

Determinants Of Economic Growth In South East Asian Countries A Comparison Study Between China And South Africa On Special Economic Zones.

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Abstract: *How large are the benefits of Special Economic Zones and what are the channels of these benefits? To shed light on these questions, I collect a unique data set of Chinese and south African economic statistics from 1960-2016 and use it to evaluate the impact of a Special Economic Zone experiment aimed at attracting foreign direct investment. Guided by a conceptual framework, I define the Special Economic Zone policy: 1) increases per capita foreign direct investment mainly in the form of foreign-investment and export-oriented industrial enterprises; 2) does not reduce domestic investment and domestically owned capital stock and 3) increases total factor productivity growth rate. The results suggest that creating Special Economic Zones not only brings capital, but also more advanced technology, and provide important policy implications for many developing countries.*

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I. Introduction

Special Economic Zones (SEZs) are contained geographic regions within countries, Adopting liberal laws and economic policies to encourage foreign direct investment in manufacturing and services for export. They are widely used around the world as part of a country's overall economic development strategy. In 2008, there were approximately 3000 Special Economic Zones in 135 countries, accounting for over 68 million direct jobs and over \$500 billion of direct trade-related value added within the zones (World Bank, 2008). Unfortunately, despite the potentially positive effects of SEZs predicted by economic theory (due to the presence of foreign direct investment) and strong convictions by policymakers, we still lack a rigorous empirical understanding of the extent to which SEZs actually contribute to foreign direct investment (FDI) and how the resulting investment influences the local economy.

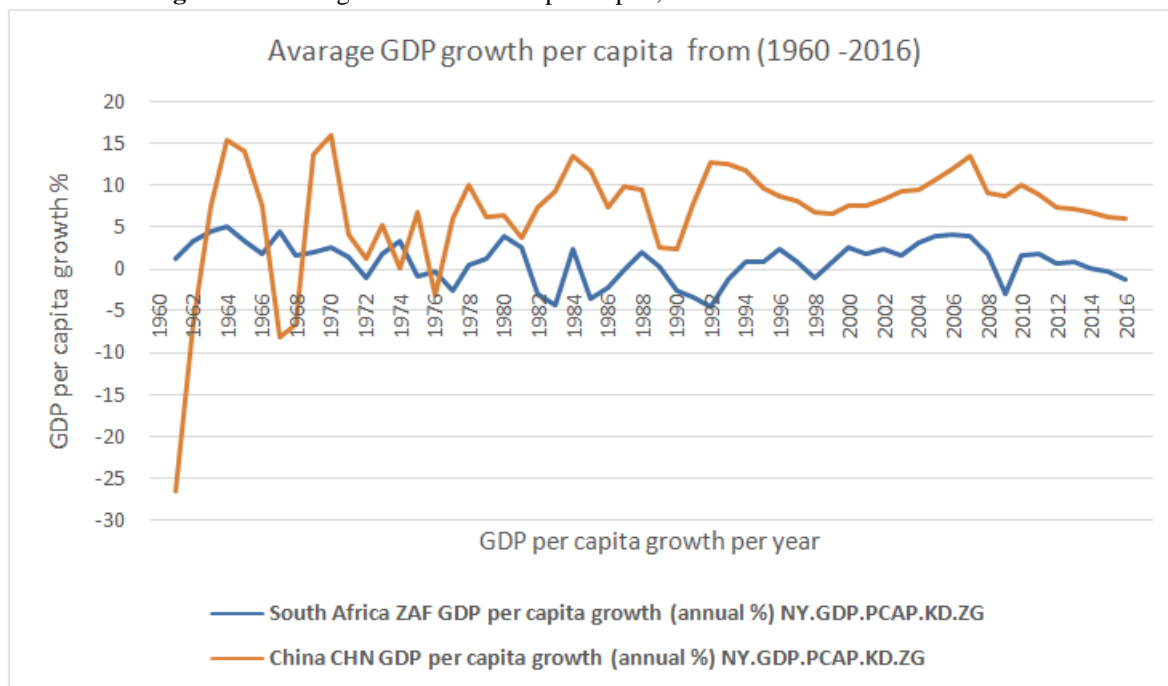
This paper will focus on the key growth indicators of the three theories and determine which indicators are strongest when trying to predict economic growth to make three contributions to our understanding of the impact of SEZs on foreign direct investment and other outcomes. To do so we evaluate what level of economic growth for a country represents to the many aspects of life in that country. These aspects range from the strengths or weaknesses of macroeconomic policy to the quality of life for the average citizen. High or stable levels of economic growth are associated with very productive economies, higher GDP per capita and higher standards of living. However, low levels of economic growth are linked to low levels of productivity, poor living conditions and stagnant markets. High levels of economic growth are clearly desirable.

GDP Growth in Asia and south Africa

Many countries have experienced substantial economic growth rates over the past century (Mankiw 80). However, a distinct group of countries which has recently achieved the most astounding growth is a group of countries in East Asia and in this instance we will focus on China. According to the World Bank, China have averaged 9.69% growth rate per Capita per year from 1989 until 2017. Figure 1 shows the average growth rate of China as compared to South Africa. The main reason for the economic growth in China is because of the amazing levels foreign direct investment they were able to attract in the established SEZ. Figure 2 shows the relationship between GDP growth and FDI (net inflows). As a result of this "rapid employment surged" (World Bank 4), human welfare has dramatically increased including higher life expectancy rates, decreased absolute poverty and improved education. In Figure 2 we see a positive relationship between an increase in FDI and economic growth per capita, in the search to evaluate the factors that led to that growth we will analyze the impact that FDI through special economic zones had in increasing economic growth and industrial employment.

Figure 1

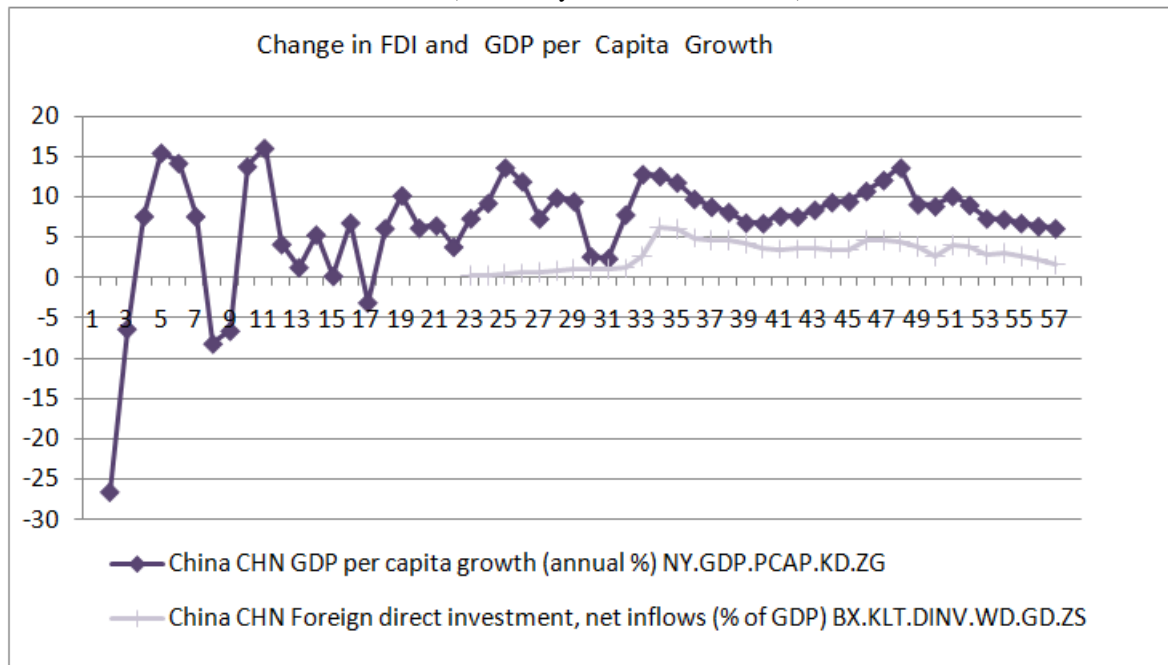
Figure 1. Average Growth of GDP per Capita, 1960-2016 china and South Africa



Source: World Bank (2017)

Figure2

Figure2. Relationship between average per capita growth and changes in the foreign direct investment (net inflows) over 57 years from 1960-2016).



Source: World Bank (2017)

While there are many theories available in explaining economic growth, this section will focus on the Neoclassical, structuralist and market friendly theories of growth in China. Simply stated, the neoclassical model focuses on strong labor and capital markets, along with increased privatization to encourage economic development. On the other hand, the structuralist view focuses on more government intervention to create such situations as price distortions encouraging savings, investment, and other behavior necessary for a strong growing economy. Directly in the middle of these two extremes lies the market friendly view which focuses on effective

government policy to encourage efficient markets and outward orientation. This paper will focus on the key growth indicators of these three theories and determine which indicators are strongest when trying to predict economic growth. Variables representing outward orientation (exports and foreign direct investment), government intervention (spending and investment), and macroeconomic stability (debt and inflation) will be regressed against GDP growth. This regression will analyze China and South Africa's growth per capita over a time period from 1960 to 2016. It is hypothesized that China has been most successful following the market friendly theory of policy integration.

We will review the below presented literature and will focus on the empirical model and data, this section will try to explain the efficiency of SEZ to how they managed to have an impact to Chinese economic growth and also majority of East Asian countries.

II. Review of Literature

As was already stated, many economists have studied and written about the recent economic growth in China. Throughout the literature, there are proponents of both the neoclassical and structuralist theories. However, some of the strongest and most conclusive research finds that the East Asian economies have more closely followed the market friendly approach to growth. In a paper entitled "Common Foundations of East Asian Success," Peter Petri (1997) analyzes different factors that have played a role in the strong economic development of many East Asian economies. In determining how these factors contribute, he hopes to find some common ties between the East Asian countries and "advice" for other developing countries. Unfortunately, he is not truly able to create an equation for the miracle economy. Petri notices many common trends but nothing that really stands out and leads in these economic developments.

Petri introduces four major theories which may represent the economic growth witnessed in East Asia. These theories include the neoclassical, structuralist, cultural and interaction views. This paper will focus only on the neoclassical and structuralist theories as they seem to be the two most economically-based theories. The cultural theory discusses how cultural and religious traditions encourage economic organization. Petri states, "Confucian traditions may have been responsible for East Asia's unusually high propensities to save and educate and for its strong, publicly motivated bureaucracies". Alternately, the interaction theory discusses geographic relationships between the countries in the region. Petri introduced this interaction theory because he believes it "suggests that East Asian economic growth may have been shaped by regional contacts - including flows of goods, investments,

Technologies, aspirations and ideas about governance". Taking all four theories

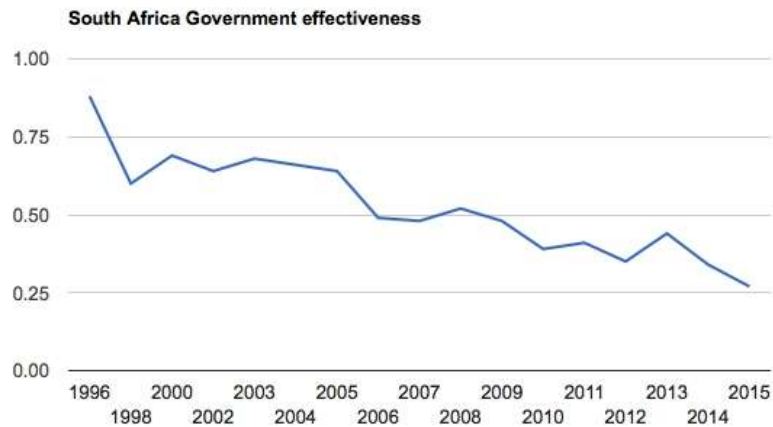
In to consideration, Petri draws from these views to determine possible causes of East

Asian economic growth. Some of the variables he looked at were outward-orientated development strategies, public resource mobilization and investment, targeted industrial policies, regulated financial markets, and favorable external environment. Petri examines each variable which he thinks has an effect on economic growth and attributes that variable to one of the four theories. He takes a qualitative approach to his research by presenting ideas on which variables represent which theory. However, no rigorous analysis is seen regarding the impact of each variable on economic growth. Therefore, this paper builds on previous research by regressing each variable against economic growth and analyzing the results of this regression. In the concluding sections of his paper, Petri determines that there is no single "recipe" for a developing economy to follow. Instead, he uses a metaphor of a road race to explain his findings. He uses the track to emphasize the importance of the "smoothness of the general economic environment". Steering correlates with the allocation of resources in an efficient way. And finally the engines represent strong leadership. In each of these categories, Petri looks at specific countries that have strengths in each area and how these strengths can be adapted in other ways encouraging growth. Petri came to the conclusion that a 'multifactor' approach is needed to understand how success emerged from a variety of policies in a variety of institutional settings. Similar to Petri's analysis, Vinod Thomas and Yan Wang ask the same questions about the growth in East Asia. In their paper entitled "Distortions, Interventions, and Productivity Growth: Is East Asia Different?" Thomas and Wang (1996) examine government intervention, distortions, trade and geographical proximity as possible explanations for East Asian performance. However, Thomas and Wang believe that the single most important factor is the "superior policy framework adopted by the East Asian economies".

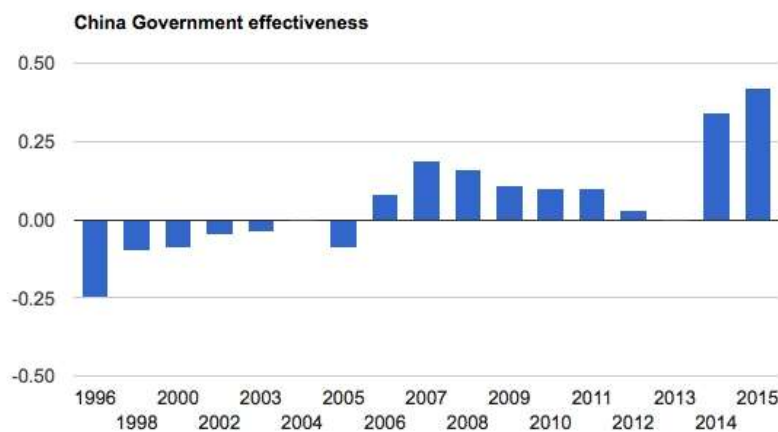
The methodology Thomas and Wang used to test their hypothesis is to compare the East Asian economies to other developing countries. The empirical models used in their paper follow neoclassical growth theory while also assessing the link between growth and distortion and growth and intervention. Through their models, Thomas and Wang come to some interesting conclusions. The first major conclusion is that trade openness and macroeconomic stability have a "significant and positive association with economic growth". This result is also suggested by an analysis of the association between openness and stability and productivity growth. From figure 3 to Figure 4 we look at the difference between China's and South African Government

effectiveness and political stability. As the graphs shows, the stability index between SouthAfrica and china with -2.5 being the weakest and 2.5 being the strongest. Another major conclusion that Thomas and Wang reach is that "moderate government expenditure alone is not necessarily associated with high performance. The quality of implementation, the quality of the human capital base, the type of expenditure, and intangible factors are all likely to influence outcomes. Thomas and Wang believethat the East Asian economies do indeed have the high qualities of implementation, type of expenditure and other factors that have led to high levels of growth. Through their research, they also come to the conclusion that the East Asian economies have a greater returns from their successful policy framework. Which is why we look at the Government effectiveness and political stability as this have an influence in the implementation of the policies that the government adopts.

Figure 3 .China and SouthAfrican government effectiveness

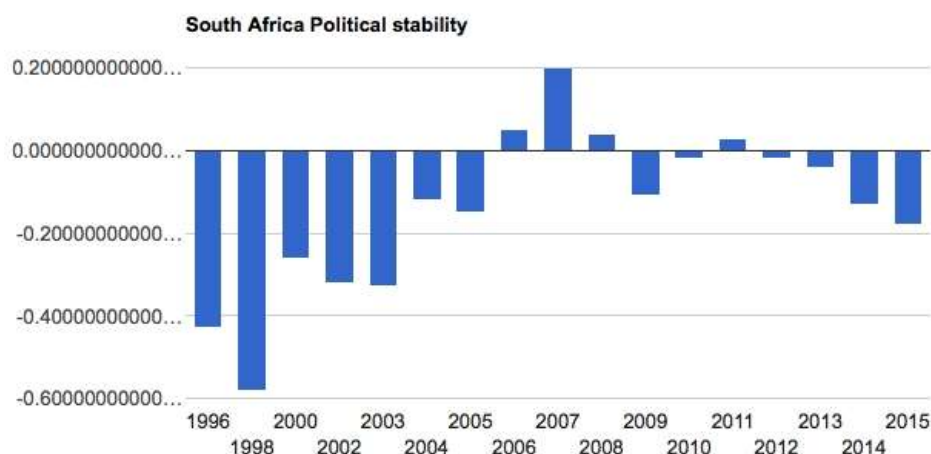


Source: TheGlobalEconomy.com, The World Bank

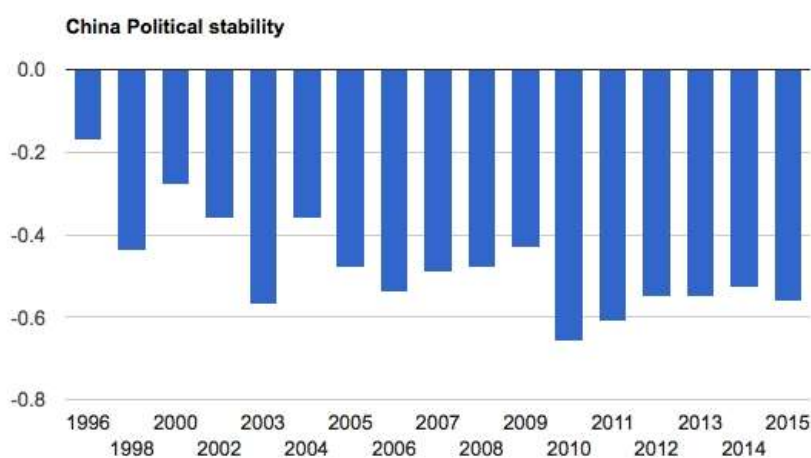


Source: TheGlobalEconomy.com, The World Bank

Figure4 China and South African political stability



Source: TheGlobalEconomy.com, The World Bank



Source: TheGlobalEconomy.com, The World Bank

Another article that deals with the determinants of economic growth in china is a paper by Reuven and Ramon Moreno entitled “The east Asian miracle: Growth because of government intervention and protectionism or in Spite of IT? “In the paper Glick and Moreno (1996) argue that “the Newly Industrialized Economies(NIE’s) and countries in the region adopted interventionist although market friendly policies involving some use of export promotion ,selective import barriers and industrial policies’ the use of SEZ seems to be one of the underlying factors for a huge part of growth. Through their analysis Glick and Moreno have outlined three main theories on why policies favoring greater openness and international trade lead to better growth performance. The first theory is that international trade can contribute to growth by creating a channel for new technology and styles of management. Another theory on the importance of outward orientation is that policies encouraging this activity create an incentive for companies to compete in the world market rather than only in domestic ones. Finally Glick and Moreno Believe that international trade may lead to economic growth because of the increased access to world markets.

Glick and Moreno have also researched how outward orientated policies haveaffected growth in East Asia. They believe that support was given to industries whichwere already successful, perhaps even already globally successful. Along with this support however, incentives were given to exporters across "virtually all industries and activities". Free entry for imports also aided exporters with many of the necessary intermediate goods necessary for production. Glick and Moreno believe that all of these facts have lead to successful growth in East Asia especially china. They also believe that these facts can lead to some important lessons for other

countries. The first important lesson from Glick and Moreno's analysis of economic growth in East Asia is that government intervention may be important in picking industries that can compete in world markets. However, mistakes can be very costly. Another important policy lesson is that "industrial policies may succeed in promoting certain types of firms but may discourage the type of innovation and entrepreneurship needed to achieve higher levels of development". With all of these studies in mind, we will now examine the three strongest theories associated with East Asia and China's economic growth.

III. Theory

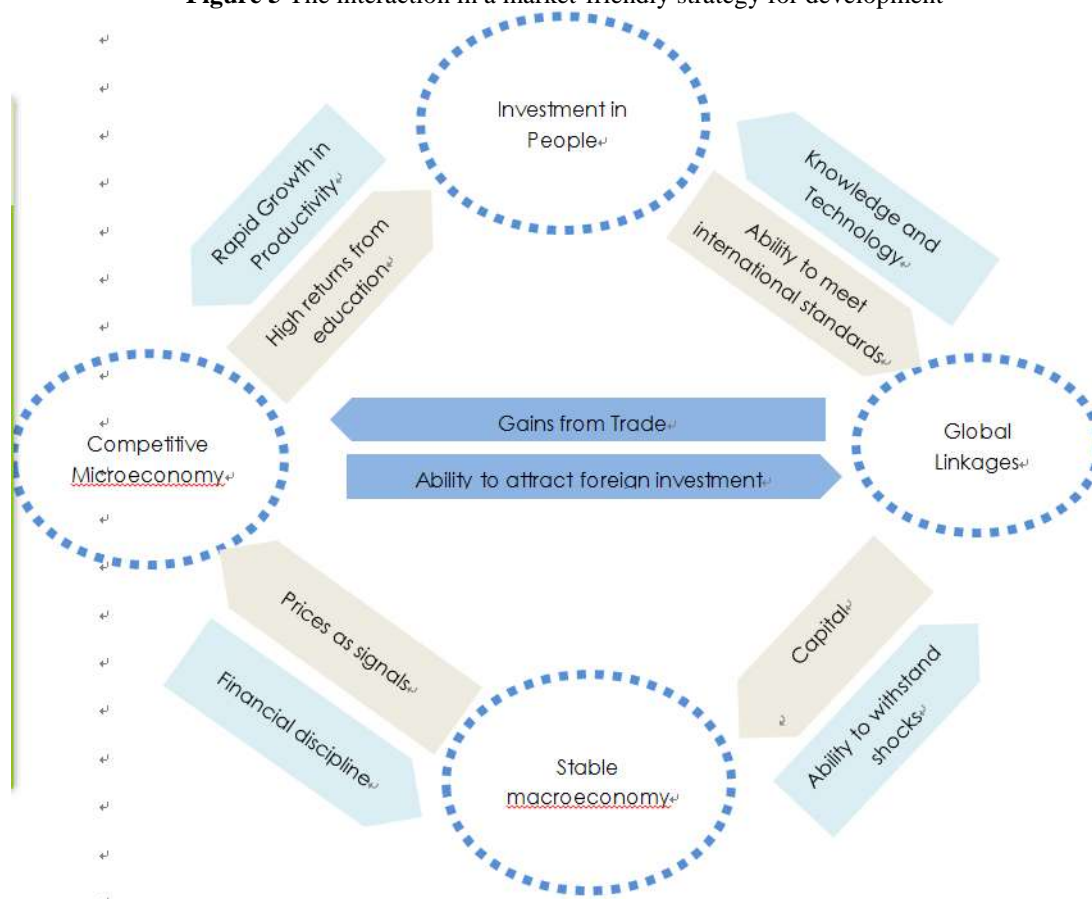
Neoclassical Theory

Neoclassical economic theory was first introduced by Alfred Marshall (1842-1924). Textbook theory focuses on the hedonism and rationality of consumers as introduced by classical economics as well as a laissez-faire government. However, neoclassical economists felt there was indeed a need for some government intervention. As Yuval P. Yonay (1998) states in his analysis of the neoclassical economists, these economists "assigned the state the role of ameliorating the detrimental outcomes of free markets and looked favorably at trade unions as a necessary tool for improving the lot of laborers". Yonay also states that neoclassical economists changed the focus of economics from macro questions of national income to micro analysis of firms and consumers. Along with Petri's analysis and description of this theory, he outlines the major characteristics of the neoclassical theory as applied to the East Asian experience. In light of this view, he believes that East Asian economies have succeeded because of four main reasons. First, they adopted an outward orientated trade strategy to build linkages with world markets and technology with such policies as export promotion and broad liberalization. They have also pursued conservative macroeconomic policies to create a stable economic environment. These countries have invested vigorously in human capital to develop an educated and technically competent labor force. And lastly, Petri highlights how many East Asian countries have maintained competitive markets to facilitate the transformation from primary production to manufacturing and eventually to knowledge-intensive industries. Neoclassical theory also has current applications with the recent emergence of increasing numbers of private companies in China. An article published in *BusinessWeek* by Mark L. Clifford, Sheri Praso and Dexter Roberts states, "while thousands of state-owned factories still languish with massive debt, red ink, and bloated work forces, maverick entrepreneurs are picking up the slack, generating badly needed jobs and helping Chinese industry approach world standards". The article also stated that this change in market composition will make markets more globally and technologically competitive. Another very recent example comes from the World Trade Organization's (WTO) negotiations with China. In late 1999, U.S. negotiators started to work out a deal that would open one of the largest markets, with 1.4 billion consumers to U.S. products (Holland I). These negotiations showed China's enthusiasm for growth, decreasing barriers to trade and increased globalization. Both of these examples support Petri's assertion that outward orientation and increases in human capital have aided East Asian economic growth.

Market Friendly Theory

The market friendly theory of economic growth was first introduced in the 1991 World Development Report (WDR) by the World Bank emphasizing an "effective but carefully limited government activism" (World Bank 1991). This theory represents a synthesis of many growth theories including the neoclassical and structuralist theories. The main idea of the market friendly theory is the interaction of four central elements: investment in people, global linkages, a stable macro economy and a competitive micro economy. As the report indicates, "All four sets are worth doing in their own right. But because of their linkages, the results will probably be disproportionately strong if done together" (WDR 1996). Figure 5 shows some of these linkages between the four main elements of this theory.

Figure 5 The interaction in a market-friendly strategy for development



Source: world development report 1991 page 6

In the market friendly theory, investment in people involves much more than investments in human capital as suggested by most growth literature. This investment includes expanding work opportunities for women, providing day care services, family planning, clean water, improved waste disposal and environmental regulations. Evidence of this type of investment can be seen in the efforts to reduce infant mortality in Malaysia and health programs to raise life expectancy in China (WDR7).

Global linkages and openness to trade have "improved resource allocation, increased competition and product specialization and provided a broad avenue for technology transfer" (WDR8). The World Development Report also points out that many East Asian countries have been successful at assimilating technology and openness by taking such measures as sending students to study abroad, exploiting linkages with overseas nationals and encouraging exchanges with research centers (WDR 8).

The third main element in the market friendly theory is a stable macro economy. Overspending by the government can result in large deficits, excessive borrowing or such financial problems as inflation or overvaluation of currency. The World Development Report suggests that a stable macroeconomy is likely to promote savings and investment and will also "make it easier to attract foreign savings" (WDR9). Finally, a competitive micro economy is necessary for strong economic growth in the market friendly theory. "It can help to transform a stagnating economy into a vigorously expanding one" (WDR7). The World Development Report also suggests that competition has very often lead to innovation, the diffusion of technology and an Efficient use of resources (WDR7).

Empirical Model and Data

The neoclassical, structuralist and market friendly theories all discuss many different variables which may act as indicators of economic efficiency towards growth in China. The purpose of this paper will be to focus on only a few major indicators of economic growth to determine their relative importance to GDP growth. These indicators fall under three main headings: outward orientation, government indicators and macroeconomic indicators. Outward orientation is one of the key indicators of economic growth as suggested by neoclassical theory. The variables included in this category will measure how successful a country is at utilizing its global linkages and how responsive other countries and markets are to this behavior. In this model, the

indicators for outward orientation will include net exports (EXP) and foreign direct investment (FDI) as percentages of GDP. Exports of goods and services represent demand for that country's products in other countries and therefore strong markets for that country's goods. Demand for a country's goods in world markets reflect growth potential and strong economic stability.

As the 1991 World Development Report states, "By affecting the nature of inputs as well as production processes, trade could generate gains which greatly exceed this short-term benefits from improved resource allocation". For this reason, exports should have a positive correlation with growth. Also classified under outward orientation; foreign direct investment (FDI) represents how interested foreign companies are in that particular country's companies and markets. If levels of FDI are high, this could be because foreign companies' are enthusiastically interested in investing in these countries. Neoclassical theory suggests that FDI has a positive effect on growth because this investment would strengthen private markets. "Because foreign firms already have marketing linkages, know-how and production experience, some host countries have actively encouraged global exporters to establish production units in their country" (World Development Report, 1995). These host economies know of the advantages of FDI in their country and how it can affect growth rates. The causation is not clearly defined between growth and FDI however we have realized that investment in Special economic zones from China's experience lead to an increased growth. Reasons for FDI encouraging growths have already been demonstrated. The reverse situation is also plausible. Levels of economic growth can be positive for numerous reasons as expressed throughout this paper. A company looking for a country to invest in, values high levels of growth and economic potential. In this case, growth causes increased levels of FDI. However, for the sake of predicting a correlation between FDI and growth, this paper will only focus on the positive correlation as suggested by neoclassical theory.

Key indicators of growth as described by the structuralist theory deal with government indicators. Variables included in this classification represent the degree of government involvement in an economy. My model includes variables for government spending (SPEND) and total investment (INVEST) as percentages of GDP. Structuralist theory would suggest that both of these variables have positive effects on GDP as they involve increased government intervention and economic stimulation. Both of these variables represent ways in which a government can use fiscal policy to respond to or create shocks in the economy. Economists who follow structural theory believe government spending and investment is necessary for economic growth.

For this model, two other variables will also be included which help to complete the picture of growth as described by the market friendly theory. These variables are Macroeconomic indicators including the inflation rate (INFLAT) and government debt (DEBT), both as a percentage a GDP. These indicators represent the macroeconomic stability of a country. High inflation rates and high levels of government debt usually signal a financial or economic problem with the economy. If this is the case, the government and private markets are probably more interested in solving their own economic problems than finding room for growth. This leads one to believe that both the inflation rate and government debt have negative correlations with GDP. GDP growth in annual percentages, based from is used as the dependant variable. This study analyzes two countries over a time period from 1960 to 2016. All data used was taken from the 2017 World Bank World Indicators Tables. A brief description of the variables used in the analysis is given in Table 1.

Table 1

Category	variable	Definition	Expected sign
Dependent variable	Growth	GDP Growth (annual %)	N/A
Outward orientation	EXP	Exports of goods and services	+
Outward orientation	FDI	Foreign direct investment, inflows (% of GDP)	+
Government indicators	SPEND	Expenditure, Total (% of GDP)	+
Government indicators	INVEST	Gross domestic Investment(% of GDP)	+
Macroeconomic indicators	INFL	Inflation, GDP deflator (annual %)	-
Macroeconomic indicators	DEBT	Central Government debts, total (% GDP)	-

With all of these variables considered, the regression model for determinants of economic growth is as follows:

$$\text{Growth} = a + b_1 \text{EXP} + b_2 \text{FDI} + b_3 \text{SPEND} + b_4 \text{INVEST} + b_5 \text{INFL} + b_6 \text{DEBT} + b_7 \text{COUNTRY_DUMMY} + e$$

Since this model utilizes time-series as well as cross-country data, dummy variables for each country are also included. These dummy variables simply control the model for the multitude of other variables which can have an effect on a particular country's economic growth rate.

Descriptive Statistics

As mentioned earlier, the sample used in this model consists of data from South Africa and China from (1960-2016). With perfect information, this combination should leave us with 64 data sets. However, not all data is available for each country in each year. Table 2 shows the descriptive statistics for all the available data

Table 2

Descriptive statistics of all points available in China

variables	Mean	Median	Standard Deviation	Minimum	Maximum	Count
Growth	6.845702	7.631128058	6.783029	-26.5276	16.0504	56
INFL	3.598606	2.052288194	4.964813	-3.79253	20.60061	56
EXP	14.23507	12.85508624	10.11343	2.491556	37.17507	57
SPEND	98.30542	98.85444204	2.427683	90.76813	103.7929	57
DEBT	#DIV/0!	#NUM!	#DIV/0!	0	0	0
FDI	#NUM!	3.475082246	1.681951	0.209664	6.186882	35
INVEST	0.05667	0.056670039	0.006575	0.052021	0.061319	2

Descriptive statistics of all points available in South Africa

Variable	Mean	Median	Standard Deviation	Minimum	Maximum	Count
Growth	0.928234	1.415209652	2.398272	-4.55388	5.154509	56
INFL	9.489616	8.384764083	5.048762	0.383169	24.87883	56
EXP	27.12644	27.15888005	3.536659	20.70374	35.62244	57
SPEND	97.75902	98.08367072	3.47103	90.39642	104.0776	57
DEBT	43.20292	45.4430495	7.319674	26.01847	49.58341	12
FDI	0.821754	0.477352941	1.211701	-0.84054	5.978862	47
INVEST	1.308995	1.102087549	0.69531	0.496965	2.692167	44

As the descriptive statistics its self-explanatory we will focus more on the regression and the expectation that we had in the effect of the variables that we included and how much impact do they have towards the economic growth of the below countries in comparison.

IV. Results And Analysis

The results of the linear regression of all the variables against growth are shown in Table 3. The coefficients and significance levels for the variables are shown.

China

Table 3

SUMMARY OUTPUT								
Regression Statistics								
Multiple R	0.461							
R Square	0.212							
Adjusted R Square	0.151							
Standard Error	6.251							
Observations	56.000							
ANOVA								
	df	SS	MS	F	Significance F			
Regression	4.000	537.514	134.378	3.439	0.015			
Residual	51.000	1993.007	39.079					
Total	55.000	2530.521						
	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	-103.778	63.047	-1.646	0.106	-230.350	22.794	-230.350	22.794
Infl	-0.458	0.213	-2.150	0.036	-0.886	-0.030	-0.886	-0.030
Exp	0.289	0.200	1.444	0.155	-0.113	0.691	-0.113	0.691
Spend	1.076	0.625	1.720	0.091	-0.180	2.331	-0.180	2.331
FDI	1.330	0.876	1.518	0.135	-0.429	3.088	-0.429	3.088

South Africa

SUMMARY OUTPUT									
Regression Statistics									
Multiple R	0.477749								
R Square	0.228244								
Adjusted R Square	0.154743								
Standard Error	2.138904								
Observations	47								
ANOVA									
	df	SS	MS	F	Significance F				
Regression	4	56.82656	14.20664	3.105337	0.025118				
Residual	42	192.1463	4.574911						
Total	46	248.9728							
%									
	Coefficient	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95%	Upper 95%	
Intercept	-26.7386	11.36917	-2.35186	0.023444	-49.6825	-3.79473	-49.6825	-3.79473	
Exp	0.223876	0.096529	2.319264	0.025317	0.029073	0.418679	0.029073	0.418679	
SPEND	0.202535	0.104315	1.941573	0.058917	-0.00798	0.413051	-0.00798	0.413051	
DEBT	0.034318	0.029687	1.155978	0.254224	-0.02559	0.094229	-0.02559	0.094229	
FDI	0.2075	0.303781	0.683057	0.498321	-0.40555	0.820554	-0.40555	0.820554	

These results are important and interesting for many reasons. An adjusted r squared Of 0.15 for both china and South Africa. This means that this model has not successfully explained away over half of the variance in economic growth in China and South Africa . This statistic along with the sign and significance level of each variable can tell us many things about growth rates in China. Most of the variables returned the predicted signs and were highly significant. It should also be noted that the Durbin-Watson statistic was 1.485 which reports inconclusive results. This study did not further explore issues of autocorrelation and multicollinearity. The variables that represent outward orientation - exports and foreign direct investment - both had positive correlations to GDP growth and were significant at the 0.04 and 0.02 levels, respectively.

This model suggests that GDP growth would increase by 1.11% if exports were to increase by 1% of GDP for china and 0.02% for South Africa. The regression shows that for china GDP will increase by 1.33% if FDI where to increase by 1% and 0.02% for South Africa. As we saw earlier when analyzing descriptive statistics for china, the average percentage of FDI ,was 3.47 of GDP. This regression shows that it would be economically beneficial for a country to try to attract more foreign direct investment. These two results from exports and foreign direct investment lead to the conclusion that there are strengths in the neoclassical theory of economic growth and outward orientation indeed has a positive effect on a country's growth rate. Government spending and investment are two variables that represent the structuralist theory of economic growth. The results on SPEND and INVEST were somewhat successful. This model suggests that government spending and investment (including government investment) increases economic growth rates. Therefore we can conclude somehow conclude that government spending on SEZ accompanied with good government effectiveness can lead to increased GDP growth. In the article "Some Lessons from the East Asian Miracle" Joseph Stiglitz (1996) points out that the governments of East Asia confined their roles to "helping to direct investment to ensure that resources were deployed in ways that would enhance economic growth and stability and creating an atmosphere conducive to private investment and ensured political stability". The combination of the signs on both government spending and total investment lead to the conclusion that higher levels of investment including "land improvements, plant, machinery, and equipment purchases, and the construction of roads, railways, and the like, including commercial and industrial buildings, offices, schools, hospitals, and private residential dwellings" (World Development Indicators) are more important for economic growth than government spending. Therefore, used together, the results from SPEND and INVEST support the market friendly theory which focuses more on government investment as an important influence on economic growth.

V. Conclusion

The main conclusion that can be drawn from this study is that an empirical model which includes a wide variety of economic variables is highly successful in explaining the variance in GDP growth in China. Variables explaining outward orientation, government indicators and macroeconomic indicators are all highly significant as determinants of growth. The market friendly theory of policy integration is supported by this model and comes closest to explaining the relationship between government and private markets in China.

This study also shows that increased levels of exports and investment including FDI and domestic investment will all help support increased levels of economic growth In China. Some policy implications from

these results are for government encouragement of market friendly activities (exports and investment). The model shows that government spending can increase economic growth in conjunction to what we thought before, South African government need to use discretion in their promotional activities. Improve government efficiency and reduce the rate of corruption in order to maintain political stability and government stability as these are the fundamental aspects when trying to attract FDI Although this model was successful in explaining the determinants of economic growth in China and South Africa and supporting the market friendly theory of growth, there were some limitations to this research.

One limitation and reason for continued research is the availability of data. The main reason for this was because additional data was not easily available. A second reason for continued research on this topic would be to further look into issues concerning government spending and investment. This model showed that total domestic and government investment had a positive correlation to GDP growth. However, inefficient government spending can have negative correlation to GDP growth. It would be interesting to analyze different types of government spending and investment to determine which forms have the greatest effect on GDP growth. Although there were a few limitations, this study was very successful in pointing out the key determinants of economic growth in China and what lessons South Africa can learn from China and other East Asian countries. In the drive towards a successful Special Economic Zones implementation as a subset of economic growth and attraction to foreign direct investment.

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