

# Handbook of Research on Special Economic Zones as Regional Development Enablers

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A volume in the Advances in Public Policy and  
Administration (APPA) Book Series

Published in the United States of America by

IGI Global  
Information Science Reference (an imprint of IGI Global)  
701 E. Chocolate Avenue  
Hershey PA, USA 17033  
Tel: 717-533-8845  
Fax: 717-533-8661  
E-mail: [cust@igi-global.com](mailto:cust@igi-global.com)  
Web site: <http://www.igi-global.com>

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Library of Congress Cataloging-in-Publication Data

Names: Figueiredo, Paulo Guilherme, 1979- editor. | Leandro, Francisco José, 1965- editor. | Li, Yichao, 1994- editor.

Title: Handbook of research on special economic zones as regional development enablers / Paulo Guilherme Figueiredo, Francisco José Leandro, and Yichao Li, editors.

Description: Hershey : Information Science Reference, 2021. | Includes bibliographical references and index. | Summary: "This book discusses Special Economic Zones and how they play the role of development enablers in different regions, development states and institutional settings, with the goal of boosting trade and contributing to a future improvement of development indicators"-- Provided by publisher.

Identifiers: LCCN 2021011804 (print) | LCCN 2021011805 (ebook) | ISBN 9781799876199 (hardcover) | ISBN 9781799876212 (ebook)

Subjects: LCSH: Economic zoning. | Rural development. | International economic relations.

Classification: LCC HC59.3 .S734 2021 (print) | LCC HC59.3 (ebook) | DDC 338.8/7--dc23

LC record available at <https://lcn.loc.gov/2021011804>

LC ebook record available at <https://lcn.loc.gov/2021011805>

This book is published in the IGI Global book series Advances in Public Policy and Administration (APPA) (ISSN: 2475-6644; eISSN: 2475-6652)

British Cataloguing in Publication Data

A Cataloguing in Publication record for this book is available from the British Library.

All work contributed to this book is new, previously-unpublished material. The views expressed in this book are those of the authors, but not necessarily of the publisher.

For electronic access to this publication, please contact: [eresources@igi-global.com](mailto:eresources@igi-global.com).

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## Section 1

# The Role of Special Economic Zones in the World

## Chapter 2

# SEZs and China's Development Promotion: Policy Exchanges Under the Belt and Road Initiative

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### **ABSTRACT**

*SEZs in China have been considered a successful experience and an important tool not only to attract foreign investment in an ordered manner but also to stimulate economic growth, generate social benefits, and to experiment innovative policies. The country-specific approach, discarding a “one-size-fits-all” model, is one of the elements that enabled Chinese SEZs to thrive. Policy experimentation, a smaller level of risk aversion, if compared to developed countries, and a mixture of top-down and bottom-up decision processes between local and central governments reflect a dynamic environment attractive to developing nations. This attraction finds nourishment in the pragmatic international cooperation with Chinese characteristics. This chapter explores the role the Belt and Road Initiative can play in exporting the Chinese SEZ “model,” especially, in African countries. By scrutinising the adaptability of the Chinese “model” to different contexts, it tackles the potential accrued to SEZs’ implementation in BRI nations in terms of the advancement of new policymaking procedures.*

### **INTRODUCTION**

Special Economic Zones (SEZs) are used by more than 140 countries around the world, particularly by developing nations, and their number has grown rapidly in recent years: in 1975, there were 79 SEZs

DOI: 10.4018/978-1-7998-7619-9.ch002

in the globe; in 1986, 176; in 1995, 500; in 2002, 3.000; and, in 2018, 5.383, with another 474 under development and 507 planned. The leading country in this regard is the People's Republic of China, which operates over 2.500 of SEZs, almost half of the total worldwide (UNCTAD, 2019).

Throughout the years, SEZs have delivered a mixed record of success (Farole, 2011). In China, though, they have proven fairly successful, something which explains their domestic proliferation. The first Chinese SEZs were established during the early 1980s in four coastal cities: Shenzhen, Zhuhai, Shantou, and Xiamen, all of them close to Hong Kong, Macao, and Taiwan. Afterwards, SEZs were expanded to cities along the East coast, which had a high capacity to attract foreign investments. During the 1990s and the 2000s, in order to better balance the development of the country, the geographical focus began to shift inland and to the West of the country (*Idem*).

Many terminologies are used to refer to special economic zones, which, in turn, come in many types, with the most common ones being variations of free zones. Notwithstanding, essentially, SEZs can be defined as a geographically delimited space which enjoys a series of location-specific advantages, such as relief from custom duties and tax, the existence of or intention to promote superior infrastructure, and reduced regulatory requirements (Narula; Zhan, 2019).

A noteworthy feature of the Chinese case is that, even in the 1980s, with the country boasting only a few years of experience dealing with SEZs, it already became "apparent that the Chinese zones do not belong to any of the categories within the family of free zones now existing in the world. Rather, the SEZ seems to stand on its own as a separate member" (Wong, 1987, p. 27). There is plenty of evidence (Bräutigam; Xiaoyang, 2011; Zeng, 2015) showing that, despite the singularity of the Chinese case, emerging nations look at examples from China for inspiration; however, they should have in mind China's SEZs were developed as a complementary part of a broader development strategy (Narula; Zhan, 2019).

In addition, if a country lacks a solid long-term approach and focuses primarily on immediate goals, maybe Chinese SEZs, which have constantly evolved according to the country's needs through experimentation and taking into consideration its own development path, would not be the ideal choice for a "model" – because there is not one. This is not to say China should no longer be held as a leading actor in this field; quite the opposite, it absolutely should. The point is that developing countries should abandon the idea of a "one-size-fits-all" model and truly embrace what made the Chinese experience so successful: building on their own development path to seek the best and most effective SEZ options for them.

Undoubtedly, rejecting a "one-size-fits-all" approach is extremely attractive, but it also is much more challenging. Generally, governments from developed nations, as well as many domestic and international institutions, particularly international development cooperation agencies, highly value the governance agenda and a thorough accountability process. While governance and accountability are definitely relevant, the way they are applied usually limit the adoption of an experimental approach and bring initiatives and policies closer to the "one-size-fits-all" model. Indeed, countries' development strategies may share common features, but how goals are achieved differs – as Dani Rodrik (2007) put it, the world is too complex for "one-size-fits-all" models.

Based on the abovementioned understanding, this chapter aims to analyse China's unique take on development, the role SEZs play in development promotion and the discussions involving the "one-size-fits-all" model, as well as how China can share its experience, particularly under the strategic framework of the Belt and Road Initiative (BRI). In order to achieve this objective, it will start by examining certain aspects of Deng Xiaoping's reforms and opening-up policies, particularly the blossoming of a "socialism with Chinese characteristics". Subsequently, it will inspect the main characteristics of the country's international development cooperation and its largest international project, the BRI, in light

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of the domestic appliance of special economic zones. Finally, it will investigate the opportunities and limits inherent to if and how China could export and implement its SEZs overseas, as well as if and how nations are importing and adapting the Chinese “model”, focusing on policy impacts in BRI countries in the African continent.

## **DENG XIAOPING AND THE DEVELOPMENT THROUGH 'SOCIALISM WITH CHINESE CHARACTERISTICS'**

Even in the West, as argued by Cable (2017, p. 1), “few dispute that Deng was one of the truly great world leaders of the 20<sup>th</sup> century and one whose legacy is very largely positive in terms of human welfare”. As planned, 2020 marked the year China announced the eradication of extreme poverty and the achievement of a moderately prosperous society, and much of this is commonly granted to the pervasive change ignited by Deng Xiaoping's leadership during his time in power.

Between 1978 and 2018, based on the poverty line of US\$3.2 per person a day set by the World Bank, China went from 99.7% of its population being considered poor to 4.7%, and between 1990 and 2005, contributed to 93.2% of the world's poverty reduction (Wan, 2020). From 1978 to 2014, real per capita incomes increased 16 times, and the Middle Kingdom lifted approximately 850 million people out of poverty, “an achievement that is unprecedented in scope and scale” (World Bank, 2017, p. 1).

Moreover, differently from other developing countries, China was able to better manage its urbanisation process and balance its rural-urban population, something which helped the country to reach the abovementioned successful numbers. In 1960, 16.2% of the Chinese lived in urban areas, a percentage which reached only 17.9% in 1978, when the reforms and opening-up policies began to take place under Deng's rule, and the country would only have more people living in the city in 2011, when that percentage hit 50.5% (World Bank, 2018). This controlled and gradual change, therefore, also began with Deng Xiaoping.

All data concerning China during the past 40 years, from its real annual gross domestic product (GDP) growth averaging 9.5% through 2018 and its capacity to highly improve its nationals' living standards, has fed the consensus regarding China's achievement as unprecedented in modern history. As a result, it is not uncommon to hear the expression “the Chinese miracle” while studying its development trajectory. Still, “we only ascribe something as a miracle when current theories cannot explain a certain fact or phenomenon. If there is something that current theories are incapable of deciphering, this means some theoretical innovation is taking place”, as Jabbour et al. (2020, p. 32) argue.<sup>1</sup>

In this regard, new theoretical efforts in the political economy field which attempt to explain such “miracle” must be applauded, and here we highlight the “new design economy” theory, which has universal appeal and serves as an antithesis to neoliberalism and to the financialisation and its mechanisms of domination. According to Jabbour et al. (2020), its crystallisation is a result of the historic process initiated by economic reforms in 1978, for, since then, China has promoted many policy experimentations in light of its “socialism with Chinese characteristics”, which recognises private property, mechanisms of the market economy and the need to develop productive forces.

The use of capitalist means in its development trajectory does not indicate China, or Deng Xiaoping, abandoned socialist ideals. In fact, Lenin (1947), when addressing the State and the Revolution, argues such usage is expected, for there is a distinction between socialism and communism, with the former being a lower phase of a communist society, and as such, cannot be entirely free of capitalist traditions.

So not only is China pragmatic in the identification of its needs and in the pursuit of its development goals, but also it does not necessarily incur in ideological contradiction. One of the main shortcomings of the Maoist era was that the Communist Party of China (CPC) did not pay enough attention to the development of productive forces, and by identifying this Deng was able to begin building the country's "socialism with Chinese characteristics", something which strongly resonates still today. The thought of Xi Jinping makes it crystal clear:

*In the early days of reform and opening up, the Party made a clarion call for us to take a path of our own and build socialism with Chinese characteristics. [...] With decades of hard work, socialism with Chinese characteristics has crossed the threshold into a new era. This is a new historic juncture in China's development.*

*This is what socialism with Chinese characteristics entering a new era means:*

*[...] It means that the path, the theory, the system, and the culture of socialism with Chinese characteristics have kept developing, blazing a new trail for other developing countries to achieve modernization. It offers a new option for other countries and nations who want to speed up their development while preserving their independence; and it offers Chinese wisdom and a Chinese approach to solve the problems facing mankind.*

*The Thought on Socialism with Chinese Characteristics for a New Era builds on and further enriches Marxism-Leninism, Mao Zedong Thought, Deng Xiaoping Theory, the Theory of Three Represents, and the Scientific Outlook on Development. It represents the latest achievement in adapting Marxism to the Chinese context and encapsulates the practical experience and collective wisdom of our Party and the people. (Xi, 2017)<sup>2</sup>*

Truly, markets have constantly be seen as a means, not an end, by the Chinese leaders since Deng Xiaoping. However, besides this fact and the notion that "socialism with Chinese characteristics" could be seen as a new "option" by other nations to boost their development, an idea which this chapter will deal with later on, it is worth noting the CPC, amid all its short, medium and long-term plans and specific targets, has a fundamental openness and flexibility when it comes to building its own development path. It seeks to go well beyond rigid and pre-made models, as well as encourages policymakers to endeavour on an experimental mode:

*A common misconception shared by Deng's Maoist critics and some of his Western admirers is that Deng was, or became, a believer in capitalism rather than socialism. There is no serious evidence to support this view. Rather, there is a consistent thread, in his policy statements and actions, of a pragmatic willingness to try different techniques to improve the performance of the Chinese economy and raise living standards [...]*

*His priorities were already clear: domestic stability as a precursor to modernisation which included bringing in investment and technology from abroad, accepting that some regions and individuals would "get rich quickly" and widen inequality, rewards for those advancing science, technology, and productivity improvements, and decentralisation of decision making.*



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*Deng's approach, for the next decade and a half, is perhaps best understood not in terms of particular policies or theories but in terms of a strategic approach which was long term, flexible, and decentralised and combined economic reform and modernisation with strong, unified government under Party control. One consistent theme was the need to proceed by experimentation, defusing hostility which would be provoked by a frontal assault and building up public support behind successful models: "groping for stones while crossing the river". (Cable, 2017, p. 2-3)<sup>3</sup>*

There is no doubt Deng Xiaoping was an essential leader for China to become the global power it is today and legitimise a relatively flexible and decentralised policymaking process, but Western development scholars often minimise Mao Zedong's relevance in this aspect. If Deng was capable to promote his reforms and opening-up policies, it was due to everything that came before him, both positive and negative. Furthermore, decentralisation approaches had already begun under Mao's ruling, as bottom-up policies and lower-level economic initiatives helped to lay the ground for further experimentation later on.

It is not uncommon for Mao to be pictured as a great revolutionary, but an unsuitable or even execrable country leader (Fairbank, 1986). Such simplification and manichaeistic characterisation possibly takes place due to the immense contradictions of his era. He was the one responsible to promote China's first structural economic transformation and establish it as an industrialised nation, to highly increase basic health and education indicators, and to achieve a better domestic income equality. At the same time, Mao was responsible for the Great Leap Forward and the Cultural Revolution, often considered catastrophic, and his agricultural productivity remained stagnated, though more than 80% lived in rural locations (Nogueira, 2019).

Despite such paradoxes, Mao was able to implement an agrarian reform (followed by another during Deng's reforms period), expand social services, reduce important regional disparities, and develop a strong heavy industry. In this regard, the industrialisation model adopted was highly influenced by strategic and military goals, due to the threat of war, and therefore Mao aimed at distributing the industries in a geographically decentralised form, something which led to the creation of some kind of regional economies. The idea was to achieve self-sufficiency, since during war dependence from imported products and between communes would be a weakness, and the decentralisation should confer the Chinese economy a cellular structure, though this ended up resulting in low levels of specialisation and efficiency problems (*Idem*).

The Maoist era, accordingly, had its importance in the modernisation of the country and the establishment of industrial bases across the regions in a decentralised manner. In some ways, it laid the ground for Deng's reforms and opening-up policies during the 1980s, such as the creation and consolidation of Township and Village Enterprises (TVEs), which encouraged rural zones to develop industrial activities, the subsidies and guarantees given by the State to the people, including the buying of the whole agricultural production, and the household responsibility system, which helped to boost agricultural production.

In the following decade, China began to privatise – to Chinese citizens only – a great number of its state-owned companies. Still, the firms that continued to remain state-owned became more strategic and competitive, strengthening, instead of weakening, the public sector and its role in the economy. Additionally, the Asian giant welcomed foreign direct investment (FDI), but in a controlled, conditional, and ordered manner; for instance, foreign companies, which were eager for the huge market the country offered, had to form joint ventures with Chinese companies and agree on transfer of technology mechanisms, a situation which highly amplified innovation capabilities in the country. The central government

was loosening its grip on the economy and opening up to market-oriented forces and private capital, while local governments started to have more autonomy in policymaking.

There are numerous other details and policies involving the Deng Xiaoping era, but this chapter does not seek to cover all the aspects of his reforms. There already are many relevant studies dealing with the topic and highlighting how Deng's personal qualities enabled him to guide China's transformation successfully, especially in terms of the strengthening of the country (politically, economically, socially), of its governance system, and of its relations with the outside world (Vogel, 2011). The discussions held so far, alternatively, had the main purpose of recognising the importance of "socialism with Chinese characteristics" to the country's development, which followed a unique theoretical and practical path and served to oppose a "one-size-fits-all" approach, as well as of arguing why it may be considered a new influential and inspirational political economy theory.

## **CHINA'S INTERNATIONAL DEVELOPMENT COOPERATION AND THE BRI: THE ROLE OF SEZs**

With all that said, it is imperative to recognise, amongst many of these policies, the success China experienced with its special economic zones (SEZs). In 1980, the 15<sup>th</sup> Session of the 5<sup>th</sup> National People's Congress Standing Committee officially authorised the setting of the very first SEZs in China: Shenzhen, Zhuhai, Shantou, and Xiamen became the first locations to experiment with such zones. Later, in 1987, the 1<sup>st</sup> Session of the 7<sup>th</sup> National People's Congress authorised Hainan Island to become a new province and the setting up of an economic zone there (Fang, 1994). But one question loomed in the air at the time:

*Why does socialist China want to set up economic zones? The reason is not, as someone has said, to change the direction of development and walk along the road of capitalism, but to perfect and develop socialism through introducing and utilizing the experience of other countries.*

*Special zones absorb and utilize foreign capital and introduce modern technology and management experience for the construction of the socialist modernization. (Fang, 1994, p. 83)*

Indeed, Chinese SEZs played – and still play – an important role in the development of "socialism with Chinese characteristics". In order to adapt SEZs to its reality and needs, the Chinese government began to be more open and dynamic, as well as encourage participation from experts in policymaking, not only to properly tackle domestic economic matters and boost economic growth, but also to engage in more international activities and intensify its interaction with other States:

*From 1978, therefore, dogmatism and adherence to preconceived ideas disappeared and China looked at ideas from within the country and the wider world, seeing how they might be learned and applied in China. In some cases, these ideas were even improved. [...]*

*One of the most striking aspects of the reforms is the way they allowed China to look and learn from the world outside, with delegations going to practically every developed country for study. (Brown, 2018)*

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Since the foundation of the People's Republic of China, Chinese economic planning has constantly evolved, becoming more indicative and less developmental, as well as increasingly favouring structural objectives instead of numerical targets, though these are still relevant (Bertoldi et al. 2016). Truly, the Communist Party of China, through its five-year plans and other efficient instruments, is capable of establishing the country's economic direction and stipulate short, medium, and long-term goals.

Boasting economic competence and delivering concrete economic gains to its citizens serve, of course, to achieve China's development objectives. However, alongside other elements, including ideology and patriotism, a successful economy also acts as an important factor to legitimise the Party (Brown, 2018). After all, Chinese leaders appreciate the use of rhetoric and employ it to facilitate political and economic initiatives as well as strengthen one-party rule (Lu; Simons, 2006). Meanwhile, the Chinese people usually pay attention to these official discourses, and therefore accountability comes through the accomplishment of goals stipulated and by proving efficacy in the development of its projects. This is one of the reasons, for example, for the increasing relevance of socialist rule of law in China, especially when dealing with public and private forces.

Indeed, "markets and governments are complements, not substitutes. If you want more and better markets, you have to have more (and better) governance. Markets work best not where states are weakest, but where they are strong", as highlighted by Rodrik (2011, p. xviii). This situation becomes clear in China. After all, if the private sector is risk-averse by nature, and "there was no grand design of systematic reform policies; instead, economic reforms have taken place in a gradual, experimental, and decentralized fashion" (Zhu, 2012, p. 110), the Chinese State has a prominent or even central role in the development process, providing investments to projects which, otherwise, would not get the necessary funding.

In this respect, development, overall, implies a successful experience in the end, but the path in-between may, and possibly should, go through experimentation and even failure, instead of adopting pre-conceived models adapted to other environments. Pilot projects are implemented, experimentation takes place, and if they are successful, then they can be spread nationwide. It is under these circumstances that special economic zones constitute one of the main engines of the reform and opening-up policies and of the Chinese economy.

As mentioned in this chapter's introduction, many terminologies are used to depict special economic zones. In fact, they cover a broad range of zones, such as free trade zones, export-processing zones, free ports, and industrial parks. However, in China, SEZs go beyond these common variants and refer to a complex of related economic activities and services rather than to a specific entity, a situation which confers more diversity to their functions and covers much larger land areas than other types of zones, including economic and technological development zones as well as high-tech industrial development ones, both at national and subnational or provincial levels (Zeng, 2010).

Special economic zones are usually constructed through a top-down approach by government policies and can grant many benefits to the country or region, such as stronger attraction of FDI, employment generation, export growth and diversification, building of productive capacity, and technology transfer. In China, they served to test the efficacy of market-oriented forces in controlled environments, and those first four SEZs served as a playground for innovative policies which could be implemented more widely in the country, if proven successful. The results were astounding; for instance, Shenzhen grew at a phenomenal 58% annual rate between 1980 and 1984, against a national average annual GDP growth of roughly 10%, and in 2008 registered 2,480 new patents, ranking in first place amongst all Chinese cities (*Idem*).

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Beyond their top-down approach, it can be said Chinese SEZs also experienced bottom-up ones, since “local governments made a great effort to build a sound business environment. They not only put in place a conducive regulatory environment for reforms [...], but also good infrastructure for the zones” (Zeng, 2015, p. 5), directly contributing to their success, which was achieved due to many other factors:

*Strong commitment and support of the government to pilot market-oriented economic reforms. Despite high uncertainty at the beginning, the top leaders were determined to make changes, through a gradualist approach. [...]*

*Land reforms. [...] These reforms helped to establish a modern land market which has transformed whole China's urban landscape.*

*Investment incentives and institutional autonomy. [...] the SEZs (especially the early-stage ones) were given greater political and economic autonomy. They had the legislative authority to develop municipal laws and regulations to govern these zones. Such an unusual discretion allowed them more freedom in pursuing new policies and development measures deemed necessary to vitalize the economy.*

*Foreign Direct Investment and the Chinese diaspora. [...] The cheap labor and good infrastructure in the SEZs, as well as the Open Door policies coupled with various incentives, provided a great opportunity for FDI to flow into China from the diaspora.*

*Technology learning, innovation, upgrading, and strong links with the domestic economy. [...] the SEZs are closely linked to domestic enterprises and industrial clusters through supply chains or value chains. This connection not only helps achieve economies of scale and business efficiency, but also stimulates synergistic learning and enhances industrial competitiveness.*

*Innovative cultures. [...] they have attracted a large number of immigrants from across the country and, later on, from overseas, who hoped for better jobs and new opportunities. Such a strongly motivated migrant community tends to generate an innovative and entrepreneurial culture.*

*Clear objectives, benchmarks, and competitions. [...] Despite the large number of these zones, most of them have clear goals and targets in GDP growth, exports, employment, revenues, FDI generation, and the like. [...] Meanwhile, the SEZs are highly competitive among themselves. Such competition helps make them more efficient and competitive.*

*Location advantages. Most SEZs in China are located in the coastal region or near major cities with a history or tradition of foreign trading or business and thus are better linked to the international market. (Ibidem, p. 5-6)*

In light of such results, it would be only natural if other countries wished to learn from the Chinese experience, or if China began to export its vision on the establishment and the development of special economic zones. This is where international cooperation plays a major role. China has constantly used the rhetoric of “common community with a shared future”, of peaceful and responsible development,

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of mutual benefit, and of a win-win cooperation for some years, and now this rhetoric has been further strengthened.

In China's latest white paper about international development cooperation, it is mentioned "China is willing to share its successful experience without reservation to boost development in other places and benefit more countries and peoples" (State Council Information Office of the People's Republic of China, 2021, p. 4). Moreover, the document stipulates the Middle Kingdom's approaches to development cooperation: the promotion of a global community of shared future is its mission; the pursuit of the greater good and of shared interests is its guideline; South-South cooperation is its focus, recognising China is still in the primary stage of socialism, but will further expand its cooperation to promote efforts for common development; the Belt and Road Initiative is a major platform for international development cooperation; and the pursuit of the United Nations' 2030 Agenda for Sustainable Development is a key goal (*Ibidem*).

Another relevant factor to point out from the white paper is that China stated, as principles when promoting its international development cooperation, it unreservedly shares its experience and technologies, so countries can feel empowered to pursue a diversified, independent, and sustainable development, and it developed distinctive forms of foreign assistance (*Idem*). Indeed, China's approach to international development cooperation goes well beyond the traditional Official Development Assistance (ODA), defined by the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD),<sup>4</sup> and it also has specificities which differentiates it from pure South-South cooperation, to a point that it is possible to affirm China has developed "a foreign aid model with Chinese characteristics, set an example for 'South-South cooperation', and won high praise from the international community" (Yang, 2018).

In this respect, Renzio (2016, p. 8) argues traditional donors "recognise the importance of promoting recipient country ownership but their priorities are often driven by domestic pressures", and adds that "they say they want to promote sustainable solutions and long-term development but often choose to focus on pursuing politically important short-term targets" (*Idem*). Furthermore, "faced with complex challenges, development agencies seek to bring a measure of uniformity and order through the widespread application of standard management tools" (World Bank, 2015, p. 182). Driven by accountability and governance matters, they have difficulty to trust recipient governments' policies and, therefore, short-term goals are preferred over long-term efforts, as they can be more easily achieved and verified, both domestically and internationally.

Differently, as already acknowledged in China's previous white paper (State Council of the People's Republic of China, 2014), "China adheres to the principles of not imposing any political conditions, not interfering in the internal affairs [...] and fully respecting their right to independently choosing their own paths and models of development". Although this approach collides with strong conditionalities and governance guidelines imposed by Western institutions (Vadell et al., 2020), in theory, it is less risk-averse, avoids "one-size-fits-all" methods, and favours a bottom-up, demand-driven, non-conditional and experimental development cooperation.

To strengthen its practice, in 2018, the country launched the China International Development Cooperation Agency (CIDCA). According to Mardell (2018), it "institutionalizes a 'mutually beneficial win-win' concept of 'development coordination' that is strongly associated with Xi Jinping's ubiquitous Belt and Road Initiative (BRI)", which, in turn, as previously shown, is considered a major platform for China's international development cooperation. In this regard, Brown (2018) considers that "China

has been partnering with countries through the Belt and Road Initiative, looking at how to create better infrastructure, improve connectivity and link economies together”.

Conceived in 2013 and officially launched in 2015 by Xi Jinping, the Silk Road Economic Belt and the 21<sup>st</sup> Century Maritime Silk Road, mostly known as the BRI, or “One Belt, One Road”, is a project which was originally set to run through the Asian, African, and European continents. Notwithstanding, in 2018, the II Ministerial Meeting of the Community of Latin American and Caribbean States (CELAC)-China Forum issued a Special Declaration on the Belt and Road Initiative, in which the Communist Party of China considered that “Latin American and Caribbean countries are part of the natural extension of the Maritime Silk Road and are indispensable participants in international cooperation of the Belt and Road” (Foro CELAC-China, 2018).

The BRI has five cooperation priorities: policy coordination, facilities connectivity, unimpeded trade, financial integration, and people-to-people exchange. As of January 2021, 140 countries had already signed a Memorandum of Understanding with China and officially joined the initiative, which now counts with 40 countries in Sub-Saharan Africa, 34 in Europe and Central Asia, including 18 from the European Union, 25 in East Asia, 18 in Latin America and the Caribbean, 17 in the Middle East and North Africa, and six in South East Asia (Nedopil, 2021).

As can be seen, China has always promoted the BRI as an ambitious economic vision and an international development cooperation strategy which is consistent with its principles of peaceful and common development (Zhang, 2018). However, while claims that it seeks to extend China's sphere of influence or broad geopolitical interests for dominance (White, 2017) have not been confirmed, and the myth of debt-trap diplomacy has been debunked (Jones; Hameiri, 2020), it is possible to say that it is an international development cooperation strategy with potential geopolitical implications (Zhang, 2018), particularly when it comes down to special economic zones.

## **EXPORTING SEZs WITH CHINESE CHARACTERISTICS: POLICY IMPACTS IN BRI COUNTRIES**

Up to this point, it is important to have at least the following two aspects in mind regarding China's domestic and international initiatives. First, the thought on “socialism with Chinese characteristics” has played a major role in the country's development strategy, as well as can be perceived as an alternative to Western and “one-country-fits-all” approaches in the field. Second, China's international development cooperation, in which the BRI is included, has had two particularities which are based in the country's own domestic experience: relative freedom from Western standards; and experimental policymaking processes which gave partners more ownership and were adjusted as time went by, if needed. As Lin and Wang (2015, p. 9) argue:

*Learning can happen only by taking tiny steps, ‘one step at a time’ which is commensurate to a country's natural endowment or accumulated factor endowment. Since China has conducted partial reforms via experimental approach, it can help others using the same partial reforms through Special Economic Zones and experimentation.*

## **SEZs and China's Development Promotion**

*An analogy is that China and other developing countries are teammates in climbing the same mountain, one cannot climb to the top alone without the help from the others. In a globalized world, one country's success depends heavily on the wellbeing of its many partners.*

Following the success of China's development strategy and SEZs, it would be no surprise if other developing countries wished to attain the same levels of growth and prosperity using similar methods. In the African continent, for instance, several governments have tried to replicate the Chinese "model" and launched special economic zone programmes on their own, but so far, the majority of such projects have fallen below expectations and failed to attract significant investments, create new jobs in a sustainable and qualified way, and promote exports, especially due to problems involving the political economy of their schemes (Farole; Moberg, 2014).

Indeed, as Farole and Moberg (2014) attest, there are no best practices procedures which can guarantee the success of SEZs, but, amongst others, one important factor to have in mind is that a flexible legal regime is capable of allowing their ongoing adaptation. This strategy is somewhat aligned with that used by China domestically, and, to some degree, internationally, favouring a gradual and experimental approach to SEZs, capable of testing new policies and adjusting them throughout the years. Mozambique and its Manga-Mungassa (Beira) Special Economic Zone, which was set up in May 2012 and managed by Chinese private firm Dingsheng International Investment Company, for example, could be seen as a successful example of the adoption of China's SEZ "model" (Zhang; Ilhéu, 2014).

Foreign direct investment (FDI) in the development of special economic zones has been on the rise, either through government-to-government partnerships and bilateral agreements or foreign private companies. Moreover, besides ODA donors and multilateral institutions, the Chinese government and groups such as Holley Group and Yantian Port Group have had an important role in zone development in Africa and Asia (UNCTAD, 2019). In 2006, China even announced its Overseas Economic Cooperation Zone programme, saying it would establish up to 50 overseas economic and trade zones – in 2018, there were 20 verified zones, meaning they go through a verification process implemented by the Ministry of Commerce (MOFCOM) and are able to apply for concessional loans or low-cost finance from development banks and funds (*Idem*).

As argued by the UNCTAD (2019, p. 157), the abovementioned programme has multiple objectives, including "boosting China's domestic economic restructuring and moving up the value chain; creating economies of scale for Chinese overseas investment [...] and achieving strategic objectives including South-South cooperation". Nevertheless, there have been transparency and accountability concerns regarding these cooperation zones, a situation which makes it difficult to evaluate partners' ownership regarding the development of projects – a cornerstone in China's international development cooperation, as explained in the previous section of this chapter; for instance, many African governments have not published the contractual terms agreed with the Chinese programme (Farole; Gokhan, 2011).

Despite the lack of detailed information and data involving each project, it seems African and Asian states remain highly interested in the Chinese experience. During the II Belt and Road Forum for International Cooperation, economic and industrial zones were considered an important dimension of international development cooperation within the framework of the BRI, and senior officials from countries such as Cambodia, Ethiopia, and Vietnam have called for closer cooperation to make better use of such special zones and create more win-win cooperation (Xinhua, 2019). In this regard, it is worth noting that:

*According to China's Ministry of Commerce (MOFCOM), as of October 2017, Chinese enterprises had developed 75 SEZs dubbed Overseas Economic and Trade Cooperation Zones (OETCZs) in 24 Belt and Road corridor economies of the 99 Chinese overseas zones. The number of registered enterprises within the zones reached 3,412, or 78% of the enterprises in all Chinese overseas zones. MOFCOM reports that 56 OETCZs in the corridor economies in September 2016 had a total investment of US\$ 18.6 billion, output of US\$ 50.7 billion, created 177,000 jobs, and contributed US\$ 1.1 billion in taxes to the host countries. The zones are open to investors in the host country and from other countries. (World Bank, 2019, p. 87)*

According to the World Bank (2019), the performance of these zones has been mixed, and, while some can be considered successful, including the Long Jiang Industrial Park in Vietnam and the China-Egypt TEDA Suez Economic and Trade Cooperation Zone in Egypt, others are lagging behind due to challenges such as risky macroeconomic and business environments and lack of commitment and support from the host governments. This last issue, particularly, has been also highlighted by other researchers. Bräutigam, Farole and Tang (2010, p. 4) mention that, based on their domestic experience, "Chinese developers expect host governments to actively support zone development; instead, they are finding in some projects (such as in Ethiopia) that governments allocate land to developers and do little else".

In this context, China might be facing a complex dilemma, especially in the African continent. On the one hand, it stimulates ownership and seeks to follow similar or even expanded guidelines related to South-South cooperation, favouring an approach which is opposite to "one-size-fits-all" methods and values diversity and experimental policies. On the other, if host countries fail to effectively support zone development, and communications between countries are undermined by a lack of transparency and governance, China might be forced to take the reins and lead the efforts to try to achieve positive results, even if it contradicts its rhetoric in some ways.

The Belt and Road Initiative and its overseas special economic zones, similarly to practically every Chinese policymaking effort, have to be analysed in the long-term and, in this respect, they can still be considered in their early stages. The Middle Kingdom has yet to adjust some of its procedures and standards, but there is still much to expect from China's international development cooperation and overseas SEZs. In late 2020, the Financial Times (Wheatley; Kynge, 2020) and other outlets reported, based on a study from Boston University's Global Development Policy Center (Gallagher et al., 2020), that China had drastically curtailed its overseas lending programme, captained by the China Development Bank and the Export-Import Bank of China, as loans allegedly collapsed from a peak of US\$ 75 billion in 2016 to US\$ 4 billion in 2019.

Wheatley and Kynge (2020), for instance, argue this "comes as Beijing rethinks its Belt and Road Initiative, the signature scheme of China's leader Xi Jinping [...] Beijing is now realising that its approach to lending is unsustainable". However, as Kenderdine and Yau (2020) explain, while China is definitely shifting its policy bank lending, "data analytics that focus solely on policy bank lending through bilateral agreements miss the wider geoeconomics picture" and ignore a huge number of loans and projects implemented in BRI countries.

Consequently, China's foreign lending activities may be changing, but not necessarily diminishing, particularly in BRI countries, and more loans can be expected, even if with another focus. Moreover, if, on the one hand, there is a slowdown in loans between governments, on the other, Chinese policy and commercial banks are opening branches or subsidiaries and issuing loans beyond the traditional formula, operating in a space between the State and the market. As a result, studies which indicate BRI lending has



## **SEZs and China's Development Promotion**

strongly shrunk in recent years may be failing to identify this shift in policy lending, with less bilateral deals at government-level and more intra-country loans, including those destined to Chinese companies overseas and state-owned enterprises from BRI partners (*Idem*).

In this sense, China has promoted multilateral institutions, funds, and new partnerships to help fund projects overseas. One example is the Asian Infrastructure Investment Bank (AIIB), which now has 118 approved projects, both sovereign (69%) and non-sovereign (31%) in terms of financing type, in 28 nations, totalling US\$ 24.05 billion (AIIB, 2021). Another example is the Silk Road Fund (SRF), which was established in 2014 with an initial capital of US\$ 40 billion (in 2017, there was an increase of \$100 billion RMB) and finances projects in various ways, including through cooperation with foreign investors and development agencies (Liu et al., 2020). It is also worth mentioning the usage of public-private partnerships (PPPs) to implement a wide range of BRI projects – until early 2017, 865 PPP projects were carried out in 64 BRI countries with investments reaching US\$ 509 billion (*ibid.*).

As previously mentioned, adjustments, incrementations, and strategic revisions in policies are not only expected, but also needed, since China is constantly learning from its international experiences and aiming at long-term goals. Nevertheless, as Chinese policymakers seem to be becoming more aware of risks and trying to develop better evaluation, decision-making and governance systems, both domestically and internationally,<sup>5</sup> it will be interesting to see how China will handle the challenges which arise from its projects involving the BRI and, especially, its overseas economic zones.

Anyway, regardless of possible obstacles and needed adjustments, one thing is certain: as Bräutigam, Farole and Tang (2010, p. 3) argue, “the effort to establish the zones in Africa is part of an important Chinese government initiative, the aim of which is as much political as it is economic”, as overseas SEZs serve several economic objectives related to China's domestic and international strategies as well as play an important political role to boost the country's soft power. As a result, “there is great political pressure to ensure that these projects succeed” (*Idem*).

## **CONCLUDING REMARKS**

As an international development cooperation strategy with potential geopolitical implications in its early stages, the Belt and Road Initiative will continue to be a key part of China's foreign policy in the long-term. However, how policies are developed and implemented may be subject to change, a situation which directly impacts Chinese overseas special economic zones. The rhetoric, as the latest published white paper on international cooperation suggested, should remain the same, valuing South-South cooperation and countries' empowerment to pursue their own development path. Still, there are signs that the Middle Kingdom might be taking the reins to try to guarantee some targets are achieved, especially when host countries fail to do their part of the deal and effectively help strengthen their special economic zones.

This situation might be leading to an increasing lack of trust in partners from Chinese officials, similar to what traditional donors may feel when dealing with recipient States and, therefore, substantiating their conditionalities and high governance standards. In fact, it is already possible to identify more convergences between China's and other traditional donors' development cooperation practices, as the former is becoming more cautious regarding the risks of its projects, as well as, in some cases, more selective, controlling and assertive. This does not mean China will adopt North-South cooperation parameters or that it is abandoning its experimental approach in favour of “one-size-fits-all” methods, but it

surely indicates the country is learning from its mistakes in the field and, while its rhetoric may remain the same for now, its practice might be beginning to head towards a different direction.

One of the most attractive elements of China's development cooperation is its flexible, experimental policymaking. Therefore, the question is not if, but how change will take place regarding its initiatives abroad. The Chinese "model" has been both exported by China, particularly through its overseas SEZ programme and the BRI, and spontaneously imported from developing countries, particularly in Africa, which see in it a successful example to follow. Notwithstanding, in both cases, these countries have been missing the main point of the Chinese strategy: having long-term goals and plans of action and being capable of adjusting what needs to be adjusted as policies are implemented through experiments.

By failing to play their part in SEZ arrangements, partner countries risk leaving China, which lacks a deep understanding of their political, economic, social, and cultural specificities, to do practically all the work by itself and, therefore, follow a more mainstream path while losing one of the best parts of the Chinese "model". This generates two main problematic outcomes: the chances of missing local, regional, and national advantages become higher due to a lack of communication between the parties, and, consequently, projects may be unable to achieve the level of success expected from them; and, if governments, particularly in Africa, lack a solid strategy to deal with the Chinese presence in their territory, the SEZs and the BRI could become a one-way street, as Chinese officials, both from the government and the private sector, will be the ones making the decisions and benefiting from the results the most.

In this context, Chinese SEZs, on their own, possibly cannot be implemented in other countries with the same level of success as China had domestically, for they depend on governments' will and capacity to design an effective, long-term development strategy and on a true collaboration between the parties involved. Nevertheless, it is interesting to note that, more than SEZ "models", the Middle Kingdom may be offering countries an alternative to Western capitalism and development theories and practices. In this regard, China's overseas SEZs may be an instrument which not only champions "socialism with Chinese characteristics", but also provides, both theoretically and empirically, new political economy postulations, such as the "new design economy".

China's main contribution to developing countries might not be, necessarily, a new "model", in strict terms, but a new theory to be further developed and applied. Having in mind this argumentative vein, one can discern the need for going into the field in order to know more about the governance 'practicalities' configuring China's overseas SEZs. A significant (empirical) knowledge gap in the state of the art is there to be filled in. This chapter emerges as a humble contribution to nurture such an endeavour.

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## ENDNOTES

- <sup>1</sup> Free translation made by the authors. In Portuguese, as in the source: “só atribuímos algo como um milagre quando as teorias presentes não conseguem explicar determinado fato ou fenômeno. Se existe algo que as teorias em curso são incapazes de decifrar, isso significa que alguma inovação teórica está em andamento.”
- <sup>2</sup> The phrases with bold were highlighted by the authors.
- <sup>3</sup> The phrases with bold were highlighted by the authors.
- <sup>4</sup> According to the OECD's DAC, ODA can only be provided by official or executive agencies through resource flows which are concessional. Its definition is what substantiates North-South, or donor-recipient, development cooperation, which is considered highly verticalised and conditional, favouring policies more aligned with “one-size-fits-all” models.
- <sup>5</sup> Adopted at the 5<sup>th</sup> Plenary Session of the 19<sup>th</sup> CPC Central Committee, the proposals for formulating the 14<sup>th</sup> Five-Year Plan (2021-2025) for National Economic and Social Development and the Long-Range Objectives Through the Year 2035 highlighted China's focus on high-quality development, hinting at a transition from high-speed growth to this new development approach. This, aligned with the increasing relevance of environmental sustainability and the rule of law in the country, may impact the country's policymaking and projects abroad.