Mao, industrial production included textiles, food, machine building, iron, and tobacco, and import and export contributed significantly to China's foreign trade volumes (Meng, 2003:127-8). With the founding of the People's Republic of China (PRC) in 1949, Tianjin became one of the four municipalities under the direct administration of the Central government. Although its economic importance decreased during Mao times, the territory and population expanded, giving way to the creation of towns on the urban periphery (Meng, 2003:10). Meng (2003:125-30) illustrates that a clear spatial separation consisting of a two pole structure with Tianjin city as the centre, and a coastal town system emerged with a connecting highway to Beijing.

### **TIANJIN: A NATURAL RESOURCE RICH LOCATION**

Tianjin and its surrounding areas have an abundance of natural resource wealth acting as a feed source for industrial development. The area is rich in metallic ore, non-metallic minerals, terrestrial heat resources, and coal reserves, which led to the establishment of marine and chemical industries in the 1930's (Xiaoxi, Duan, and Huanzhao 2010:98). These industries provided the foundation for construction of a petrochemicals industry on the Dagang Oilfield and Bohai Oilfield – also containing natural gas – in the 1970's (Meng, 2003:130-2). The regions surrounding Tianjin, rich in natural resources including coal in Shandong province and in Shanxi Province to the south of Tianjin, and petroleum and iron ore in Hebei province to the east of Tianjin, have also spurred the city's industrial development (Xiaoxi, *et al*, 2010:98).

### **TIANJIN: A LONG ESTABLISHED PORT CITY**

The existence of Tianjin's port for short of a century has already been mentioned. In the 1930's, its status was changed from a sea port to a river port (Meng, 2003:128). The port facilitated development of Tianjin's coast away from the city centre (Meng, 2003:132). It was the first to use containers in China, and by the 1980's, it had ranked third in scale, and fifth in throughput capacity in China. With more than 140 berths, 40 of which are over 10,000 ton berths and four are container berths, the port has historically played and continues to play a leading role in port throughput capacity, storage, facilities and automation (Xiaoxi, *et al*, 2010:99). It is on 20 ocean shipping routes, and trades with 168 countries worldwide, giving

it a key role in domestic and international trade (Xiaoxi, *et al*, 2010:99).

We can analyse that long before the opening-up experiment, a premise existed for further development upon an existing industrial basis with available transport facilities in an enclave opening out onto global trade routes. These were key factors influencing Chinese leaders' decisions to designate Tianjin as an ETDZ in 1984. We can characterise therefore that the objectives were multi-fold: 1) to have an experimental area that could form part of China's major structural reforms in the opening-up period, 2) to renew economic development of a centre economically vibrant prior to Mao times, and 3) to work towards developing northern China.

### **TEDA ADMINISTRATION**

The establishment of TEDA was approved by China's State Council in December 1984. The Tianjin Municipal Government and the TEDA Administrative Commission have been key actors in TEDA's construction conducting land exploitation, administering TEDA, and attracting investment (Xiaoxi *et al*, 2010:101). The structure of TEDA's Administrative Commission has developed over time as the situation has evolved. The now clearly defined hierarchical structure is marked by four parallel administrations containing numerous bureaus. For example, within the Administration & Urban Administration, there are bureaus dedicated to urban development, and labour and personnel; the Economic & Trade Administration has bureaus dedicated to trade development, economic development, and construction development; then there is a Sub-Zone Administration; and finally the State Administration focuses on customs, taxations, and commodity inspections (Meng, 2003:146). TEDA's fiscal administration as such ensures its independent tax system within the China state system, effectively creating two parallel economies. Furthermore, typically characterising an ETDZ, as a state level development area, and as an agent of the Tianjin Municipal Government which itself falls under the direct administration of the Central government in Beijing, TEDA has the means to communicate directly with the government (Xiaoxi, *et al*, 2010:111), but will be required to fall in line with state policy signifying a clear intermingling of economics and politics.

### **3.2. TEDA'S DEVELOPMENT PLANNING**

#### **INDUSTRIAL STRUCTURE & INVESTMENTS**

In the late 1980's, TEDA's development model was specified as industry orientation, foreign capital orientation, and export orientation. At the beginning, TEDA welcomed almost all industrial sectors in order to attract FDI (Meng, 2003:175). Its exports were labour intensive and of low value-added including garments, hardware, and daily supplies (Xiaoxi, *et al*, 2010:91). Additionally, foreign investment was small. From 1992, TEDA focused on attracting multi-national companies economically and technologically advanced (Meng, 2003:175). Over time, the level of investment and the level of value added increased; secondary industry had become the key industrial focus of the area (Meng, 2003:139); labour intensive became technology intensive and the area began producing for export products such as electronics, machinery, chemicals, pharmaceuticals, clothing and food. By 1996, electric and electronic products had taken the lead (Xiaoxi, *et al*, 2010:91).

TEDA now has seven industry clusters – some of which have been established as sub-zones, for example the Micro-electric Industrial park (Meng, 2003:146). The clusters are as follows: (1) electronic information, (2) optical, mechanical and electronic integration, (3) biomedicine, (4) new materials such as maintenance chemicals for industry, (5) new energy, (6) machinery, and (7) environmental protection (Xiaoxi, *et al*, 2010:95). By building on the industrial pillars, labour industry became technology and capital intensive industry.

The number of export enterprises in TEDA reached 783 in 2007 from an initial six; total export value grew tremendously, and the amount of FDI and number of projects receiving investment, as well as the

quality of invested projects continuously grew. In 2007, TEDA had 62 Fortune 500 multi-nationals invested in the area making it the most profitable of the 57 state-led ETDZs in China (Xiaoxi, *et al*, 2010:88-95). This success has been a product of its commitment to industry – characteristic of an ETDZ – and to creating a favourable environment to attract investment (discussed further under “Land Planning” below). However, this analysis is more nuanced when we place under the spotlight the factor of Tianjin city.

The city of Tianjin, with existing infrastructure, manufacturing industries, and human capital provided the right environment for TEDA’s development. Additionally, TEDA has been viewed as a positive force behind the city's development as the introduction of advanced technology in TEDA supposedly promotes technological progress and industrial restructuring in the city. Purportedly, due to spill-over, the city also then attracts foreign investment (Xiaoxi, *et al*, 2010:101). In this sense, one could view TEDA as a development pole for the wider region. But, in reality, TEDA grew much quicker than Tianjin city. We can site as the cause the preferential policies available to investors setting-up in the area and not available to those setting up in the city, and the easy-access to global commercial markets. Companies in some instances have registered in the area to benefit from the preferential policies, but actually set up shop in Tianjin city straining resources, while paying no taxes there (Xiaoxi, *et al*, 2010:116). Between 1986 to 2007, TEDA's greatest gains were made in the value of exports with a 48.50 per cent increase and the smallest gains were in employment creation with only a 5.34 per cent per cent increase (Xiaoxi, *et al*, 2010:96). These figures demonstrate the extent of TEDA’s integration into the global economy, while societal benefits at the local level have been marginal at best.

## **LAND PLANNING**

TEDA's preliminary planning area was 33km<sup>2</sup>; the current area covers 40km<sup>2</sup>, and the planning area is 2,270km<sup>2</sup>, approximately half of which is saline-alkali wasteland (Xiaoxi, *et al*; 2010:98). In 1988, the first 4.2km<sup>2</sup> of the starting zone was established (Meng, 2003:140). In fact, the development of China's initial 4 SEZs began on small plots of land, which expanded significantly over time. The SEZ in Shantou initially covered an area of 1.6km<sup>2</sup>, and expanded to reach 52km<sup>2</sup> in 1984. Xiamen initially covered an area of 2.5km<sup>2</sup>; this was extended in 1984 to include the entire island, an area of 121km<sup>2</sup>. Zhuhai near Macao initially covered an area of 6.8km<sup>2</sup>, which was later expanded to 131km<sup>2</sup> (Meng, 2003:83). In 2010, China’s State Council approved the Shenzhen zone’s expansion from its initial 327.5km<sup>2</sup> to 1,953km<sup>2</sup> (China Daily, 2010). It is clear that growth of an SEZ in China goes hand-in-hand with development of the surrounding land.

TEDA has also expanded over land from 4.2km<sup>2</sup> in 1988 to 42km<sup>2</sup> in 2006 (Xiaoxi, 2010:98). The governing body of TEDA has implemented a land exploitation policy in four ways, which are as follows:

- 1) **Infrastructure Development:** As one of TEDA's goals was to attract international investment, its management realised that an environment suitable for the operation of modern industrial enterprises would have to be provided. Investment in the early stages was therefore in fixed assets (i.e. construction) and infrastructure improvement. To build the infrastructure, TEDA initially received a national development loan for a 3km<sup>2</sup> industrial zone and a 2km<sup>2</sup> living zone providing the basis for further development (Xiaoxi, 2010:101). Today, the industrial area located in the north of the area covers 26.4km<sup>2</sup>, and government units, financial services, and the living zone are located in the south of the area. The living area of 11.3km<sup>2</sup>, includes residential buildings, schools, hospitals, banks, post offices, custom bureaus, etc. Finally, a forest park of 3.1km<sup>2</sup> was put in place, and a transportation network was built (Xiaoxi, *et al*, 2010:98-99). This focus on investment in infrastructure means: today, TEDA has the best comprehensive infrastructure and facilities among all the national ETDZs (Xiaoxi, 2010:99). However, as TEDA is a separate growth structure along the coast rather than the city, the cost of infrastructure construction has been high. There has been dis-economies of scale, which does not seem to be an unusual result in developing China's SEZs given that the airport in

Zhuhai was also oversized exhausting the initial capital investment (Zhihu Zeng, 2010:23) Furthermore, TEDA lacks other amenities, such as leisure facilities, which is another drawback pulling TEDA investors towards Tianjin city.

- 2) Role Exploitation: TEDA exploits the land, then reinvests the land use charges in addition to financial support from the Administrative Commission for further exploitation. This pattern has obtained the label “role exploitation” (Xiaoxi, *et al*, 2010:101) because the land is developed in a circular fashion (Meng, 2003:140).
- 3) Segmented Exploitation: this is where the Administrative Commission, as owner of the land, either undertakes joint development by designating a piece of land, which becomes exempt from land charges, but it serves as the Commission's capital stock in the enterprise. Alternatively, it sells a piece of land for commercial development, or it uses the land as its share of the investment and jointly establishes a real estate company to develop the land.
- 4) Land Transfer: This approach is direct transfer of land-use to foreign investors who develop the land with their own funds (Xiaoxi, *et al*, 2010: 102). The signing of contracts for land transfers already began in the early 1990's due to the rapid increase of foreign investment, consequently more land had to be opened up (Meng, 2003: 140). As part of the preferential policies, the transfer of the land use rights was initially low cost; in fact TEDA itself obtained them for free. For other investors, land was generally marketed at just 10 per cent of its cost, thus the price of land did not reflect its real values (Xiaoxi, *et al*, 2010:110).

As demand rose, the price of land increased rapidly, and neighbouring administrations have not been so-willing to transfer land to TEDA, which has prevented the area from expanding without significant expenditure on land, and without encountering conflict with neighbouring national actors (Xiaoxi, *et al*, 2010:115). This paper will now turn to the question of TEDA in Egypt.

## **4. CHINA BRINGS ITS SPECIAL ECONOMIC ZONE VARIANTS TO EGYPT**

### **4.1. BACKGROUND TO EGYPT'S ZONES**

In the early 1990's, Egypt's state elite decided to undertake economic reform with significant shifts away from the state-control policies that had persisted since the Nasser era towards a liberal economy as prescribed by the IMF (Löfgren, 1993:408-9). They realised that domestic growth induced through rents (examples include: Suez canal transit fees, tourism, worker remittances, oil exports, and US foreign-aid) was not sustainable (Löfgren, 1993:410), and that it was necessary to replace the policy of import-substitution industrialisation (in other words, local production of industrialised products to reduce foreign dependency) with an export oriented strategy so that Egypt could fully integrate into international markets (Hinnebusch, 1993:164). Egypt's bourgeoisie wanted a better investment climate (Hinnebusch, 1993:165), so amongst other reforms, the government decided to open the economy to private investment and foreign trade (Löfgren, 1993:408-9). As Bräutigam and Tang have stated, the Egyptian project was to attract economic investment, promote exports and increase employment (2011:38) amidst a rising number of job seekers (Hinnebusch, 1993:163).

According to Hinnebusch (1993:64), in this state retreat from industrial ownership, the Minister of Industry aimed to carve out a new role for itself in industrial policy and regulation, and thereby took an interest in East Asian state-centred capitalism. Egypt's State Information Service (ESIS) tells us that in June 1993, an Egyptian parliamentary delegation visited Beijing, and was briefed there on China's economic reforms and open-door policy experiment; additionally, they visited a number of free zones in Shanghai and Tianjin. In October of the following year, China's Vice Premier, Zhu Rongji, visited Egypt – a moment marked as the initiation of discussions between the two governments for an SEZ in Egypt.<sup>1</sup> These discussions led to the signing of a Memorandum of Understanding (MOU) between Egypt's Prime



Minister Kamal al-Ganzouri and China's Premier, Li Peng, in April 1997. This MOU, according to ESIS, focused on the investments China would contribute to the zone. According to Chinese sources, the MOU stated China would contribute knowledge on its free zone experiences, evaluate the report for an Egyptian zone to be prepared by China's Vice Director of SEZs and Vice Minister of Foreign Trade and Economic Cooperation, and encourage Chinese enterprises to take part in the zone's construction.<sup>1</sup>

Thus, Egypt's SEZ project emerged amidst major structural reforms. As Egypt took the decision to shift its economy towards capitalism and integration into a global economy, it turned to China as a model (Bräutigam *et al*, 2011:38). Exchanges between the two countries took place at the highest diplomatic echelons, and as much as Egypt was inspired by China's progress, the Chinese state enthusiastically became involved in Egypt's new attempts to reach higher levels of industrialisation and to develop towards a modern economy. Chinese governmental involvement in an Egyptian SEZ, at both a diplomatic and technical level, was occurring a decade prior to Hu Jintao's 2006 announcement for the establishment of trade and economic co-operation zones in Africa, therefore, his announcement seems tardy. Even in these early stages, the Chinese government – still viewing China as a development state – sought to advance the interests of domestic commerce. The evidence supports Henry W.C. Yeung's argument that interstate economic activities conducted through China's national firms are “institutionally mediated interactions between different nation states” (2004:39).

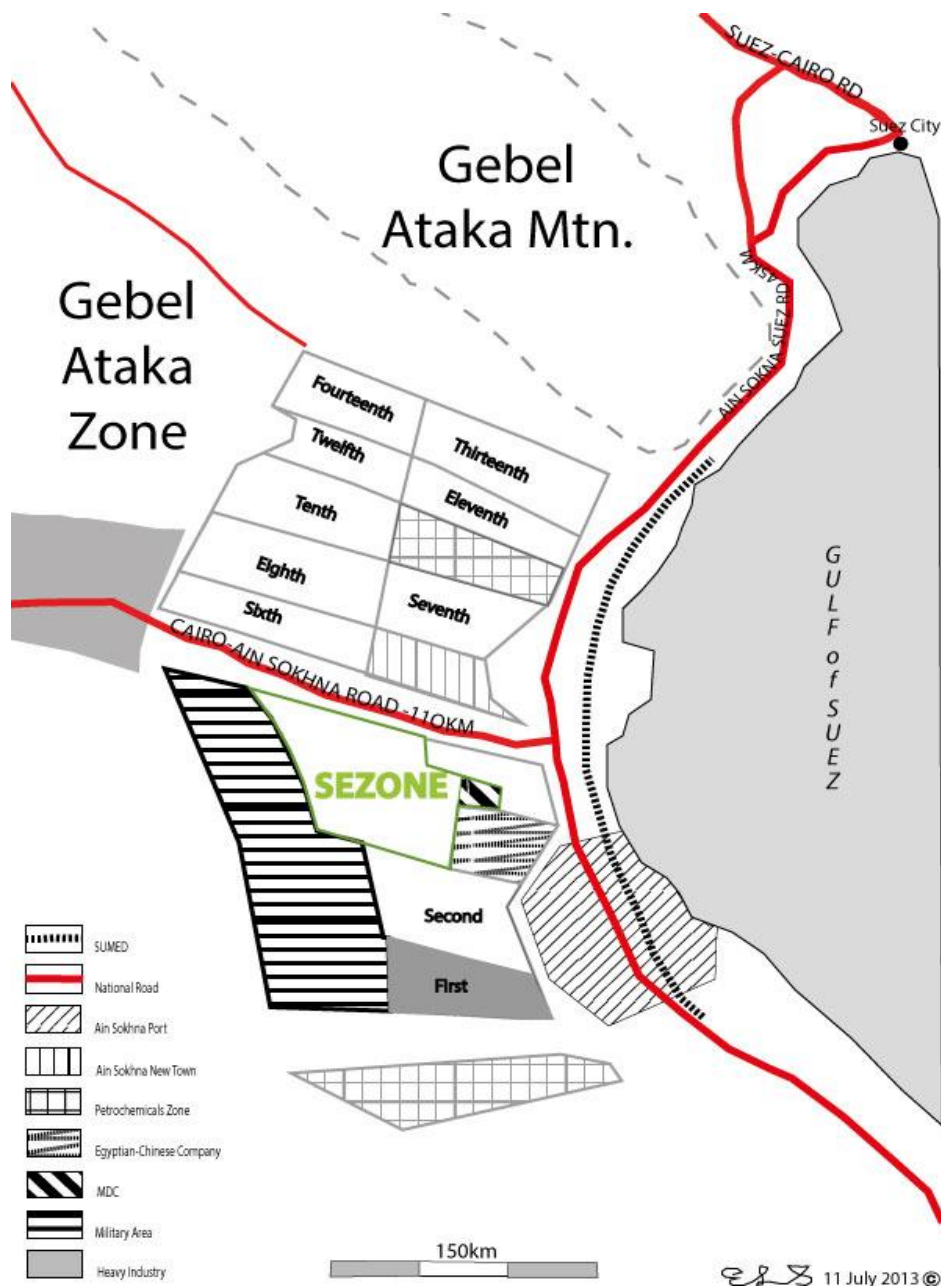
## **4.2. EGYPT'S FREE ZONE VARIANTS**

Coinciding with the signing of the MOU, Egypt's parliament passed “Law No. 8” on Investment Guarantees and Incentives, which aimed to improve Egypt's attractiveness as a lieu for investment in line with the interests of Egypt's bourgeoisie. This law distinguishes between three kinds of “free zones”: (1) free zones that cover a whole city, (2) public free zones, and (3) private free zones. The distinction between (1) and (2) is based on the geographical area comprising the free zone boundary. A public free zone does not cover a whole city, but the area may be wide enough to comprise several locations and projects, whereas a private free zone is confined to a single project.

As a public free zone, Suez was established in 1975 (Ministry of Industry & Foreign Trade, 2013), under Anwar el-Sadat's policy of *Infitah* (the Arabic word for openness), also known as the policy of “Opening the Door”, which failed to create the necessary investment climate for true reform towards a market economy (Hinnebusch, 1993:159). Thus, Egypt, and Suez within that, began their experience with free zones, long before the said legislation of the 1990's and even prior to the establishment of China's domestic SEZs in 1979. In fact, this period corresponds to the second-generation manufacturing zones, and particularly to the period when industrial-based zones had emerged, which are plentiful in Suez. As a public free zone, Suez comprises several sub-zones, namely industrial zones, qualifying industrial zones (QIZ), general free zones, special free zones, and investment zones, each containing different projects, but sometimes from the same branch of industry, and sometimes overlapping (IDA, 2013: 3-7).

Firstly, Egypt has 107 industrial zones (GAFI, 2012b). Of these, ten are located in Suez governorate, dedicated to light and to heavy industry. Their stated objectives are as follows: industrial diversification and spatial spread of industrial activities in view of proximity to ports and consumer markets, the creation of employment opportunities, and meet foreign markets needs through small scale and labour-intensive projects and craft activities. Another objective is optimisation of available industrial resources depending on comparative advantage of clearly specialised industrial sectors, including oil and gas, petrochemicals, fertilizers, cement and building materials (IDA, 2013:1). Suez industrial zones also have factories in mining and quarrying, chemicals production, and the metals industry. Engineering, electronics, and electrical industries, as well as electrical lightening and power, and light industries, such as paper and paper products, wood and wood products, and food and beverages are also present (IDA, 2013:3-7).

Figure 1. Map of Suez Industry and Surrounding Region



Source: SEZONE/MDC. 2012. A Unique Business Opportunity in Egypt. Powerpoint *Presentation* [Online].

SEZONE. 2013. *Master Plan Concept* [Online]. At Farouk Hassan, G., 2005. The Conflicts Between Tourist & Industrial Activities Along the Suez Gulf N-West Coast, Development and Tourism in Coastal Areas, in *Development and Tourism in Coastal Areas : International Conference*, 9-12 March. Egypt Center of Planning and Architectural Studies: Sharm El-Sheikh.

Secondly, within Egypt's industrial development policy, Suez governorate has established three General Free Zones. Port Tawfiq, located on an island along the mouth of the Suez Canal, is dedicated to shipping companies' projects, marine services, safety and rescue equipment and computer assemblage. Alongside that, one can find the General Free Zone of al-Adabiyya, dedicated to industry, services and logistical projects (IDA, 2013). Al-Adabiyya also has a port with nine berths receiving dry and liquid bulk cargos (IDA, 2013:23). Thirdly, the General Free Zone of the Gabal Ataka region houses factories from a

range of industries such as oil and gas, mining, and foodstuffs, and more (IDA, 2013:6). This zone spans from the mouth of Suez to Ain Sokhna, 45km southwards where one will find Ain-Sokhna port – utilised by Chinese shipping companies in the SETC-Zone, and containing six berths and receiving goods and dry bulk (IDA, 2013:23).

Thirdly, Suez Governorate has 14 sectors as Special Free Zones. These overlap with the General Free Zone of Gabal Ataka region and compose the overall area known as the North West Gulf of Suez Industrial Zone spanning 233km<sup>2</sup> from Katameya Road to Suez Zafarana coastal road (IDA, 2013: 9). These sectors comprise a mix of heavy, medium and light industries. For example, the First Sector developed by the Suez International Development Company is mainly dedicated to heavy industry including fertilizer and chemical production such as ammonium for export to the United States.<sup>2</sup> In the Third Sector, one will find TEDA's SETC-Zone and a part of the Economic Zone Northwest Gulf of Suez (SEZONE). The latter is 20.4km<sup>2</sup> in total, which also spreads into the Fourth Sector, and is dedicated to light and medium industries. SEZONE will be discussed in greater detail below. Finally, the Ninth Sector hosts a company active in the field of petrochemicals, while the remaining sectors are empty. An Egyptian government spokesperson has said that development of these areas has been taking place for the last 15 years, so neither government nor developers can expect immediate results, a long-term investment is required.<sup>2</sup>

Fourthly, as part of Egypt's policy to attract economic investment, four zones have been categorised as Investment Zones provided for by Law No. 19 of 2007. The investment zones include the two heavy industrial zones, and the one light industrial zone, and a petrochemicals zone (IDA, 2013:29) – south of the 200km long Suez-Mediterranean oil pipeline (SUMED), which runs from the Ain Sokhna terminal on the Gulf of Suez to Sidi Kerir terminal, west of Alexandria on Egypt's Mediterranean coast.

On the Egyptian side, we can observe the functional evolution from ports to industrial zones that Meng has spoken about (2003:34). Trade, logistical services, and the utilisation of ports are subsidiary to, and are there to support Egypt's industrialisation policy. However, many of the industrial branches evoked here are key to the global economy, and the port facilities are present to access global markets, therefore actual contributions to Egypt's domestic development is questionable.

Finally, Egypt's Minister of Industry & Foreign Trade has applied the status of Qualifying Industrial Zone (QIZ) to Suez Governorate. QIZs are the element which makes up Egypt's free trade agreement (FTA) with the United States. Goods produced by factories in QIZs can directly access US markets without tariff or quota subject to certain conditions – most significantly, to qualify, goods must contain a minimum of 11.7 per cent of Israeli input.<sup>3</sup> The latter is a perfect example to illustrate David Baldwin's point that economics can be an instrument of politics (1985:3). For Israel and the United States, QIZs are economic tools for Egypt to keep the peace with its neighbour; on the contrary, Egypt employs QIZs as political instruments to achieve its economic goal of access to the large US consumer market.

Just as TEDA has been developed in a region with a history of industry and manufacturing, the activities of Egypt-TEDA have been established upon the same foundations. The infrastructure and manufacturing basis, as well as human capital, and easy access to global trade routes exists in Suez. Egypt-TEDA will be able to tap into these existing resources to develop the SETC-Zone. However, it is likely to run into obstacles. In order to obtain a comparative advantage to turn around a profit, Chinese businesses are required to compete with already established actors, including global actors, across a range of industries in Suez.

### **EGYPT'S SPECIAL ECONOMIC ZONE(S)**

In May 2002, the Parliament approved the Special Economic Zones Law No. 83, coinciding with Jiang Zemin's visit to Egypt where he emphasised the bilateral trade relationship, which he hoped would be facilitated through its zone in Suez.<sup>1</sup> Unlike the Investment Guarantees and Incentives Law, which covers

three different types of free zones, Law No. 83 applies only to special economic zones. To typify Egypt's SEZs, the law specifies that they are for industrial, agricultural or service activities designed specifically for the export market. According to Egypt's General Authority for Investment (GAFI) – the principal governmental authority for regulating and facilitating investment in Egypt – the aim of these zones is to encourage investment toward the establishment of projects that are able to compete with comparable ones abroad (GAFI, 2012a).

Law No. 83 specifies that SEZs and the authorities that manage them are established by a Presidential Decree. Currently, Egypt has only a single SEZ provided for in law – SEZONE, established by Presidential Decree No. 35 for the year 2003. SEZONE's stated purpose is to “act as an investment catalyst for the wider Suez Investment corridor”. Among its objectives is to establish and develop to the highest international standards, attract FDI for the purpose of establishing industrial and service projects capable of competing with comparable ones at the regional and international level, create employment, generate income, and upgrade skills, augment Egypt's share of international trade, and increase and diversify exports. These objectives are more rounded than TEDA's three orientations model (Meng, 2003:139). It was shown that Tianjin-TEDA neglected employment creation and income generation.

According to a SEZONE representative, this zone is to serve as a model for the establishment of future zones.<sup>2</sup> However, one cannot accept this statement as pronounced. There is a clear emphasis, thus awareness on the need to achieve comparative advantage; but Egypt's current political environment is likely to deter the foreign investment necessary for SEZs to succeed. Further, SEZONE's objectives do not substantially differ from the objectives of the other industrial zones in Suez, and its focus on light and medium industries places it at a preliminary disadvantage compared to surrounding zones, which already have a head start. The decision to have a light and medium industry mix is based on the lack of utilities (i.e. electricity, water, and gas) in the area given its desert location; these utilities are required for heavy industry. The zone's development arm, a private company, the Main Development Company (MDC), established in 2006 has been charged with installing these utilities and until they are installed investors will not be brought in to develop the land.<sup>2</sup> Therefore, in the short run, it seems grandiose that SEZONE could act as an investment catalyst for the wider region; rather its objectives fall flat.

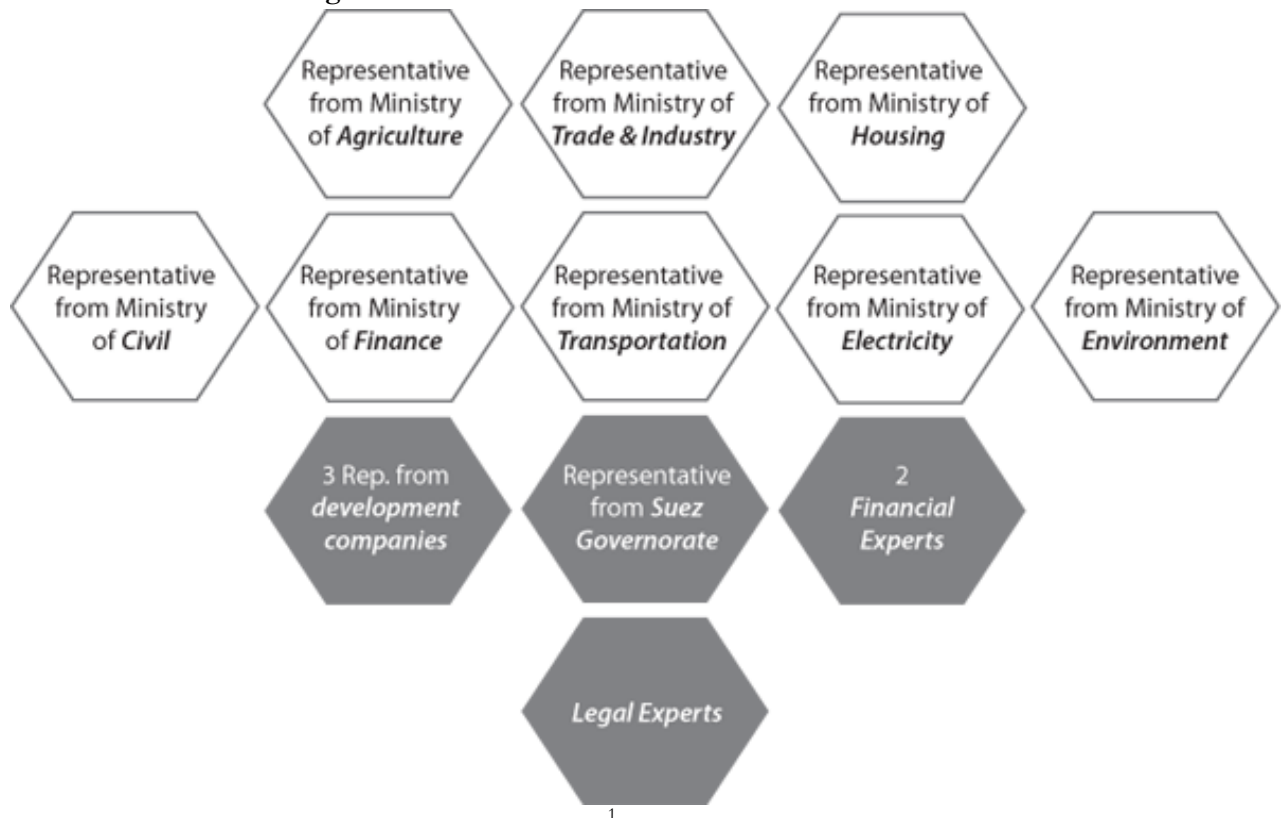
MDCs and SEZONEs advertisement for developing industrial clusters in a number of sectors including automotive, chemicals & petrochemicals, construction and building materials, home appliances and electrics, textiles, agribusiness & food processing, and pharmaceuticals appears to be premature, as almost all these sectors require some level of machinery, if not hi-tech industry supported by Research & Development centres. That said, TEDA in the initial stages welcomed all industrial sectors, and as the zone developed better companies, projects and bigger investments arrived. The reality at the moment is that SEZONE does not seem capable of bypassing the stage of utilities installation and a Master Plan design to specify which industries go where.<sup>2</sup> It is hoped that a Master Plan will be finalised this year by MDC in co-operation with the Authority for Urban Planning and the Ministry of Housing,<sup>2</sup> but the story of the Master Plan has been on-going since Mubarak's visit to China in 1999,<sup>1</sup> and it appears that SEZONE is not progressing without assistance from China (see 5.2. LAND PLANNING below).

From the perspective that its institutional framework has already been developed, if we follow Ren's thinking, one could argue that the zone has potential, but the institutional level should also be subjected to scrutiny. Supposedly, those ministries represented on the Board of Directors (BOD) (see Figure 1) are the ones most active in the project.<sup>2</sup> Yet, a representative from Egypt's Ministry of Trade & Investment denied their Ministry was involved in any major way, and said the project lay at the doorsteps of GAFI. Supporting that, a SEZONE representative has said that the main role of the BOD is to streamline procedures for investment in order to attract more investment,<sup>2</sup> which is the principal role of GAFI. This goal is been achieved through what has been termed “One-Stop-Shops” provided for in the Investment Guarantees and Incentives Law. This law states that at GAFI offices in Cairo and in other locations

“One-Stop-Shops” will be established. Their purpose is to facilitate the process for doing business including approval, registration, licensing, and certification for new projects. In other words, a One-Stop service building is “a single point that combines all the legal governmental agencies into a single window to facilitate and expedite governmental procedures” and giving this single outfit, GAFI, greater authority over other governmental agencies (SEZONE, 2013). One has been set-up for SEZONE by the Chinese where approvals and permits are provided to businesses within 30 days (MDC, 2013). The result is that normal rules of procedures are bypassed and undercut; parallel, albeit reduced, administrative systems are created; and power is concentrated in the hands of a minority.

Similar observations can be made elsewhere. Egypt's Ministry of Investment (MOI) was set up in 2004 for the purpose of reforming Egypt's investment climate.<sup>4</sup> In relation to SEZONE, and other zones which fall under its authority, it collaborates with GAFI and in some respects, their mandates overlap. In addition to the “One Stop-Shops”, it advertises an Investment Dispute Settlement Centre to expedite the resolution process. But, unlike the One-Stop-Shops, which are the starting and end point for project approval, the Dispute Settlement Centre is a lieu of first decisions only; cases can if unresolved be referred to the court system (SEZONE, 2013). The MOI is also the monitoring agent over SEZONE for a certain period of time,<sup>2</sup> which in practice places it in a unique position in relation to other state ministries on the BOD. That said, it is not represented on the BOD as a ministry, but as a financial expert with GAFI. This evidence illustrates a disjunction and push and pull factors between liberal oriented and more statist actors within Egypt's domestic political system.

**Figure 2. SEZONE BOD Institutional Framework**



The legislative and institutional framework for SEZONE provides it with all the typical characteristics for an SEZ to succeed. In practice, the customs and tax system applicable and the tools implemented – namely "supreme committees" to supervise the taxation of profits on companies, persons, and revenues and to oversee and facilitate customs procedures – result in bypassing already established rules and

<sup>1</sup> Available <http://www.sezone.gov.eg/en/index.php?page=board-of-directors> [2013, 04 June]

procedures of the national system. While the aim is to grant independence to achieve efficiency, thus attract FDI, the reality is creation of parallel systems and economies that weaken state structures. Particularly in relation to the customs procedures, the zones authorities and companies invested place themselves at risk of accusations of customs irregularities, corruption and smuggling. This was the case in Shantou and elsewhere in Egypt, namely in Alexandria port, where complaints have already been filed with the courts over contracts with Chinese investors leading to their stoppage (Zhihua Zeng, 2010:23; Ahram Online, 2012). Hence, special procedures may hinder rather than favour Chinese business interests.

### **4.3. PREFERENTIAL POLICIES**

The incentives and guarantees offered to companies choosing to set up in SEZONE or a future SEZ in Egypt are specified in the special economic zones law. They are strikingly similar and in some cases identical to the preferential policies applied to China's SEZs including rapid customs clearance and tax breaks as already mentioned. The corporate tax rate is 10 per cent of the net income, compared to 20 per cent outside of SEZONE (SEZONE, 2013), and there is a tax exemption on sales, indirect taxes, and on profits derived from bonds and loans. Personnel income tax derived from employees' salaries is 5 per cent compared to a range of 10-20 per cent outside of the zone (SEZONE, 2013). These rates are to the detriment of the coffers of the sales tax authority and the income tax authority within the Ministry of Finance, yet according to the law in question, the Ministry has authorised them.

Machines, raw materials, spare parts and components for the activities authorised within the zone may be imported without payment of taxes and duties, and may be imported and exported without permit. In other words, companies operate in a free industrial and economic zone completely disconnected from the domestic system. Imported components of products manufactured in the zone are subject to taxes and duties when entering the Egyptian market; so akin to China's SEZs, they have a limited license to sell in this market.

Flexible labour regulations including termination of employment contracts, according to terms simpler than those prevailing under the Egyptian Labour Law, are offered to companies investing in Egypt's SEZ. That said, there are a number of ways foreign companies can sidestep Egyptian labour. On paper, only 10 per cent of a foreign companies' payroll can be composed of foreign employees, but firms can use Egyptian sub-contractors to carry-out the work, thereby they dispose themselves of any obligations towards locals. In the case of China's construction contracts, it has offered governments a price list. Utilisation of Chinese labour is cheaper than employing local labour.<sup>5</sup> Or, thirdly, companies can employ local child labour – a practice which appeared in full force by both Egyptian and Chinese companies operating within the SETC-Zone.

Supposedly, another preferential policy is that companies may not be subject to nationalisation, nor sequestration, freezing of assets or confiscation (except by a judicial judgement) – recurring practices in Egypt dating back to the Nasser era. The parenthesis on judicial judgement should not be viewed by foreign companies as any type of guarantee in Egypt's current political climate where strikes and demands by factory workers have brought Egyptian courts to re-nationalise companies previously privatised (Bassem Abo Alabass, 2011). In a country, where the state is traditionally involved in the pricing of products and services, non-governmental interference in prices is also viewed and stipulated as a preferential policy.

A final but substantially beneficial preferential policy applied to companies established in SEZONE is the offering of Egyptian certificates of origin on products to be exported. In practice, this means foreign companies can benefit from Egypt's international trade agreements. These include an agreement with the Aghadir countries, the Greater Arab Free Trade Agreement (GAFTA) agreement involving 22 Arab nations, the agreement for a Common Market for Eastern and Southern Africa (COMESA), which has 19 members in total, an agreement with the European Union, an Agreement with the European Free Trade

Association (EFTA), an agreement with Turkey, and the QIZ agreement with the United States (SEZONE, 2013). This preferential policy provides Chinese companies with a panoply of new markets. With the exception of the Chinese companies, no other foreign companies have invested yet in the 14 sectors of the North West Gulf of Suez Industrial Zone,<sup>1</sup> giving the Chinese a head start over their future foreign competitors in the area.

Thus, through a single zone in a strategically located country, Chinese manufactured products will be subjected to the import restrictions and authorisations applied to Egyptian products, rather than those applied when products originate in China. In the case of tariff barriers to the EU, these are lower for Egypt than for China (Liste, Kolster, and Matondo-Fundani, 2012:4). In April 2011, the Council of the European Union decided to relax requirements on product rules of origins from North Africa, which basically allows these countries to source their exports from elsewhere (Liste, *et al*, 2012:4). In the case of the QIZ, no Chinese products manufactured within the SETC-Zone currently qualify for certification, however, such certification is within the aims of Egypt's Ministry of Industry & Foreign Trade,<sup>3</sup> and may become a reality as the SETC-Zone develops. A spokesperson for the Ministry put forth that for the United States the important element in the QIZ was the specified minimum Israel input, not the nationality of the company manufacturing the product. In any case, the benefit for Egypt of applying this policy is viewed as increased foreign investment, job creation, and the generation of foreign exchange.<sup>3</sup> It is likely to attract further Chinese companies to SEZONE, because it places them in a position to advance their economic interests, to penetrate new markets, as specified in China's Go Out Policy, and it permits the Chinese to challenge other large economic powers in their own domestic markets.

## **5. CHINA–EGYPT SUEZ ECONOMIC & TRADE COOPERATION ZONE (SETC-ZONE)**

### **5.1. BACKGROUND TO SETC**

#### **SUEZ: A STRATEGIC LOCATION**

Egypt's strategic importance is derived from its location on the most north-easterly point of the African continent separated from the Asian continent by the Suez Canal, which leads to Europe. The SETC-Zone has been constructed in the town of Ain Sokhna bordering the Gulf of Suez along Egypt's Red Sea Coast. It is 45km from the southern entrance of the Suez Canal that bypasses Suez city and 110km from Egypt's capital, Cairo. This choice of location in some respects imitates the location of TEDA in Tianjin, which also borders a gulf coast at the end of a sea where one can find convenient port facilities to access global trade routes; the zone has approximately the same distances as Tianjin TEDA to the regional city, Suez, and the capital, Cairo.

Given that the zone is relatively isolated from the remainder of Egypt, it is likely to function as an enclave. In view of this isolation, and for the purpose of connecting the zone to Egypt's domestic market, Egypt's military has constructed the Cairo-Ain Sokhna highway across this 110km stretch of Egypt's Eastern desert – a vast empty landscape with limited signs of life or resources. A much shorter distance away, Chinese companies can lean on the existing industrial base in Suez city and its surrounding districts. There is a spatial separation between two urban development centres – the capital and the coastal areas. However, Ain Sokhna still remains isolated; it is linked to Suez by a broken road with many of those working in the zone travelling the 45km daily.<sup>6</sup>

Despite these transportation hurdles, the Chinese government's decision to establish and officially support a zone along the Suez Canal is economically and politically significant. From an economic perspective, in addition to the preferential policies laid out above, this zone provides Chinese companies with access to the world's principal maritime routes, leading towards consumer markets for their merchandise – most notably the Mediterranean and transatlantic trade areas. The advantage for Chinese

companies of producing goods here is that the route towards these consumer markets is shortened significantly. They will have a relatively short distance to cover to reach ports on both the northern, southern, and eastern Mediterranean borders, and they will have reduced the distance by approximately half to North American consumer markets. Even without the zone, from China the route to New York is more than 2,000 nautical (N.) miles less via the Suez Canal than via the Pacific (Suez Canal Authority, 2012a). In the case of Chinese companies routing to West African markets, the route from the Pacific is approximately 3000 N. miles shorter via the Suez Canal than via the Cape of Good Hope (Suez Canal Authority, 2012a). These savings in distance produce savings in time, fuel costs and other operational costs incurred by long-distance maritime travel (Suez Canal Authority, 2012b).

Secondly, from a political perspective, the Canal has often been a point of geopolitical tensions among national and regional actors, and among global powers. Long prior to, and even after the modern-day Canal's construction between 1859 and 1871, the Isthmus of Suez has witnessed the rise and fall of Egyptian leaders, regional, and great powers. In the 14th century, the Ottoman Empire controlled the Isthmus of Suez, thus the spice trade in the Red Sea forcing the Portuguese to circumnavigate the Cape of Good Hope to reach the Indies (Chauprade, 2003:673). In the 19th century, after Ferdinand de Lesseps, an ex-French diplomat, led the project for digging out the isthmus of Suez, which according to business historian, Hubert Bonin, was one of French "entrepreneurship, capitalism, and industrialisation", Britain feared losing out on its trade with the Indies (Bell, 1964). Thus, in 1875, when the Egyptian economy fell into disarray, Britain snapped up the Ottoman viceroy's shares in the Suez Canal Company to become a partner in the project preventing the French from gaining complete control of the Canal (Thornhill, 2006:10).

Less than a century later, in 1956, the end of Britain and France as great powers was signalled in the Suez Canal when they were forced to retreat from their military intervention there, which was in response to Nasser's nationalisation of the Canal and the Canal Company, under pressure from the Soviet Union and the United States; the latter were then viewed as superpowers on the world stage. In view of China's global power status, its decision to have a zone here is not only strategic, but already historically important. We must ask ourselves was this decision taken with foresight. Global powers view themselves as modern industrialised powers with commercial interests and they have a need to protect those interests. Historically, global powers have marked their great power status and defended their interests on this trade route between East and West. China's permanent presence in the Canal Zone will provide its companies with greater opportunity to grab a slice of Suez trade, which could take the form, for example, of import and export activities with goods undergoing modification, repackaging, or reassembling within the SETC-Zone.

### **SUEZ: A NATURAL RESOURCE RICH LOCATION**

The industrial base in Suez has developed upon a bed, and in close proximity to a wealth of natural resources. The Gulf of Suez is Egypt's primary source of oil production, coming from among others, the Sedr, Assal, and Mtarma oil fields (EIA; 2012a:3; IDA, 2013:17). Surrounding areas including the Eastern Desert, Egypt's Mediterranean coast, and the Nile Delta are also main oil exploration and production areas and in recent years, there have been new finds in deep offshore waters in the Gulf of Suez and the Mediterranean (EIA, 2012). The SETC-Zone has been established close to the Ain Sokhna oil terminal, where the SUMED pipeline begins, the only viable alternative route, other than taking the long route around the Cape of Good Hope, for the transportation of crude oil from the Persian Gulf towards Europe, when ships are unable to navigate the Canal either due to weight or its occasional closure (EIA, 2012b). Egypt's Mediterranean and Nile Delta are also main reserve and production areas for natural gas (EIA, 2012a:4). Coal and the metal gypsum can be found south-east of Suez and the nearby Ataka mountains give rise to large deposits of various types of limescale used in manufacturing processes related to fertilizer; and iron, steel and copper (IDA, 2013:18-9).



## 5.2. SETC DEVELOPMENT PLANNING

### SETC INDUSTRIAL STRUCTURE & INVESTMENTS

The starting phase for the SETC-Zone contains four industrial clusters. These are (1) textiles and clothing (2) petroleum equipment (3) fiberglass, and (4) high- & low voltage electrical equipment industries.<sup>8</sup> Within the initial 1.34km<sup>2</sup> (see LAND PLANNING below), there are 8 factory spaces – as of March 2013, four were occupied and four were vacant with the closure of possible deals on the vacant spaces, but no new companies had moved in. Those large enterprises currently in the zone are discussed below.

For the textiles and clothing cluster, the principal company is the Chinese state-owned company China Textile Machinery Company (CTMC), which makes non-woven products including shoe cover, consumer and medical face masks, insulated clothing, patient clothing, disposable surgical gowns, and other products for medical, daily, and agricultural use. It started the construction of its premises in the zone in 2005 with a total investment of US\$ 12.47 million, and was opened in May 2008 (Xinhua, 2010). According to the company's senior manager, Han Ruihua, the decision behind the investment was based on Egypt's preferential policies, particularly the tax exemption provided for in Law No. 8, Egypt's cheap labour force, cheap energy and excellent geographic location for exporting to Europe (Xinhua, 2010). As CTMC was one of the first companies to invest in the zone, according to Han Ruihua, it was only "...paving the way for bigger Chinese enterprises to enter the Egyptian market" (Xinhua, 2010). The case of the first textiles company which began production operations in 2004 and since shut down<sup>1</sup> demonstrates positive evolution in terms of the size and quality of projects and companies investing in the zone.

The benefits for Egypt have been advertised as the input of world-leading technology that can contribute to the country's industrialisation (Xinhua, 2010). But, as Liste, *et al* have stated in relation to the textiles sector of all North African countries, Chinese exports challenge local production in third country markets, particularly European markets given their close proximity – partly owing to the preferential policy on trade agreements – and increasingly in domestic markets resulting in losses for local businesses (2012:5). In addition, CTMC remains to be a state-owned company, therefore we can say that the SETC-Zone supports China's national industrialisation and development objectives.

The petroleum equipment area is occupied by two companies. Firstly, the Sino-Egyptian Petroleum HH Rig Manufacturing Company (EPHH Co.) invested USUS\$ 30 million (50 per cent Chinese and 50 per cent Egyptian) and produces petroleum drilling rigs and their components.<sup>7</sup> The International Drilling Materials Manufacturing Company (50 per cent Egyptian, 40 per cent Chinese, and 10 per cent Japanese owned) also invested USUS\$ 30 million and produces casing for oil-pipes.<sup>7</sup> These investments contribute to Egypt's industrialisation and knowledge transfer. Chinese companies have positioned themselves in a key petroleum producing area where they will be able to sell their merchandise to international oil companies active in the Gulf of Suez and in Egypt's deep waters in the Mediterranean. Outside of the SETC-Zone, Chinese state-owned oil company Sinochem has invested in Egypt's oil sector, thus China's drive to acquire natural resources for domestic development is still present in Egypt (Liste, *et al*, 2012:12).

The fiberglass area is occupied by the company Jushi Egypt – an affiliate of Jushi, the second largest fiberglass manufacturing company in the world. Its initial investment was USUS\$ 250 million, which will rise to a total of USUS\$ 100 million, and an output capacity of 80 000 tons annually.<sup>7</sup> Fiberglass is a key component in solar panels, which have been installed to generate electricity in the SETC-Zone. Certainly, this modern technology brings industrial benefits to Egypt, but it is worth noting that the company employs and houses 300 Chinese employees in the SETC.<sup>6</sup> This figure cannot amount to only 10 per cent of company's payroll given that only thousand jobs have been created in the zone so far (Economic and Commercial Counsellor's Office of the PRC to Egypt, 2012). Furthermore, the activity as a whole

raises questions on how the SETC-Zone may be contributing to the trade dispute between China and the European Union, which has recently come to involve solar panels (BBC, 2012).

Finally, the high- & low voltage electrical equipment area is occupied by the company XDEGEMAC jointly owned by China XD (51 per cent) and the Egyptian-German Electrical Manufacturing Company (EGEMAC) (49 per cent).<sup>6</sup> It produces high voltage equipment such as power transformers.<sup>6</sup> The initial investment was US\$ 42 million, to be increased to US\$ 96 million in a second phase. Undertaken with some of the world's most industrialised countries, this joint venture akin to the International Drilling Materials Manufacturing Company venture can result in technology transfer and know-how for Egyptian companies. However, given that these are joint international ventures, these companies are greatly incorporated into global chains, therefore, the extent of contributions to Egypt's industrialisation is questionable.

On the whole, the industrial clusters pursued within the SETC-Zone do fit within the existing industry structures in the Suez wider area. With the exception of the textiles cluster where Egypt's indigenous production is likely to be damaged, there is an existing industrial base in the petroleum sector, and in the governorate's industrial zones, there are 31 other firms in the engineering, electronics, and electrical industries and four firms in the related industry of electrical lightening and power. The positive forces behind clusters identified by Marshall: knowledge spill, specialised inputs and services from supporting industries, and a pooled labour market with specialised skills is present, and there is the element of geographic proximity (cited in Ren, 2008:13-14). These factors are expected to introduce competitiveness that will propel the zone forward. Initially, an automobile area within the 1.34km<sup>2</sup> was designated, but this no longer seems to be the case – possibly due to the lacking support base.

Following the large enterprises, there is a Small Medium Enterprise (SME) Industrial Park, which is in the incubation stage and foreseen for expansion. The aim is to assist Chinese businesses to develop abroad at the lowest cost and with the greatest efficiency.<sup>1</sup> China's Economic and Commercial Counsellor's Office in Egypt reports that by the end of 2012, 38 enterprises had set up in the zone in total (2012). Among the SMEs, one will find an air-conditioning company, a lightening company, a furniture company, and a motorcycle company.<sup>7</sup> Some of these companies, for example, the lightening company, employ local labour, although in low-skilled jobs. These activities fit within those existing industries surrounding Suez City, and can meet the consumer needs of Egypt's domestic market.

## **LAND PLANNING**

According to Egypt-TEDA, already in the mid-1990's, Egypt had proposed land, public land owned by the Suez Governorate, to develop a zone. After China agreed to assist with construction of the zone, in May 1998, the General Manager of TEDA proceeded to sign joint-venture contracts with four Egyptian enterprises:<sup>1</sup> the Arab Contractors Co., the National Bank of Egypt, the National Investment Bank, and the Suez Canal Authority; this association is known as the Egypt-China Corporation for Investment (ECCI) (Bräutigam, *et al*, 2011a:38), which subsequently bought the land of Suez governorate.<sup>6</sup> Upon Mubarak's visit to China in April 1999, another two contracts were signed “entrusting” China to design a plan for development of the Third Sector of the North West Gulf of Suez Industrial Zone: one with the Suez International Corporation Company, and a second with ECCI.<sup>1</sup> Unfortunately, TEDA was unhappy with its 10 per cent minority share in the ECCI joint venture, and was unable to implement its ideas and proposals; consequently, it pulled out (Bräutigam, *et al*, 2011a:39).

By December 1999, the Chinese Ministry of Foreign Trade and Economic Cooperation, the Chinese State Economic and Trade Commission, and the Tianjin Municipal Government had completed their development plan for a zone,<sup>1</sup> and in 2000, TEDA proceeded to obtain 1.34km<sup>2</sup> of land within the Third Sector where it could operate on its own.<sup>6</sup> As ownership of land is not allowed, this land is held by the

ECCI (Brautigam, *et al*, 2011: 39).<sup>2</sup> It appears a segmented exploitation approach was adopted where Egypt is using the land as its share of the investment and a joint real estate company develops the land because in January 2001, under the No. 8 Investment Guarantees and Incentives law, the Chinese-Egyptian Real Estate Company was established, and subsequently began construction of a standard production area in this 1.34km<sup>2</sup>.<sup>1</sup>

As the land is desert, thus viewed as waste land, TEDA's choice to develop here is comparable to the land upon which TEDA developed in China. In Suez, TEDA had to put in place the infrastructure and utilities including a road network, water supply and drainage facilities, a power and energy supply – two natural gas pipelines connecting to the national supply line were installed by the Egyptian government up to the boundaries of the zone – and a communications network (i.e. internet and fixed telephone) (SETC, 2008a). A production area of 76 000 metres<sup>2</sup> comprising six standard industrial plants to serve as the incubation stage for the SME Industrial Park and a service centre was constructed, and then extended by a further 56 280m<sup>2</sup> to include six large hangers suitable for large industries and two warehouses.<sup>8</sup>

There has also been a focus on developing an environment suitable for the operation of modern industrial enterprises and for home life for employees within the zone.<sup>1</sup> Consequently, a comprehensive services centre covering 40 000m<sup>2</sup> has been constructed. This contains office buildings available for businesses in the zone to rent, a 7-floor four-star hotel open since 2012, parking, eighty-six residential houses for employees and a few apartments for ‘white-collar’ employees – construction was completed in 2006 and all is occupied – and leisure activities including a basketball court and supermarkets for example.<sup>8</sup> Akin to TEDA's forest park in Tianjin, 15 000m<sup>2</sup> have been landscaped, the so-called “ecological oasis”.<sup>9</sup>

In what appears to be a typical role exploitation approach, the preliminary planning area of 1.34km<sup>2</sup> was then extended to include another 6km<sup>2</sup> – this time within the 20.4km<sup>2</sup> under the authority of SEZONE.<sup>2</sup> Following Hu Jintao's announcement to establish five trade and economic co-operation zones, in November 2007, MOFCOM launched a tender process to establish these zones, at which point TEDA after submitting a proposal won backing to expand the SME industrial park (Brautigam, *et al* 2011: 39). The following year, the Egyptian government launched a tendering process to choose a developer for SEZONE and in March 2009, TEDA was announced the winner (Bräutigam *et al*, 2011:40). Thereafter, it took another four years to negotiate the land development contract with SEZONE's development arm, MDC, which was finally signed in April 2013 for a 45-year period (SETZ, 2013). This 6km<sup>2</sup> is expected to house 100 companies to bring the total number of companies in SETC-Zone to 150-180.<sup>8</sup>

Where an ETDZ can develop into a new urban area, the long-term view is to add another 10km<sup>2</sup>, which is the Fifth Sector of the North West Gulf of Suez Industrial Zone for the purposes of constructing a new Ain Sokhna town comprising a residential area, public services and business utilities<sup>8</sup> (for example banks, post offices, government services). There are also plans to extend the comprehensive services centre from its current 40 000m<sup>2</sup> to 100 000m<sup>2</sup>.<sup>8</sup> Obviously, the cost of infrastructure is high, and is likely to continue in this pattern for the coming decade at least. It is too early to tell whether there have been dis-economies of scale. Such a result is possible. For example, at present, the hotel is mostly empty, but it is still early stages.

The land exploitation approach of land transfer is also present. In 2007, the land's “real value” was assigned as US\$ 10/m<sup>2</sup>, which is approximately EGP 100 (Daily News Egypt, 2011). The net price is EGP 200/m<sup>2</sup>,<sup>3</sup> which includes the transfer fee to Suez Governance (SETC, 2008b), hence TEDA deducts its takings from Chinese businesses before paying the Suez Governorate. Additionally, TEDA is

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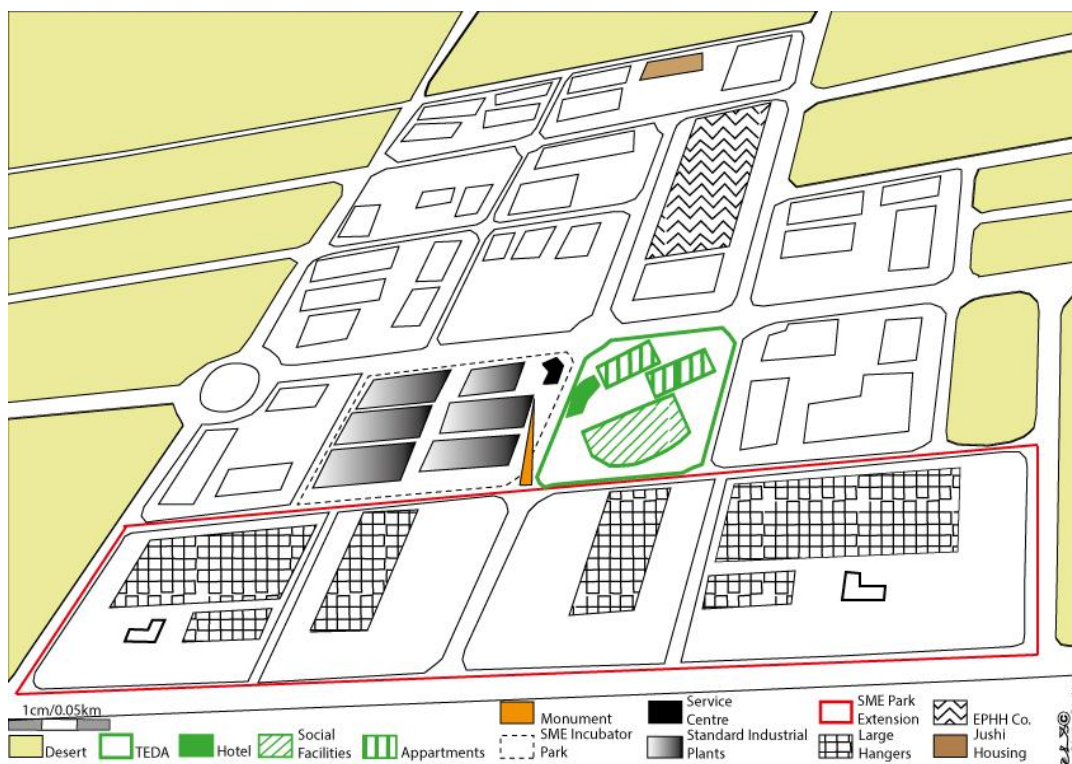
<sup>2</sup> Land is allocated for investors on a usufruct basis - a civil law concept meaning you have the right to use, enjoy, and profit from a thing, but there is an obligation not to alter its substance (Legal Dictionary, 2013).

<sup>3</sup> All prices are from 2010. 10EGP is equivalent to US\$ 1.42 (July 2003)

also paid by the Egyptian government for its infrastructure and utilities installation; the construction of the One-Stop is an example. Given that the Suez corridor is an extremely strategic piece of real estate of profound relevance to the global economy, I find it troublesome that one could assign a “real value”. The drawback that the Egyptian government and Suez governorate is facing is that the land has to be exploited from scratch, and is relatively isolated from Egypt's domestic market and utilities. These are factors that give risk-weary investors bargaining power over the Egyptian government. Land can be rented for EGP 20/m<sup>2</sup> per year (SETC, 2008b), offices are rented (EGP 60-45/m<sup>2</sup>) and plants are rented (EGP 10-12/m<sup>2</sup> per month), utilities usage is payable, and freight services are offered (SETC, 2008b). These are all sources of revenue that can be reinvested for further land exploitation. Additionally, as more companies become attracted to the area, greater demand should result in land price increases.

A pattern has emerged where zone expansion goes hand in hand with acquisition and development of surrounding lands. This case has gone from 1km<sup>2</sup>, to 6km<sup>2</sup>, and a future 17km<sup>2</sup>. The result of 38 companies having already invested is positive in terms of FDI for Egypt. But, as expansion continues, TEDA is likely to encounter conflict with other local actors unwilling to give up their land. Violent conflict, often involving the Bedouin – whom TEDA currently pays off to keep the peace<sup>7</sup> – and police over newly reclaimed desert land is an increasing phenomenon in Egypt. As recently as January 2012, one army officer and one conscript were killed when the military tried to remove some Bedouin from “state land” in Suez Governorate, a Bedouin was also killed over the same issue in a rural area near the mouth of the Suez Canal (Perry, 2012).

**Figure 3. Map of SETC 1.34 km**



Source: TEDA SETZ Zone. 中国埃及苏伊士合作项目十年. China and Egypt Suez ten years of co-operation projects 1999-2009. The Album of Painting “Footprint”. Interview with TEDA-SETZ, Suez. 2013, 01 March. China-Africa TEDA Investment Co. Ltd (CA-TEDA). Suez Economic and Trade Cooperation Zone (SETZ). Development Planning. Image [Online].

TEDA is not operating in a vacuum from current instability in Egypt. Theoretically, its overland freight services to Cairo and Port Said should produce downstream business for Egyptian companies, and

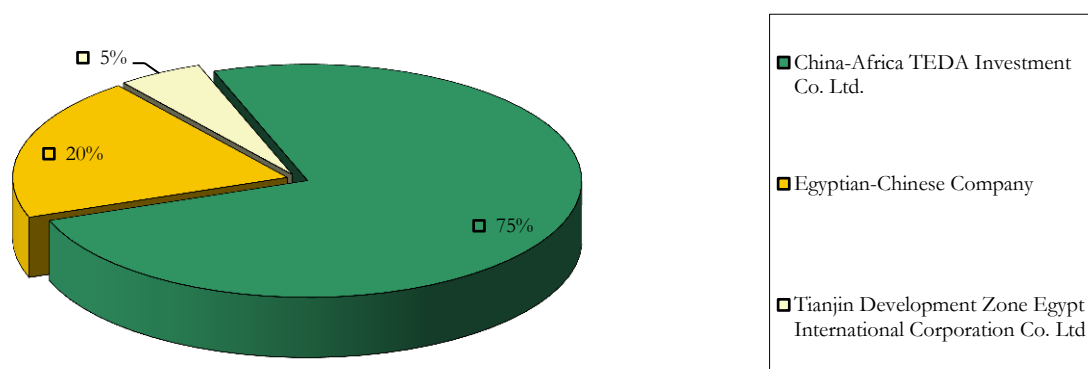
overseas freight services from Ain Sokhna Port to Tianjin, Shanghai or Guangzhou should generate business for the numerous Chinese shipping companies active in the region. Yet, profit-making is currently in the hands of Egypt's striking workers, who have blocked the Cairo-Ain Sokhna road and effectively shut down Ain Sokhna Port intermittently since 2011 – these disputes have resulted in the filing of lawsuits by shipping agents and businessmen.<sup>4</sup>

### 5.3. SETC ADMINISTRATION

As the SETC-Zone falls within the ambit of the CADFunds target group and industries, in October 2008, it decided to invest. This investment resulted in the creation of a new company called China-Africa TEDA Investment Co., Ltd. – herein after referred to as China-Africa TEDA. Thus, TEDA is now set to become a much bigger and more important actor in China's Africa strategy, where Egypt is only the beginning (see Box 2.). SETC-Zone is jointly funded by Tianjin TEDA Investment Holding Ltd. Co. Ltd. (Tianjin TEDA) with a 60 per cent share, and the CADFund with a 40 per cent share – making it a state owned investment body (SETC-Zone, 2008c).

Companies investing in the SETC-Zone will now be financially supported by the CADFunds as well as by the Tianjin Municipal Government.<sup>9</sup> The Tianjin Municipal Government offers a 5 per cent subsidy on companies initial investment capital, all operating expenses (i.e. rent, power, water and gas) for service companies such as convenience stores, warehousing, clinics, etc., a maximum of 50 per cent rental costs for offices and factory buildings, and insurance.<sup>9</sup> Loans from the CDB are available.<sup>9</sup> At the micro-level, the evidence supports Jie's point that Chinese firms play a significant role in China's foreign-economic policy benefiting from both governmental monetary and political support (Jie, 2012:37). There can be no question that the SETC-Zone is now top-down Chinese governmental driven commerce.

**Figure 4. Ownership of Egypt-TEDA Investment Company**



#### Box. 2. China-Africa TEDA Brand Strategy

China-Africa TEDA's strategy is to develop a corporate brand comprised of parent brands, sub-brands and product brands. The corporate brand would be titled the China-Africa TEDA Group. A parent brand composes different products in a location. The location of the parent brand is a country. A sub-brand is a single product in an area within a country. Replication of a product in more than one location creates a product brand. A product can be industrial parks, real estate or a new industry.

<sup>4</sup> See for example Ahram Online. 2011. Dubai World shuts down Egypt's Ain Sokhna port after strikes. 23 September.. Egypt Independent. 2013. Shipping agents freeze operations, threaten lawsuits amid Ain Sokhna port strike. 13 February. Amlasry Alyoum. 2011. Suez protesters block Ain Sokhna road. 10 July.

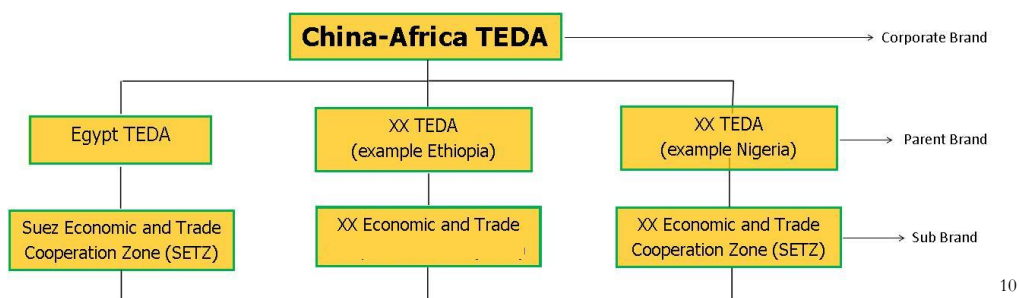
This strategy is to be realised in three stages. The initial stage focuses on the promotion of product brand. During the interim stage as the product brand is promoted, the appearance of the corporate brand, China-Africa TEDA Group, begins to emerge. Only during the later stages would efforts be focused on corporate brand where product brand would become “a natural extension of the parent brand”.

Currently, TEDA is in the initial stage 2011-2013. The product brand of the initial stage is “Economic and Trade Cooperation Zone”. The choice of location is Suez, Egypt, which makes the “Suez Economic and Trade Cooperation Zone” (SETC) the first sub-brand, and “Egypt TEDA”, the first parent brand. To rephrase it another way, China-Africa TEDA’s objective at this stage of the company strategy is to become “the first brand of Chinese overseas cooperation zones and a first-class brand of industrial zones in Egypt”.

While China-Africa retains the latter objective for the second growth stage of the strategy (2013-2015), this stage also aims to replicate the Suez model for “Economic and Trade Cooperation Zones” elsewhere in Africa to become “the leading brand of industrial zones in Africa and the Middle East”. The company target is for the enterprise in Egypt to become responsible for running the other trade and economic co-operation zones.

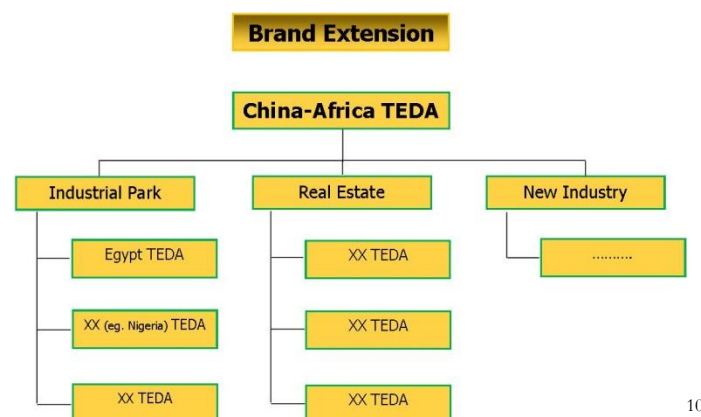
The third objective for this stage is to shape brand families, which could be real estate projects or the electrical appliance industry in SETC, effectively strengthening the parent brand Egypt-TEDA and creating sub-brands. Sub-brands could be established elsewhere.

**Figure 5. Structure of China Africa TEDA Brands: Parent & Sub-Brands**



Only in the mature stage (2015-2020) would the company strategy focus on the corporate brand. At this stage, product brands would be a “natural extension of parent brands.” The objective remains to replicate industrial zones in many countries, but now to become the leading industrial zone brand and operator with the largest quantity in the world. The quantity of brand families would indicate the scale of the company’s operations and brand families would produce “cluster brands”, as if sub-brands were something that would grow naturally.

**Figure 6. Structure of China Africa TEDA Brands: Brand Extension**



## 6. CONCLUSION

Both the Egyptian and the Chinese governments turned to SEZs, and their variants when they firmly decided to open up their economies in order to develop. This paper argues that the independence granted to the governing authorities of SEZs creates parallel administrative structures and economies weakening existing state structures, and centralising decision-making procedures to concentrate power in the hands of a minority. In Egypt, any administrative procedures viewed as out of the norm are likely to be challenged in court. Chinese companies face the risk of legal battles and they should not take away a false perception of protection from Egypt's SEZ legislation. The preferential policies offered to companies in Egypt SEZs are almost identical to China's, which leads to the conclusion that Egypt has, indeed, attempted to copy the Chinese model. While these policies have attracted FDI, some of them undermine Egypt's domestic production, while clearly working in favour of China's export policy. Means exist for Chinese companies to bypass Egypt's labour legislation.

Other similarities can be observed between Tianjin TEDA and the SETC-Zone that support the argument that Egypt copied the Chinese model with great assistance from China. Firstly, Tianjin-TEDA and Suez are locations with convenient port facilities to access global maritime trade routes; these locations carry historical and political importance, and are enclaves in proximity to a regional city, and an overland drive to the main domestic market. Both locations and surrounding areas are rich in natural resources upon which an industrial basis has developed. Similarities can be found in the type of land chosen for development and in the way land has been developed. Equally, similarities are visible in the path chosen by SEZONE for industrial development and in the industry clusters in the SETC-Zone. These latter clusters fit within the local industrial context, but are mainly geared towards the global economy. SEZONE does not appear to be progressing, or at least is progressing very slowly, without China's assistance and investments.

The SETC-Zone is an economic instrument employed by China in its economic and political relations with Egypt, who has been attracted by China's rapid growth and development. It is now an instrument of the Go Global (zou chuqu / 走出去) policy, as the Chinese government supports it through the CADFund and through the Tianjin Municipal government as a key stakeholder in TEDA. Through the SETC-Zone, the aims of the Go Global policy are realised because Chinese companies including state-owned enterprises invest abroad and export their products to new markets. From its early stages, the highest echelons of the Chinese government have been involved in nurturing an SEZ in Egypt to advance domestic economic and developmental interests. Politics and economics are overlapping. The greatest challenge to Chinese business interests in Egypt will be to stay out of domestic infighting.

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