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HANDBOOK ON SPECIAL ECONOMIC ZONES IN AFRICA

Towards Economic Diversification across the Continent

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FOREWORD

Special economic zones are widespread across the developing world. Policymakers seek to develop special economic zones with the aim of attracting foreign direct investment, achieving higher exports and creating jobs. Indirect economic benefits range from upgrading of the local industrial base to being catalysts for innovation, knowledge and technological spillovers. Against a backdrop of growing global interest in zone-based development strategies, an increasing number of countries are adopting new special economic zone regimes or revitalizing existing ones. At the regional level, attempts by African countries to set up special economic zones that deliver on their expected benefits have so far encountered some challenges. Certain bottlenecks have often determined the limited performance of zones operating in the continent, and these are discussed in this publication.

The African Union Commission, the United Nations Conference on Trade and Development and the German Agency for International Cooperation are joining forces through this *Handbook on Special Economic Zones in Africa* to address the opportunities and challenges involved in setting up zones in Africa, working hand in hand with member States and key stakeholders such as the African Economic Zones Organization. The objective is to come up with an Africa-specific model of special economic zones based on lessons from experience and best practices, with a view to supporting the African Continental Free Trade Area and in the process accelerating the integration of Africa.

The *Handbook* takes stock of the current state of play of African special economic zones. It identifies several good practices through the analysis of case studies reflecting a variety of critical aspects and representing the specificities of diverse African regions. Relevant lessons – ranging from the importance of the strategic focus and locational advantages to heightened attention to enhanced environmental and social standards – are brought out.

Through the *Handbook on Special Economic Zones in Africa,* we wish to provide a response to the needs of African policymakers through a set of policy recommendations stemming from the latest research and international best practice on special economic zones. Looking ahead, the issues at stake highlighted by the *Handbook* remain instrumental to creating sustainable, holistic and adaptive special economic zone policies capable of capitalizing on existing opportunities and withstanding future challenges.

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EXECUTIVE SUMMARY

Special economic zones (SEZs) have grown rapidly in the last three decades. Zone-based development strategies have become increasingly widespread across the developing world. Their popularity has been fuelled by the hopes of policymakers of turning around the economic fortunes of their countries and, in certain cases, of lagging regions within their countries. Increased FDI, exports and job creation are all among the objectives pursued in zone development. Increasingly, more indirect objectives, such as the development of the local industrial ecosystem towards higher productive capabilities, have also featured among the aims of SEZ policies. They are being singled out progressively more often as key for delivering SEZs that are springboards to boost innovation, knowledge and technological spillovers.

A systematic overview of African SEZs shows that the use of zones is on a steep upward trend and projected to proliferate in a large majority of countries across the continent. The adoption of SEZs in Africa assumes a variety of features, depending on the level of development of countries and their experience in establishing SEZ programmes. In particular, the snapshot of African zones in this report documents what has been referred to as the *development ladder of SEZs* – already documented in UNCTAD's 2019 *World Investment Report*. Some African countries have many decades of experience in developing and establishing zones and are now transitioning towards more complex and specialized models of zone development. A growing number of others are now in the process of planning or establishing their first zones, often with the help of international partners.

With few exceptions, the performance of African SEZs has so far been below expectations. Although relatively low performance of SEZs is not uncommon, the trajectory of most African SEZs contrasts with experiences of zone development in East Asia and in some Latin American countries. Research and empirical evidence suggest that many African zones are still far from achieving their objectives, even taking into account the most direct economic gains usually expected from SEZs, such as increased FDI, exports and jobs (see, for instance, Farole, 2011). Moreover, many African zones have remained isolated enclaves, failing to dynamize the surrounding industrial context. The reasons for such shortcomings frequently relate to the design and implementation of SEZ policies and programmes. Against the backdrop of relatively weak historical performance by many African SEZs, the risk is heightened that the development of new zones, often in places where conditions are not as auspicious for success, will in effect further expand the ranks of underperforming zones in the continent. If that were to happen, it could lead to a spike in opportunity costs, which normally characterize this sort of large-scale investment.

The recent wave of African regionalism can aid the regional integration and specialization of African SEZs, although the extent to which this will happen will depend on specific policy adjustments envisioned by the African Continental Free Trade Area (AfCFTA). Recent developments brought about by the introduction of the AfCFTA can, in theory, unlock a wide range of opportunities for SEZs, including greater market access, lower-cost and higher-quality production inputs, and the opportunity to benefit from emerging

regional value chains. However, the risks for SEZs associated with the introduction of the AfCFTA can also be non-negligible. Some of the potential challenges for existing and future SEZs include pure-waste competition among SEZs at the regional level and trade triangulation. Moreover, whether SEZs benefit from greater trade and economic integration across Africa will largely depend on outstanding issues, such as the handling of rules of origin and how SEZs are treated in the AfCFTA's SEZ-relevant provisions. Generally, the creation of a level playing field – for instance, in terms of fiscal incentives offered by SEZ programmes and behind-the-border trade barriers – will help African SEZ-based firms to improve their competitiveness on the global stage and mitigate the risks involved with the pursuit of zone-based development strategies in the context of regional integration.

A number of cases from African and non-African zones can help to shed light on what factors make a zone successful. Some African SEZs present robust evidence on the six thematic areas identified in the Handbook that typically permeate the process of developing and establishing economic zones. Although the Handbook does not aim to be a comprehensive list of African SEZ practices, the case studies introduced in it are highly illustrative of a broad array of factors that can contribute to the success of SEZ strategies and policies in different country contexts. Non-African cases also contribute to the presentation of the measures and policies put in place around the world to maximize the opportunities and minimize the risks related to zone development. In particular, the empirical evidence stemming from the case studies highlights the following five points:

- **Most successful zones have adapted their policies and strategic focus to both the local context and international economic trends.** Copying the strategies of successful cases – generally, long-established and well-performing zones that had a significant transformative impact on their surrounding environment, e.g. the Shenzhen SEZ in China – rarely works, as it is always difficult to reproduce the conditions that led to the success of the strategy being copied. This implies that, for most zones in emerging and developing countries to succeed, adaptation to the local context is a must. One key feature of many successful SEZ policies is a clear strategic focus in terms of realistic target sectors and investors based on a country's value proposition and comparative advantage. This often implies adapting policies to the country's endowments and responding to changing patterns in international production.
- **Integrated SEZ policies and a coordinated institutional approach are of crucial importance for an SEZ programme to be effective.** Integrated policies – as opposed to stand-alone policies – are essential in ensuring policy coherence across different policy areas (i.e. industry, education, transport, trade) that can contribute to the success of SEZ interventions. When policies are aligned, synergies are created and benefits maximized. Similarly, a coordinated, whole-of-government approach to investment promotion assumes an all-important role in signalling to investors that the country's institutions are open for business and fully committed to facilitating investors' activities. This sort of integrated, proactive approach can considerably boost the chances of attracting anchor investors, often outdoing international competitors.
- **International partnerships – with foreign governments, private firms or international institutions – can facilitate knowledge exchange, although caveats apply.** The evidence stemming from SEZs in Mauritius and Nigeria and some recently established cross-border SEZs shows that developing zones in collaboration with international partners can help the host country to gain access to good practices. That said, knowledge

transfers between partners do not happen automatically. Hence, setting up formal transfer mechanisms is of crucial importance in order to bring about an effective exchange of know-how. In addition, safeguards to mitigate the risks arising from conflicting interests, lack of trust and misalignment of objectives play important roles in determining the outcome of international partnerships.

- **Enhanced environmental, social and governance (ESG) standards can render SEZs more competitive and attractive to investors.** A focus on labour standards and environmentally friendly, gender-inclusive programmes can not only boost the societal contributions of SEZ policies, but also support resource efficiency within the zone. Solid ESG standards can, therefore, furnish substantive positive externalities in terms of the productivity of SEZ-based firms. Increasingly, specialization in "green" sectors enables SEZs to leverage investment flows in areas related to the Sustainable Development Goals (SDGs) as initiatives aimed at providing support to vulnerable groups decrease staff turnover and enhance workers' productivity.
- **Proactive and targeted policy measures are pivotal to ensure that SEZs become policy tools for the diffusion of knowledge, innovation and economic dynamism, both inside and outside their gates.** SEZs are increasingly assessed on their ability to spur economic development beyond their boundaries. To enable innovation-stimulating mechanisms – such as labour circulation, the imitation of SEZ firm technologies and, in particular, the establishment of sourcing linkages between SEZ firms and local suppliers – ad hoc policy interventions, such as supplier development programmes and SME accelerators, can go a long way towards creating fruitful linkages between economic players.

A phased approach to SEZ development can help to avoid putting the cart before the horse. A progressive approach – building on the country's strategic assessment, the SEZ policy design, the specific SEZ set-up and cross-cutting institutional considerations – is needed in all new SEZ development policies. Such an approach is instrumental to avoid launching new zones without a sound SEZ strategic framework and without the relevant laws and regulations already in force. The approach comprises four steps: (1) thoroughly assessing the country's endowments and the main factors that act as growth catalysts and as potential inhibitors; (2) designing the SEZ policy and all its components, including the incentives offered, requirements imposed on investors and the type of zones to be implemented; (3) embedding a robust and original value proposition into the specific SEZ set-up, which implies endowing the zone with locational advantages, high-quality infrastructure and relevant services targeted to the type of investors; and (4) crafting the institutional structure that most responds to a particular country's constraints and objectives, in addition to both ensuring that the SEZ programme benefits from high-level political backing and defining the functions of each institutional actor.

The likelihood of success of any SEZ strategy in Africa depends not only on learning from best practices, but also on adapting those practices to the specific characteristics of the territory and country where the zone will be located. From international evidence and the latest research, a broad set of policy recommendations can be developed for each of the four steps just outlined, drawing on the lessons learned from the case studies in the Handbook (summarized in table 1). Following good practice stemming from decades of international experience in designing and implementing SEZs can, indeed, achieve a higher chance of success. It is also crucial to mitigate the risks often associated with SEZ development. From the importance of identifying key bottlenecks through a diagnostics exercise to the need to think carefully of locational advantages and tailor the services and

Table 1. Lessons learned: SEZ planning, design and implementation

GENERAL LESSONS: Planning & Objectives

1. SEZs are generally not a panacea for growth.
2. Zone growth is difficult to sustain over time.
3. SEZs can positively affect the economic performance of surrounding areas, but there is a strong distance decay effect.
4. SEZ design needs to be tailored to the specific country context. A one-size-fits-all approach will lead to wasteful policies.

SPECIFIC LESSONS: Design & Implementation

Main elements	Lessons
A. Strategic country assessment	
• Comparative advantage • Sectors • Growth constraints	1. Devote enough attention to identifying key drivers of the country's comparative advantage. 2. Choose an adequate sectoral focus. 3. Single out the country's main deficits.
B. SEZ policy design	
• Incentives package • Requirements • Type of zones • Criteria for zone development	1. Tailor the SEZ policy to the country characteristics and target sectors. 2. Avoid overreliance on fiscal incentives. 3. Give the infrastructure aspect sufficient emphasis. 4. Remove regulatory barriers and support local integration of SEZs. 5. Think bigger: size matters. 6. Regularly monitor and evaluate each SEZ, and plan exit strategies for underperforming zones.
C. Specific zone set-up	
• Location • Infrastructure • Services provided	1. Leverage strategic locational advantages. 2. Consider indispensable infrastructure for target sectors. 3. Tailor services to the country environment. 4. Design human resource services to overcome the key challenge of recruitment across sectors. 5. Boost ESG performance as a competitive edge. 6. Assess the financial viability of a zone throughout its development and implementation.
D. Institutional considerations	
• Actors involved in SEZ development • Governance model	1. Ensure coordinated, high-level political support. 2. Develop integrated strategies rather than stand-alone SEZ policies, with particular emphasis on policy coherence across different areas. 3. Place sufficient emphasis on investment promotion. 4. Grant appropriate financial and administrative autonomy to the SEZ authority. 5. Tailor the governance model to the country's institutional capacity.

infrastructure provision to the target investors, these general guiding principles may be instrumental in creating a unique value proposition that is capable of attracting foreign investors and, potentially, outdoing international and regional competitors. That said, context adaptability remains a key element when setting up new zones. Different territories are likely to experience different types of constraints and sources of comparative advantage, implying a need to mitigate the former and leverage the latter through locally tailored solutions.

New-generation SEZ policies will have to be sustainable, adaptive and holistic in order to fully deliver on their mandates. The development of new SEZs will have to take into account the changing reality, with a number of megatrends shaping the restructuring of global value chains. The unfolding of the Fourth Industrial Revolution, the heightened focus on sustainable development and the development of regional value chains will require greater adaptability to a constantly changing reality. Holistic interventions will also make or break attempts to develop SEZs as part of coherent policy packages that create synergies across different policy areas. Moreover, sustainability is expected to play a greater role in defining production patterns and investment location choices. Ultimately, successful SEZs will emerge as a product of the underlying local sources of comparative advantage and the external trends that shape the geographical choices of multinational enterprises and foreign investors. In this context, a concerted, coordinated, whole-of-government approach to the setting up of zones is the quintessence of sustainable, resilient and performing SEZs capable of dynamizing the local economy, but also of transcending the boundaries of the SEZs and contributing to transforming whole swaths of African economies.

CHAPTER 1
INTRODUCTION

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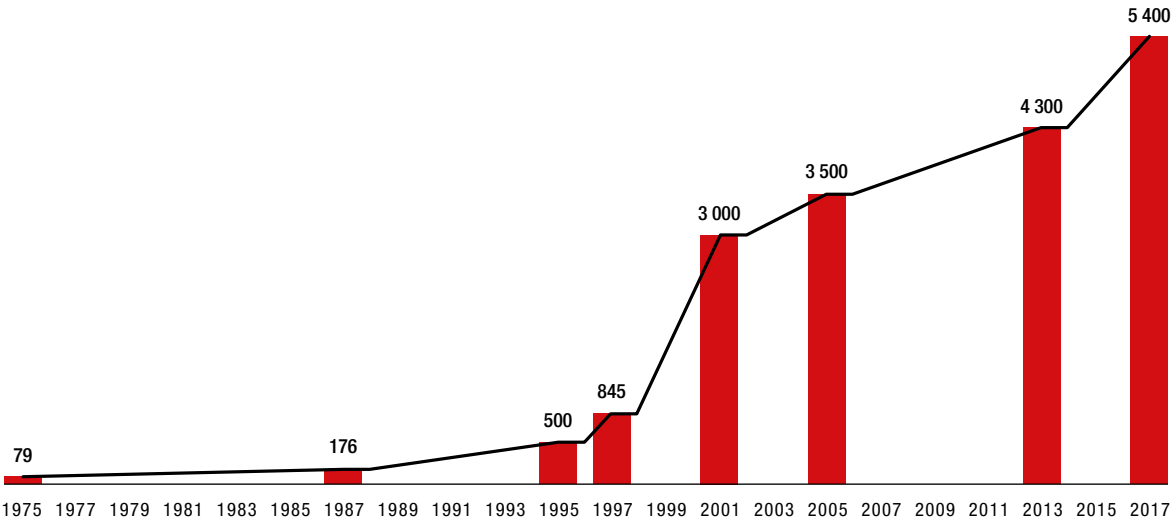
The steep increase over the past two decades in the tally of special economic zones (SEZs) is not a phenomenon peculiar to Africa. It is common across a wide variety of developing countries. As zones proliferate, there is greater pressure to ensure SEZs deliver on their mandates as a way to reduce their – often non-negligible – opportunity costs and strengthen the political case for the development of SEZ regimes. In addition to the traditional challenges faced by African policymakers, emerging megatrends such as the sustainable development imperative, the Fourth Industrial Revolution and changing patterns of international production are bound to shape the fortunes of many African SEZs.

SEZs have become an increasingly important economic development tool across the world. Their use, which was mostly sporadic in the 1970s and 1980s, massively picked up in the late 1990s and early 2000s, and more recently there has been another wave of SEZ development, especially in emerging and developing countries. Governments worldwide, challenged by the rising global competitive pressure to attract mobile industrial activity and the growing importance of global value chains (GVCs), have turned to SEZs as a tool to encourage innovation, productivity and economic growth. Current estimates indicate that there are more than 5,400 zones worldwide (figure 1), with more being developed or in a planning stage (UNCTAD, 2019c). Africa accounts for only about 240 SEZs (4 per cent of the world total), and almost 60 per cent of SEZ policies on the continent were enacted during the past two decades.

Figure 1. Evolution of SEZs globally



Source: Adapted from UNCTAD (2019).

In Africa as elsewhere, SEZs have grown more heterogenous in their characteristics. SEZs can come in many forms, but a number of features distinguish them from other types of development interventions involving firms and inward investment. First, SEZs provide a separate regulatory regime from what normally applies to the rest of the national and regional economy where they are located. Second, they usually offer infrastructure support and incentives and services aimed at facilitating business operations within the zone boundaries. And third, acting as separate customs territories, SEZs typically offer relief from tariffs, including customs duties. These investment-stimulating measures – and more generally, the whole concept of SEZs – have been enthusiastically embraced by many developing countries, especially those that have until now struggled to integrate themselves into GVCs and to attract FDI and multinational enterprises (MNEs). In such countries, the lack of a favourable business climate was often considered a significant barrier to the attraction of economic activity, and SEZs have been sold as the vehicle for overcoming investment-averse ecosystems. In particular, African countries, together with fellow emerging economies in Asia and in Central and South America, have sought to leverage the convenience of enacting economic reforms in a geographically confined area, such as that of zones, in the hope that the economic structural transformation and dynamism that forms in a zone will eventually spill over to the rest of the economy.

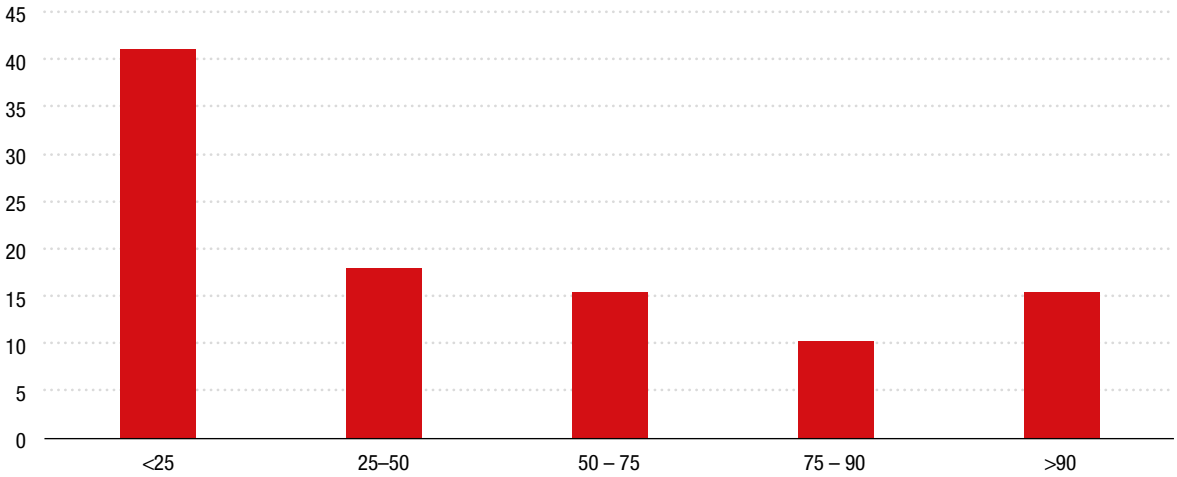
Yet, a regime that awards specific benefits to certain players in the system and offers generous provisions and concessions to firms in certain locations (within the boundaries of an SEZ) can be problematic from a political point of view. It may be politically and economically justified only if the economic returns stemming from establishing an SEZ clearly offset the cost of providing extremely favourable regulatory and trade terms. Though substantially lower when compared with other country-wide economic policy interventions, the cost of SEZs can be traced both to capital expenditures for the provision of infrastructure and to the fiscal revenues forgone as a result of the incentives offered under an SEZ regime.

In return for the provision of fiscal incentives and enhanced infrastructure (among other measures), governments generally expect an increase in exports, FDI and employment, plus an array of more indirect economic benefits originating from the diffusion of innovation and knowledge spilling over from the zone and dynamizing the local industrial ecosystem. In this regard, the evidence on the global performance of SEZs remains so far mixed, with significant variation both across and even within countries. Studies investigating the more static contributions of SEZ policies to FDI inflows, overall growth in gross domestic product (GDP) and employment creation have usually found a positive correlation between SEZs and economic development (for example, Wang, 2013; Alder et al., 2012; Ciżkowicz et al., 2017), whereas those that have investigated the indirect economic benefits – e.g. knowledge spillovers facilitating a gradual upgrade of the local industrial context – have tended to yield negative results (World Bank, 2017b; Alkon, 2018; Frick & Rodríguez-Pose, 2019), pointing to a widespread inability of zones to contribute to the socioeconomic development of the areas they are located in.

The evidence looks even less promising in the African context. Across the whole continent SEZs have been found to underperform even in terms of their more static contributions, such as FDI attraction and job creation (Farole, 2011). Despite the presence of relatively mature SEZ programmes that have managed to achieve a healthy diversification of their portfolio (for case studies in countries such as Mauritius, Morocco and South Africa, see chapter 4), a considerable share of SEZs in Africa remain largely underdeveloped and underutilized. A recent survey of 39 SEZs across the continent revealed that over 40 per cent have filled less than 25 per cent of their zone capacity, with 75 per cent of the zones surveyed having less

than 50 per cent of their allocated land occupied by firms (figure 2). In contrast, only 15 per cent of zones currently operate at full capacity. The underutilization and the underperformance of African SEZs call for the adoption of new approaches based on international best practice and findings from the latest research.

Figure 2. Utilization in 39 African SEZs: share of capacity filled by tenants (Per cent)



Source: UNCTAD & AEZO (2020).

The mixed evidence on the performance of zones is coupled with concerns about the social and environmental performance of SEZs. Their laxer regulatory frameworks governing social and labour standards, together with frequently missing or unenforced environmental protection measures, have been extensively discussed in the literature, with granular case studies pointing at the detrimental impact of zones on labour conditions and the environment (William, 1995; Jauch, 2002; Mansingh et al., 2012). The low capacity of SEZ administrators to monitor and enforce environmental, social and corporate governance (ESG) standards often means that, even when no exemptions are granted, labour and environmental conditions still leave a lot to be desired. At the same time, this status quo is more often being put under pressure and pushed towards rethinking the compromises made to loosen ESG standards in the name of business facilitation. As illustrated in UNCTAD's 2020 *World Investment Report*, the policy momentum towards corporate sustainability has been intensifying over the last decade, with multilateral approaches to ESG standards expanding in scope (issues and industries covered), depth (companies and stakeholders involved) and focus (level of detail of management tools, auditing practices and reporting standards). Sustainability has been likewise recognized as one of the megatrends that will most impact the distribution of international production in the next decade, favouring both diversification to reduce supply chain-related risk and regionalization to shorten value chains, hence cutting distances and decreasing the overall environmental impact of production. Against this backdrop, a paradigm shift towards more sustainable zones – as exemplified by the number of eco-industrial parks (EIPs) presented in this Handbook – could enable African SEZs to benefit from such trends through a blend of economic competitiveness and improved ESG standards.

In addition to the sustainable development imperative, two other contextual trends may affect the future trajectory of African SEZs and have wide-ranging ramifications (table 2). First, rapid technological progress – part of the so-called new industrial revolution and involving the adoption of digital technologies, big data, the internet of things and advanced robotics – is transforming production processes and business models. As a result, what has so far mattered for investors' locational choices, e.g. low labour cost, can lose significance in the future. This will have wide-ranging implications for GVCs and, therefore, for SEZs (the fading relevance of labour costs as a primary investment location determinant is discussed in chapter 4, with evidence stemming from Nigeria, Rwanda and South Africa). The trend towards digitalization has been further accelerated by the current pandemic, which, in turn, has rendered the need to embrace technological change even more compelling. Chapter 4 highlights the positive experiences of certain African countries, such as Morocco, in upgrading their industrial activities towards more high-tech processes through the involvement of SEZs.

Table 2. Disruption of African SEZs' status quo following the advent of megatrends

Megatrends	Status quo	Threats	Implications for SEZs
Sustainable development imperative	Low ESG standards offered on the grounds of business facilitation	Multilateral initiatives aimed to curb unsustainable practices in SEZs Investor flight following potential damage stemming from reputational risk	Shift towards SEZs promoting good practices in environmental and social protection and offering enhanced ESG standards (EIPs and SDG model zones)
New industrial revolution	Low labour costs as a primary draw for international investors Value proposition of African SEZs rarely built on the provision of digital services and other technologies	Erosion of SEZs' value proposition with the reduced importance of low labour costs as a determinant of investment location and the lack of digital technologies in SEZs	Gradual technological upgrading of SEZ industrial activities and inclusion of digital technology services in SEZs' value proposition
African regionalization	SEZs mainly leveraging trade preferences under the AGOA and other trade agreements with non-African countries	Rise of regional tensions, which could see SEZs in the midst of a pure-waste competition; also, loss of SEZs' competitive edge in regional trade agreements	Emergence of regional cooperation opportunities in the form of border and cross-border SEZs

Source: UNCTAD.
Note: AGOA = African Growth and Opportunity Act, EIP = eco-industrial park, ESG = environmental, social and governance, SDGs = Sustainable Development Goals.

Second, heightened efforts towards African regionalism, prompted by new regional trade agreements (RTAs) and in particular the African Continental Free Trade Agreement (AfCFTA, the same abbreviation as for the area), may accelerate the transition of production patterns towards regional value chains (RVCs). As documented in UNCTAD's 2020 *World Investment Report*, regions are assuming more importance and are set to become the new economic arena, as (regional) market-seeking investment is likely to dominate over (global) efficiency-seeking investment. As regional market access matters more and more for investment choice, SEZs are confronted with daunting ramifications: on one hand, SEZs have the opportunity to position themselves as regional hubs catalysing investment through cross-border initiatives and regional cooperation; on the other hand, SEZ competitiveness may be eroded by the status of SEZs within regional agreements, and SEZs may at the end find themselves in the midst of a zero-sum competition among regional competitors. Chapter 3 examines the implications for SEZs resulting from this new wave of regionalism and, specifically, from the introduction of the AfCFTA.

Despite the misgivings still surrounding SEZs' socioeconomic performance and ability to withstand future external shocks, the appeal of SEZs in Africa is likely to continue to grow. Following the relative success of a country such as Ethiopia in using SEZs as a springboard for participation in GVCs, more countries – such as Benin, Eswatini and Guinea, until recently new to the world of SEZ-based developmental strategies – are now enacting SEZ laws and instituting SEZ programmes (Hachmeier & Mösle, 2019). Against this continent-wide backdrop of growing interest in developing well-functioning and well-performing SEZ programmes, new and old African zones do not only face challenges stemming from the current megatrends outlined here, which characterize the international investment environment. They are also constrained by the long-standing struggle to compete in industrial sectors and successfully integrate themselves into GVCs to supply goods and services demanded by consumers around the globe. Therefore, there is a compelling need to form a stock of knowledge that can serve as the backbone of capacity-building interventions for African regional and national authorities in the design and planning of effective and development-oriented SEZs. In this regard, the comprehensive empirical evidence and resulting lessons learned provided in this Handbook can be a powerful tool in addressing both the more traditional shortcomings of African SEZ programmes and the forthcoming changes in GVCs and investment patterns set to originate from regulatory changes, the adoption of sustainable practices, technological progress and the consolidation of RVCs.

The main objective of this Handbook is to serve as a guide for African policymakers in designing and implementing SEZ development programmes or programmes aimed at improving existing SEZs. The Handbook aims to contribute to the building of SEZ programmes and strategies that connect existing and future SEZs to the ecosystem in which they are inserted. In this respect, the idea is to move beyond approaches based on SEZs as enclaves and towards more integrated approaches in which SEZs are able to spur innovation, employment generation and economic dynamism outside their boundaries. In doing so, the Handbook provides both food for thought for the conceptualization of new-generation zones as well as actionable recommendations, based on theoretical and empirical evidence, for designing and implementing growth-oriented and sustainable SEZs. That said, the evidence and guidelines presented in this volume refrain from offering a model for the establishment of the perfect zone: as highlighted throughout various sections, the context dependency of SEZ development should deter policymakers from adopting universal models of zone design and set-up without adaptation to the specificities of local contexts.

The Handbook is divided into six chapters. This chapter – Introduction – describes the background against which the development of zones in Africa has taken place and against which they should be benchmarked. It emphasizes a number of trends, some of those inherently specific to the African context and others generally applicable to the global investment climate: (i) the growing adoption of SEZs, (ii) the underperformance of SEZs – relative to expectations – and their limited ability to ignite socioeconomic development in surrounding territories, (iii) the renewed concerns about SEZs' ESG performance, (iv) the rising competitive pressure to attract investment in mobile industrial activities, (v) the heightened attention to the sustainable development imperative, (vi) the changing patterns of international production and (vii) the new wave of African regionalism. Each of these elements is further elaborated throughout the Handbook.

Chapter 2 – Overview of African SEZs – provides the definition of SEZ used in the Handbook and examines some key characteristics of African SEZs. It maps the evolution of SEZs in recent decades and reviews some of their distinctive features. The first half of the chapter analyses

individual zones. The aspects reviewed include (i) the number of SEZs, (ii) the type of SEZs, (iii) the size, (iv) the governance model, (v) the number and ownership of SEZ-based firms, (vi) the number of jobs created and (vii) the target sectors. In the second half of the chapter, SEZ governance policies are examined along the following attributes: (i) date of establishment, (ii) objectives and institutional positioning, (iii) incentives and services offered, (iv) requirements and (v) ruling authority.

Chapter 3 – The AfCFTA and the future of SEZs – analyses the implications for African SEZs of the AfCFTA and, more generally, the recent wave of African regionalism. The chapter reviews the current trend of African regional integration, assessing the extent of both RTAs and intra-African trade. It then discusses the issues at stake that characterize the nexus between RTAs and SEZs. SEZ laws are also examined. The chapter also builds on an international case study comparing the approach to regulating SEZs adopted in the free trade agreements (FTAs) of the Association of Southeast Asian Nations (ASEAN) and the Southern Common Market (Mercosur). Overall, the chapter provides food for thought on the kind of adjustments that can be taken by SEZs to capitalize on the opportunities of enhanced regional integration.

Chapter 4 – African SEZ practices and lessons learned – presents African and non-African case studies of SEZs based on six thematic areas: (i) the strategic focus, (ii) the role of investment promotion and institutional collaboration, (iii) the local context, (iv) international partnerships, (v) ESG standards within zones and (vi) the indirect dynamic gains. Lessons learned are extracted for each thematic area, also drawing from non-African cases, which tend to have a longer trajectory than their African counterparts.

Chapter 5 – Guidelines and policy recommendations – presents a step-by-step guide to SEZ development covering the four key elements of any SEZ intervention: (i) the strategic country assessment, (ii) the design of SEZ policy, (iii) the design of the specific zone and (iv) cross-cutting institutional considerations. The second part of the chapter provides a set of lessons learned and recommendations stemming from both international best practice and the latest research on SEZs. Examples are also provided to illustrate how the recommendations could look like in practice.

Finally, chapter 6 – Concluding remarks – pulls together the topics covered in the Handbook, summarizing the main themes. It also draws on the main aspects that emerge from the analysis to set out the limits of SEZs as economic development tools and a vision that outlines three key dimensions of future-proof and growth-oriented zones, namely the holistic, the sustainable and the adaptive dimensions.

CHAPTER 2
SEZs IN AFRICA

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SEZs – geographically delimited areas where governments promote industrial activity through both fiscal and non-fiscal incentives, in addition to providing infrastructure and improved services – are spreading across the African continent. Zones in Africa go by different names and often include various provisions to the benefit of investors. Although the tally of zones and SEZ policies is trending upward, evidence indicates that African SEZs are not always delivering the expected benefits. Moreover, the overreliance on fiscal incentives and performance requirements often overshadows more positive attributes of SEZ policies, such as the provision of high-quality infrastructure and social amenities for workers.

2.1 NOMENCLATURE OF SEZs USED IN THE HANDBOOK

SEZs have evolved to different forms and often go by various names in different countries. In this Handbook, we refer to an SEZ as *a geographically delimited area where governments promote industrial activity through both fiscal and non-fiscal incentives, in addition to providing infrastructure and improved services* (UNCTAD, 2019c). Despite this broad definition, SEZ forms have plenty of variations depending on the sort of activity zones focus on. Some widely recognized characteristics have been singled out as common (Baissac, 2011; Bost, 2019):

- A **geographically delimited area**, which differentiates SEZs from growth poles and industrial clusters, which can spread across several locations
- A **distinct regulatory regime** for investors and firms, which differs from the regime that applies at the national or subnational level
- **Multiple firms involved**, which sets SEZs apart from single-factory zones
- **A zone management facility and administration** whose tasks include coordinating activities in the zone, ensuring services are reaching companies in the zone and forming a bridge between businesses in the zone and the government
- **A distinct land policy** providing, for instance, a separate customs area or facilitated export procedures
- **Provision of improved infrastructure** aimed at supporting the firms and tenants operating in the zone, including real estate, roads, electricity, water and telecommunication

Not all SEZs in this Handbook display all these attributes, although many possess several. The Handbook allows for some flexibility, including different types of SEZs (Bost, 2019):

- **Free zones (FZs) and free trade zones (FTZs):** usually geographically delimited areas located near major international transport nodes. These are the oldest type of SEZs, and their industrial activities are usually limited to processing operations (i.e. packaging, labelling, sorting) and logistics (i.e. warehousing, storage, sales).

- **Export processing zones (EPZs):** originally focused exclusively on export markets, since the 1990s the type of activities allowed in EPZs has expanded considerably. This type of zone is usually fenced-in land considered external to the national customs territory.
- **Freeports:** traditionally developed near ports and along major trade routes, they occupy vast areas and usually host warehousing and logistical activities. Examples in Africa are the Luba Freeport in Equatorial Guinea and the Freeport in Mauritius.
- **Special economic zones (SEZs):** SEZs are usually broad territories, sometimes covering entire regions or provinces, whose aim is not solely to foster exports and FDI inflows, but also to attain such comprehensive objectives as regional development and local industrial upgrading. An example of this type of zone is the Suez Canal Economic Zone in Egypt, which covers 46,000 hectares (ha) along the Suez Canal and contains six seaports and two airports.

Notably, two types of zones are not included. First, single-enterprise zones, so-called free points, cannot strictly be classified as SEZs since they do not refer to a specific geographical area, although the advantages and constraints of single-enterprise zones are frequently similar to those of firms established in SEZs (Bost, 2019). That said, the Handbook acknowledges the all-important role that free points have exerted in some countries, including some in Africa such as Kenya and Mauritius; therefore they are included in the analysis of successful cases and best practice whenever relevant. Second, traditional industrial parks (IPs) and science parks, often linked to universities, may not fall under the definition of SEZ used in this report if they do not operate under a distinct legal regulatory framework.[1]

Finally, in this Handbook, the term "SEZ" is used as a generic term, encompassing all of the different types of zones, following UNCTAD's suggestion in the 2019 *World Investment Report.* This does not come without ambiguity as "SEZ" can refer both to a specific type of zone – wide-area zones – and to the entirety of zone types open to investors (Bost, 2019). To ensure coherence, then, unless otherwise specified – as in section 2.2.2 – SEZ is used as an across-the-board term throughout the Handbook.

2.2 OVERVIEW OF SEZs IN AFRICA

This section presents an overview of African SEZs through three analytical lenses: (i) the number of SEZs by country and their evolution across past decades, (ii) the types of SEZs that have been adopted in African countries and (iii) the characterization of SEZs, including their size, governance type, number of firms hosted, number of jobs created, target sectors and value of exports.

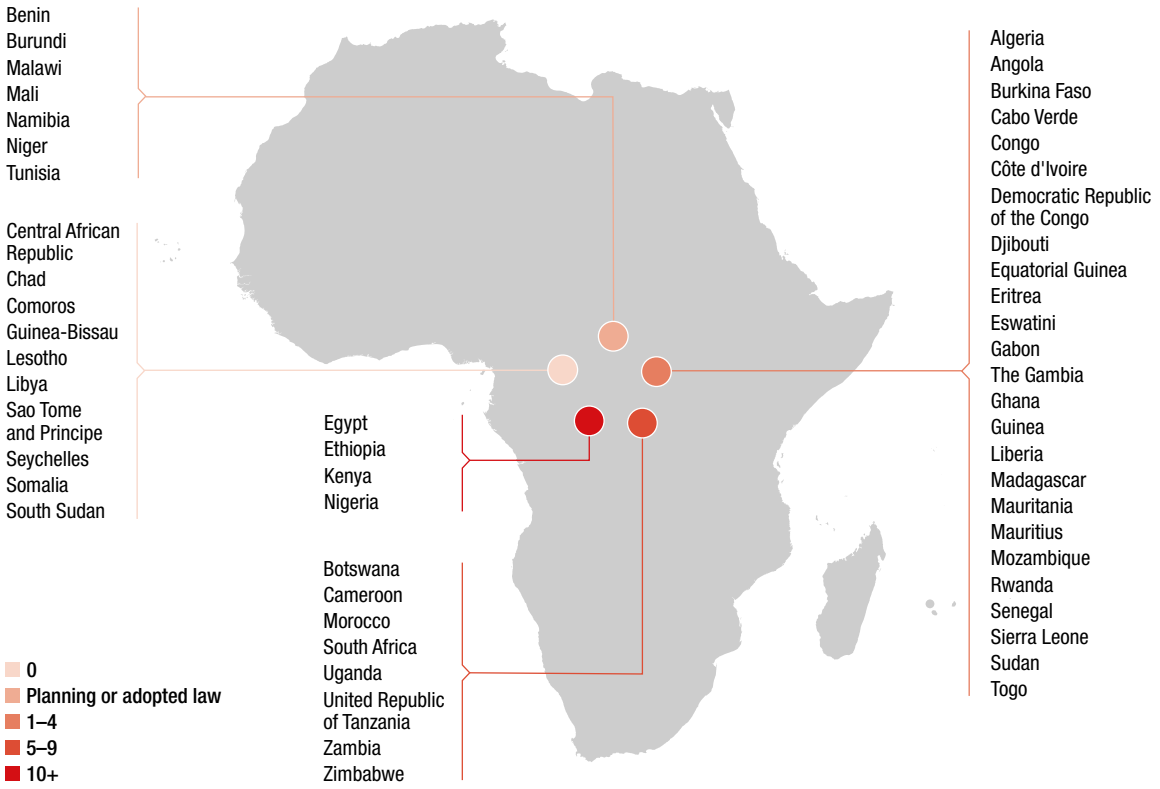
Although African countries have frequently been labelled as latecomers when it comes to the adoption of SEZs, economic zones are now becoming more and more widespread in the continent. The highest numbers of SEZs can be found in Kenya, Nigeria, Ethiopia and Egypt; East Africa is where most SEZs are located. The traditional enclave-like model of EPZs is still prevalent across African countries, although countries have increasingly sought to establish integrated, wide-area SEZs to benefit from the indirect economic contributions – e.g. local industrial upgrading and knowledge spillovers – generally associated with this type. Moreover, private and public governance models account for the large majority of African SEZs, though many of the new zones under development see the governments partnering with the private sector through different types of public-private partnerships (PPPs).

That said, African SEZs typically host few firms, and their contributions to national employment remain marginal, except in small countries located along major trade routes that have successfully deployed SEZs as a main source of domestic employment – e.g. Djibouti. Finally, the majority of African SEZs are multi-activity zones, with only a handful of SEZs being developed as specialized production centres of the type of certain zones in Ethiopia and Morocco.

2.2.1 Numbers

Despite SEZs gaining traction relatively late in Africa, with most programmes being adopted in the 1990s and 2000s, to date 37 of the 54 countries in the continent have established by law at least one SEZ. Other countries are currently planning the establishment of a zone (figure 3).[2]

Figure 3. Number of SEZs by country

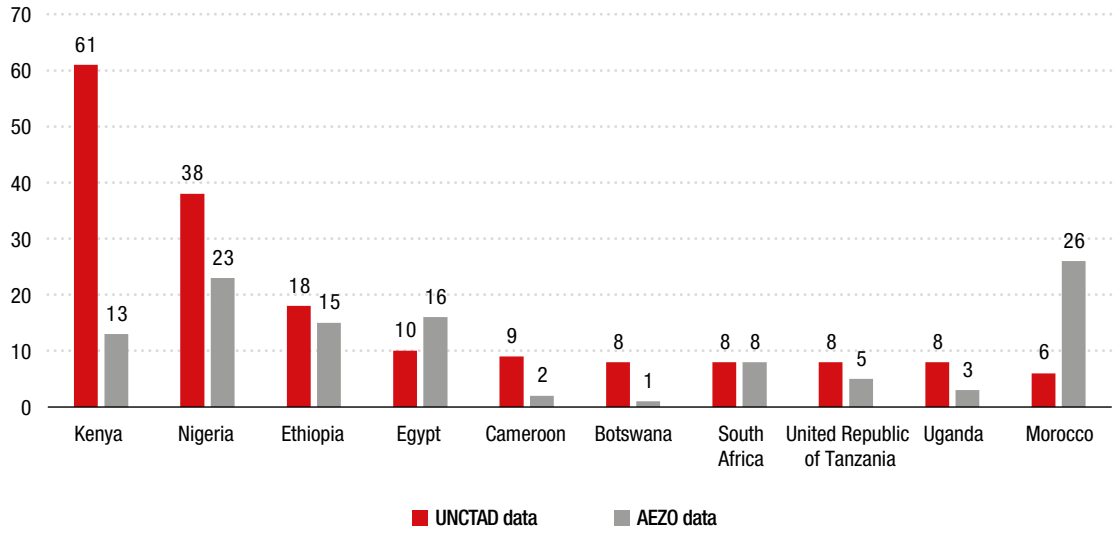


Source: UNCTAD.

Africa is a relatively small player in the SEZ market. Overall, an estimated 237 SEZs have been established by law in Africa, representing about 4 per cent of the tally of zones around the world (UNCTAD, 2019d). Yet, the number of fully operational SEZs is estimated to be about half of that amount, given that at least 56 zones are under construction and others are still at an early stage of development. Because of the challenges of finding reliable data that distinguish fully operational zones from those not hosting firms yet, the analysis that follows considers instead all SEZs established by law. In addition to those, there are at least 203 single-factory free points – not counted for the purpose of this Handbook. The largest concentrations of SEZs can be

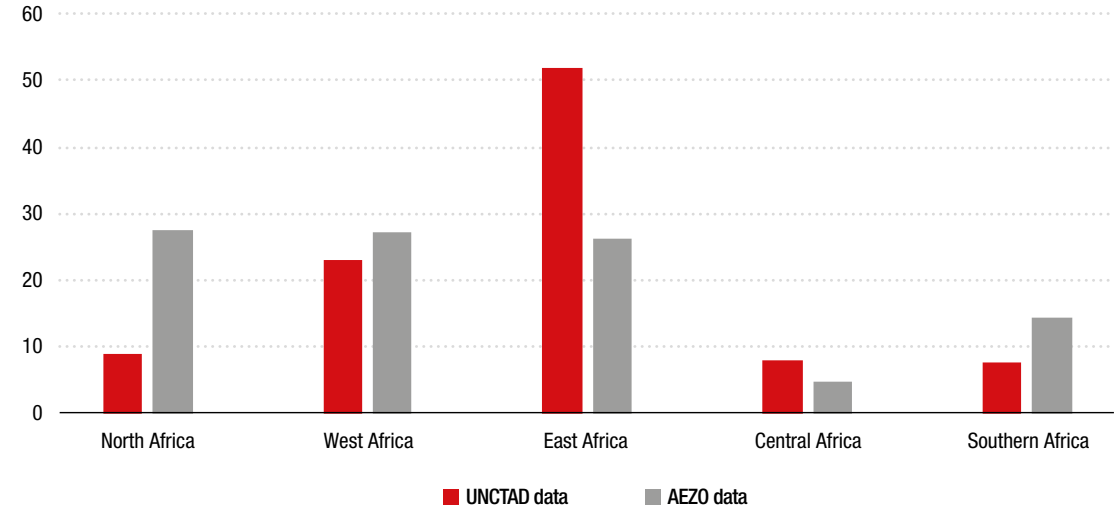
found in Kenya (61), followed by Nigeria (38), Ethiopia (18) and Egypt (10). The subregion that hosts the most SEZs is East Africa, with approximately 50 per cent of the total, followed by West Africa (24 per cent) and North Africa (10 per cent) (figures 4 and 5).[3]

Figure 4. African countries with the most SEZs



Source: UNCTAD & AEZO.

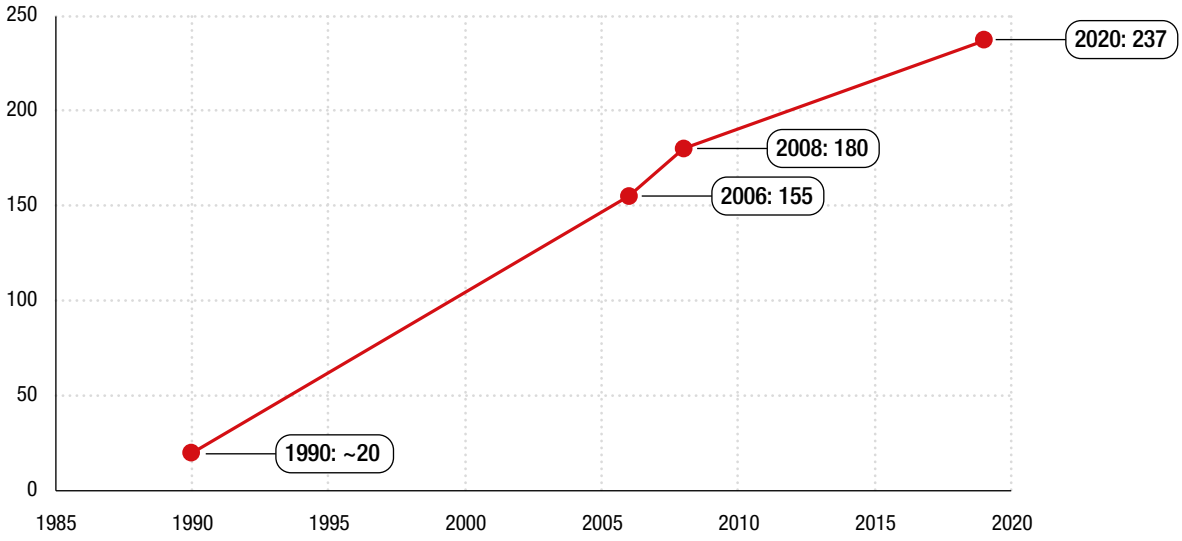
Figure 5. Share of SEZs by subregion (Per cent)



Source: UNCTAD & AEZO.

The number of SEZs in Africa increased steadily in the last two decades, propelled by the successful implementation of some SEZs in Asia and in Central America. As a result, the number of African countries operating SEZs grew from 4 in 1990 to 38 in 2020. That said, it remains the world region with the highest number of countries without SEZs (currently 16). The number of SEZs on the continent rose from about 20 in 1990 to 237 in 2020. Figure 6 illustrates the proliferation of SEZs that took place in Africa in those 30 years.

Figure 6. Indicative historical trend of SEZs in Africa



Source: 1990: calculations by authors, 2006: ILO, 2008: FIAS, 2020: UNCTAD.

Two trends are driving the recent proliferation of SEZs. On one side, countries with mature SEZ programmes are seeking to further expand and diversify their zone portfolio through the development of new SEZs. This is the case in Egypt, Morocco and South Africa, which have steadily increased their numbers of SEZs in the last two decades. Moreover, Ethiopia has sought to enlarge its SEZ policy by establishing new SEZs in the last five years: notable cases are the Hawassa IP set up in 2016 and the Bahir Dar IP launched in 2019. On the other side, many other African countries have recently established their first SEZs in an attempt to attract FDI and promote industrial restructuring. For example, in 2015 Botswana established by law its first eight SEZs. In 2017 the Republic of Congo established four SEZs, namely the Pointe Noire SEZ, Brazzaville SEZ, Ouesso SEZ and Oyo-Ollombo SEZ. That same year, Guinea launched its first SEZ in Boke, near the border with Guinea-Bissau, with the intention of creating a logistical hub for its agriculture and mineral industries. Burkina Faso, Madagascar and Mali have established new zones in recent years and have zones in development. The recent proliferation of SEZs in Africa has touched countries at all development stages and income levels (table 3).

Although the development of SEZs can take several years and it is yet to be seen how many of the SEZs currently under construction eventually become operational, the current pace of SEZ development and planning suggests that African zones are set to become an ever more prevalent industrial policy tool in the next years. Indeed, in addition to the 56 zones under development, there are nearly as many being planned – at least 53 (UNCTAD, 2019d).

Table 3. Examples of SEZs established in 2015–2020

SEZ	Country	Year of establishment
SSKIA SEZ	Botswana	2015
Hawassa IP	Ethiopia	2016
Boke SEZ	Guinea	2017
Brazzaville SEZ	Republic of Congo	2017
Djibouti International FTZ	Djibouti	2018
Monrovia IP	Senegal	2018
Bahir Dar IP	Ethiopia	2019

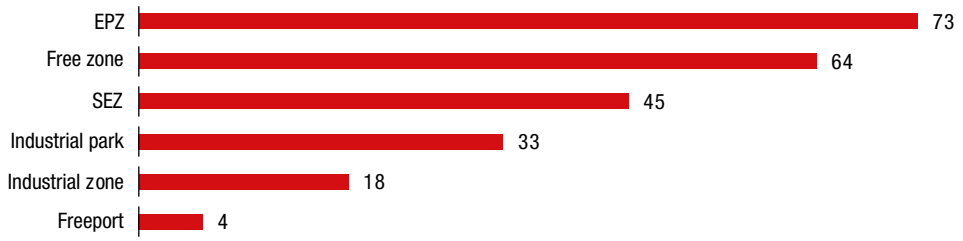
Note: Sources for year of establishment of SEZs in Burkina Faso, Madagascar, Mali and Mauritania conflict.

The growing tally of SEZs is set to further concentrate zones in East Africa, since over half of the new projects are being undertaken by countries in that subregion (AEZO, 2019). Nevertheless, SEZs are likely to increase in numbers in West Africa as well, as countries have sought to revamp their SEZ programmes (e.g. Senegal, with the new Diamniadio Industrial Park) and others have either established their first zones (e.g. Mauritania, with the Nouadhibou FZ), or embarked on preliminary feasibility studies (e.g. Benin, which recently launched preliminary studies for the Glo-Djigbé SEZ, intended to attract investment in the agroprocessing industry close to the country's largest city, Cotonou).

2.2.2 Types

Traditionally, the EPZ model has attracted significant interest from African countries as a way to take advantage of favourable trade preferences under the Multi-Fibre Arrangement and later the United States Africa Growth and Opportunity Act (AGOA), a trade agreement offering duty-free access to the United States for qualifying sub-Saharan African countries. As shown in chapters 3 and 4, this type of SEZ has grown increasingly problematic in light of current attempts to create more linkages with local economies and in view of the enhanced regional integration propelled by the AfCFTA. That said, EPZs remain the most widespread type of zone in Africa, with 73, representing about 30 per cent of the total (figure 7). Following EPZs, free zones are the second-most used type in Africa, representing about 27 per cent of all zones. Free zones are widely deployed in Egypt, Ghana and Morocco, among others. SEZs understood as wide-area zones are becoming more popular across Africa, with a total of 45 – approximately 20 per cent of the total.

Figure 7. Number of zones by type (Total = 237)



Source: UNCTAD.

Although EPZs took centre stage during the past two decades, in recent years there has been a drift away from them towards SEZs. For instance, in 2015 Egypt launched the Suez Canal Economic Zone, which incorporates six ports and four industrial zones located along the canal. South Africa has embarked on a process of bridging its industrial zones towards the SEZ model in order to boost indirect economic gains in regions near the zones. In Kenya, although its flagship EPZ – the Athi River EPZ – still accounts for about half of employment and firms in the country's zones, ambitions to build SEZs have been growing, as evidenced by the establishment of the Naivasha and Dongo Kundu SEZs. Of the other types of SEZs, IPs and industrial zones represent only 14 and 7 per cent of all zones, and freeports remain limited to small, strategically located countries such as Equatorial Guinea and Mauritius.

In response to growing concerns about global climate change and environmental sustainability, a new type of zone has emerged around the world in the last few years, integrating investment solutions with low-carbon and green growth objectives (Kechichian & Jeong, 2016). These zones – also referred to as eco-industrial parks (EIPs) – remain extremely scarce in the African context. A few examples can be singled out in South Africa, which hosts the Atlantis SEZ (ASEZ), focusing on renewable energy; in Egypt, where attempts to green existing zones have included the adoption of enhanced and modern waste treatment plants; and in Ethiopia, with its recently established EIP for highly polluting textile companies in the city of Hawassa. That said, the diffusion of sustainable SEZ models has been relatively limited in Africa vis-à-vis the experiences in East Asia and South-East Asia.

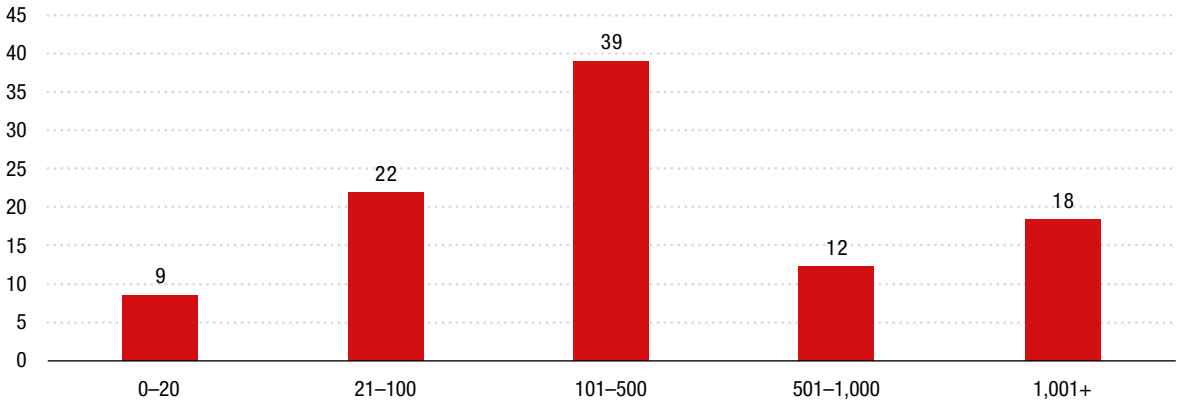
It is worth noting that national differences in definition do not always correspond to differences in zone characteristics (i.e. size) and objectives. SEZs understood as wide-area zones tend to aim at the creation of spillovers and linkages with local economies and do not adopt incentives solely based on exports, but this is not always the case. At times, the differentiation of zones according to types results merely from different national legal classifications, thereby fuelling what has been referred to as "terminological anarchy" (Bost, 2019).

2.2.3 Characterization of SEZs

2.2.3.1 Size

African SEZs display a varying, yet fairly balanced distribution in terms of area (figure 8). Almost 40 per cent of African SEZs fall in the bracket between 100 and 500 ha. This is in line with other regions of the world: for instance, in Asia roughly 38 per cent of SEZs fall in the same bracket (UNCTAD, 2019d). Mid-sized SEZs between 100 and 500 ha are evenly spread across the continent, with the majority of zones in Cameroon, Ethiopia, Ghana, Morocco and Rwanda falling in this bracket. Wide-area zones of 1,000 ha or more constitute less than 20 per cent of total SEZs. These zones are often large, integrated zones built as townships with residential areas and amenities. Some of the largest zones can be found in Nigeria, with both Ogun Guangdong FTZ and Sebore Farms SEZ expanding on areas of more than 10,000 ha. Another example is the flagship zone of Angola, the Luanda-Bengo SEZ, which covers more than 2,500 ha. Yet, caution should be exerted when assessing the incidence of large zones: although several SEZs report their size as the earmarked land area, in practice only a portion of the total area might be effectively utilized and occupied by firms.

Figure 8. Share of SEZs by size (Per cent by range of hectares)



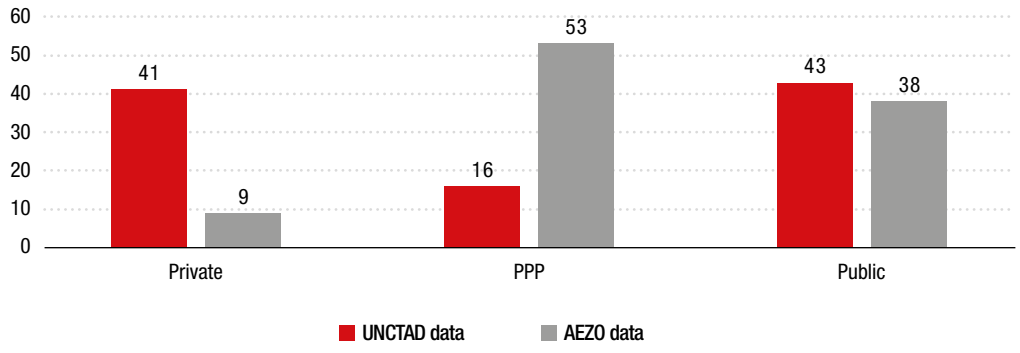
Source: UNCTAD.

The size of SEZs is likely to be determined by a number of factors, including the type of target industries, number of firms, and implementation capacity and financial resources of governments. While offering more advantages in terms of clustering and knowledge spillovers, wide-area zones usually require additional funding by governments, which also need to possess adequate capacity to design and develop megaprojects such as region-wide zones. The nature of the target sectors and industries can also determine differences in size. Agrizones and natural resource-intensive zones typically require vast land areas for the hosted firms' operations. For instance, in the Republic of Congo, more than 160,000 ha have been earmarked for the Brazzaville SEZ, currently under development and focusing on horticulture and the palm sector. In contrast, technology-intensive activities typically require smaller land areas.

2.2.3.2 Governance model

African countries have adopted different governance models for their SEZs. About 43 per cent of African SEZs for which data are readily available are publicly run, meaning that the government or the SEZ authority is directly in charge of handling every aspect of SEZs, from regulating to developing to operating the zone (figure 9). Almost as many SEZs are privately run, representing 41 per cent of the total. Hybrid models, usually operationalized through PPPs, have gained traction only recently and today represent roughly 16 per cent of all African SEZs.[4]

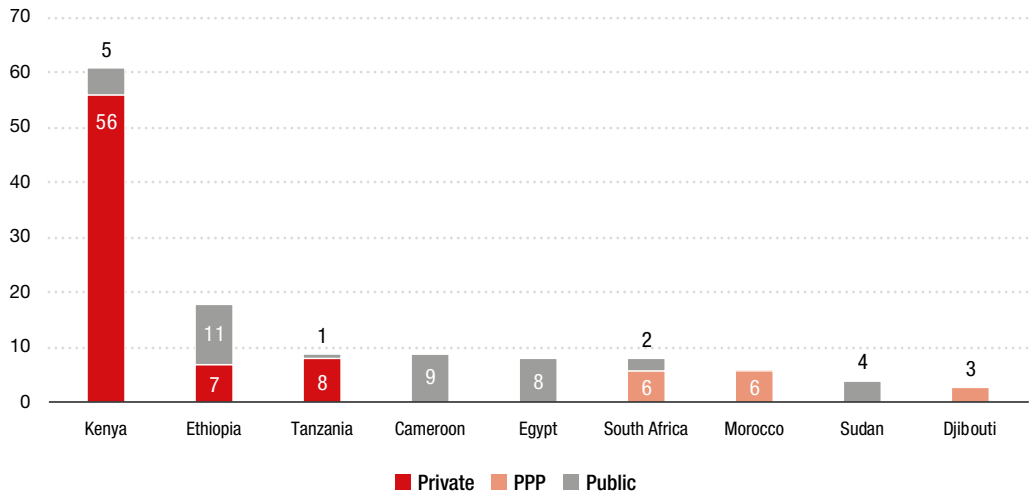
Figure 9. Share of SEZs by governance model (Per cent)



Source: UNCTAD & AEZO.

Whereas some countries have chosen to adopt one governance type for all their zones, others have implemented a combination of organizational set-ups according to the zone (figure 10). For instance, in Djibouti all established SEZs are governed under hybrid models. Moreover, zone development in that country has increasingly included capital from Chinese firms. Other SEZs set up under PPPs include the VITIB in Côte d'Ivoire, a technology park administered by a joint venture between the Government of Côte d'Ivoire and private partners such as India Exim Bank, the West African Development Bank and the ECOWAS (Economic Community of West African States) Bank for Investment and Development. In Morocco, free zones fall under the auspices of the Ministry of the Economy and Industry and are usually developed and managed by public companies with co-investment by the private sector – i.e. Medz Group CDG and the Tanger Med Special Agency (TMSA). In contrast, other countries chose to use a combination of governance models for their SEZs. For instance, Ethiopia has a balanced distribution between private and public SEZs, with 7 zones owned and managed by private companies and 11 in the hands of the government. Differently – despite having established 5 publicly run SEZs – Kenya mainly relies on the private model, with 56 SEZs handled by private entities.

Figure 10. SEZs by governance model in selected countries



Source: UNCTAD.

African public SEZs can be owned and managed by different levels of government. The majority are owned by the central national government, but in countries where regional and local governments possess adequate institutional capacity and there is political will to decentralize governance, SEZs are owned, regulated and managed by regional institutions. In South Africa, for instance, the majority of SEZs are owned and managed by the provincial governments where they are located. Other countries have sought to involve local stakeholders in the governance structure of zones: in Morocco, a representative from the Agency for the Promotion and Development of the North sits on the supervisory board of the TMSA, the entity responsible for regulating the free zones located in the Tangier hinterland. Nevertheless, these efforts towards decentralization remain limited to more developed African countries.

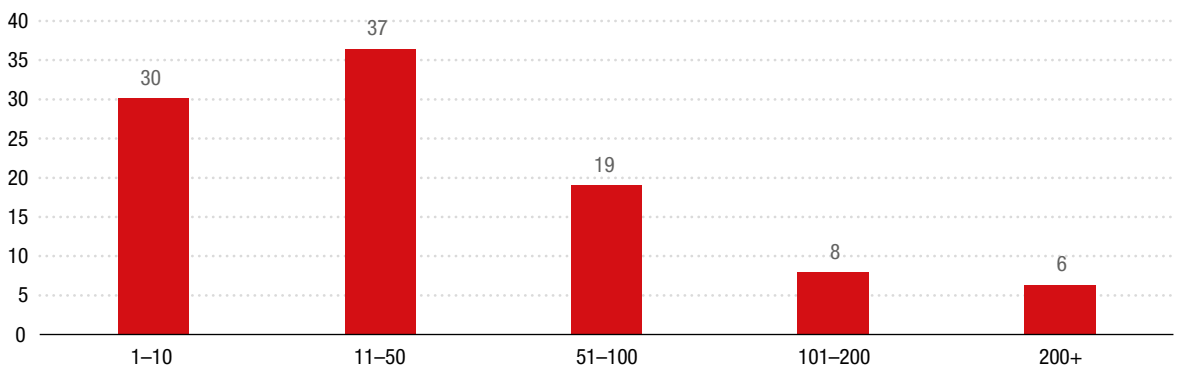
Finally, foreign consortia are increasingly involved in the development and management of African SEZs, as international partnerships are gaining momentum on the continent. China is planning to build – directly or through joint ventures – seven overseas SEZs in Africa, including the $3.5 billion Djibouti International FTZ, developed by the Government of Djibouti in partnership with three Chinese companies. Chinese involvement can also be found in Algeria, Angola, Ethiopia and Nigeria, among others. Besides China, other international players have been active in developing and managing SEZs in Africa. As mentioned, the VITIB in Côte d'Ivoire was developed with the financial assistance of the Indian bank Exim, whereas the Nkok SEZ in Gabon sees the involvement of the Singapore Cooperation Enterprise, a government agency. Similarly, in Sierra Leone the First Step SEZ was developed and is managed by a United States non-governmental organization, World Hope International, and Zambia established its SEZs with the support of the Japanese International Cooperation Agency. As shown in the case studies of chapter 4, the involvement of foreign actors on one hand enables African countries to leverage international expertise on SEZs, but on the other presents challenges in terms of coordinating and aligning objectives among stakeholders. That said, the role of foreign consortia is likely to continue to grow as African countries see them as an opportunity to gain access to financial and implementation assistance.

2.2.3.3 Numbers and ownership of firms

Lack of accessible and reliable data makes it extremely challenging to assess the numbers of firms located in African SEZs. To add to the complexity, many SEZs report firms that are registered in the SEZ programme, though they might not be operational or even have an industrial presence in the zone. This is the case in Nigeria, where the Kano FTZ, reports that 33 firms are registered but only 13 are operational, and the Calabar FTZ, has 70 firms registered but only 28 operational. Other SEZs report the number of firms expected once the zone is fully developed.

Attempting to overcome data constraints, the analysis here of a sample of SEZs portrays a picture with few operational firms per zone (figure 11). On average, these African zones host no more than 60 firms.[5] Over half of these zones host fewer than 50, and only 6 per cent host more than 200 firms. Some of the SEZs hosting the greatest numbers of firms can be found in Egypt and Morocco. The Tanger FZ in Morocco, with its 750 firms, is one of the largest on the continent (TMZ, 2021). In Egypt the Alexandria FZ hosts 405 firms, and other long-established zones the Suez FZ and the Nasr City FZ have attracted 183 and 200 firms, respectively (GAFI, 2021b).

Figure 11. Share of SEZs by number of firms (Total = 63) (Per cent)



Source: Based on national SEZ authorities.

Notably, some SEZs located in relatively small economies have managed to attract a considerable number of firms. For instance, the Kigali SEZ in Rwanda and the Nkok SEZ in Gabon can count more than 80 firms each, whereas in Togo the FZ hosts 45 firms, in Zambia the Chambishi Multi-Facility Economic Zone (MFEZ) hosts 41 and in Equatorial Guinea the Luba Freeport accommodates more than 30. Yet, some SEZs house only a handful of firms, signalling that either they lack locational advantages or they are still at an early stage of development. This is the case in the First Step SEZ in Sierra Leone, the Talab EPZ and the Vipingo EPZ in Kenya, the Monrovia IP in Liberia and the Sandiara SEZ in Senegal, each hosting fewer than 10 firms.

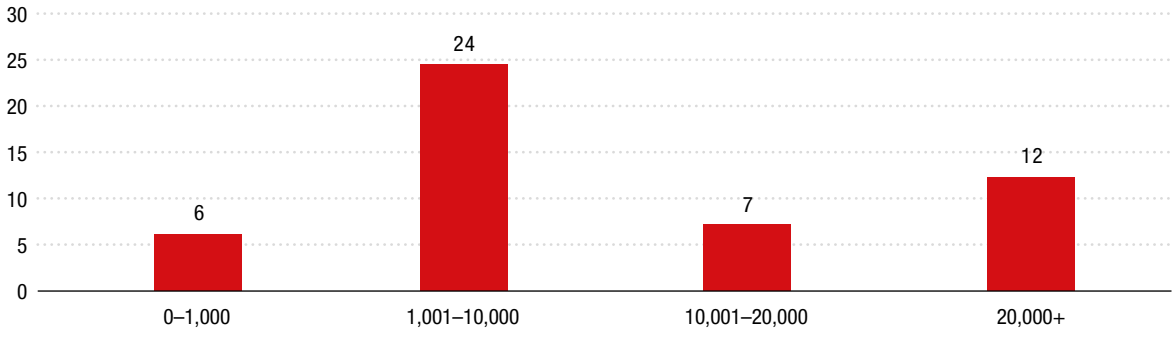
Finally, although data on firm ownership remain scant, anecdotal evidence from selected countries indicates that the majority of firms in African SEZs are foreign owned. In Kenya in 2019, 37 per cent of firms registered in the national SEZ programme were domestic, 40 per cent foreign and the remaining 23 per cent were joint ventures between Kenyan and foreign firms. Among the foreign-owned firms, the countries most represented were China, India, Taiwan Province of China, the United Kingdom, Belgium and the Netherlands (EPZA, 2020). In Ethiopia, only 30 per cent of firms were domestic, while 68 per cent were foreign and 2 per cent were joint ventures between Ethiopian and foreign firms (IPDC, 2020).

A number of factors can help explain the low participation of local firms within SEZs. First, governments may refrain from attracting domestic firms into SEZs given the fiscal revenues forgone by the State due to the incentives offered under the SEZ programme relative to the national fiscal regime. Second, especially in the early development stages of SEZs, the target firms are large and foreign on the grounds that such firms can provide signalling effects to other investors. And third, local firms might not possess the capital to meet the investment requirements set by SEZs in order to open shop under favoured customs regimes.

2.2.3.4 Number of jobs

Beside attracting firms, SEZs generally aim to generate employment. Indeed, a static economic gain widely cited when it comes to the introduction of SEZs is the zones' employment contribution. Employment contributions by SEZs can come either as direct contributions – that is, the actual jobs deriving from economic activities within the zone – or as indirect contributions that take into account the economic activities that support industries in the zone.[6] To date, among a selected sample of 49 fully operational African SEZs, about half have created between 1,000 and 10,000 jobs each in their respective economies (figure 12).

Figure 12. Share of SEZs by number of jobs created (Total = 49) (Per cent)



Source: Based on national SEZ authorities.

For instance, in Senegal the Diamniadio IP, established in 2018 some 40 km from the capital city of Dakar, has created over 4,000 jobs to date. It is expected to generate jobs for more than 20,000 people through the establishment of foreign companies active in labour-intensive industries, such as garments and textiles (UNIDO, 2018b). Indeed, in terms of jobs created, a large contribution comes from the establishment of C&H Garments, a Chinese textile company that also operates in Ethiopia and Rwanda. Other recently established SEZs have managed to generate significant employment contributions. In the Atlantic FZ, established in 2012 close to Kenitra, a town of 450,000 in north-western Morocco, the 21 firms have so far been accounted responsible for generating approximately 10,000 direct jobs (MEDZ, 2019). Similar achievements in terms of employment creation have been accomplished in the Suez FZ in Egypt, the Chambishi MFEZ in Zambia and the Calabar FTZ in Nigeria.

Among the key factors that influence the employment contribution of a zone is its sectoral focus. Specialized zones that host firms in highly labour-intensive industries, such as garments and textiles, tend to report higher numbers of jobs, whereas zones that target industrial activities with higher technological content provide less employment – although they might perform better on other indicators, such as value of exports and FDI inflows. Reflecting the traditional positive correlation between labour-intensive industries and jobs created, SEZs in Ethiopia report some of the highest levels of employment contribution. The Hawassa IP has so far generated more than 30,000 jobs, whereas the Bole Lemi IP, developed in collaboration with the World Bank, has generated about 20,000 jobs in the garments, textiles and leather industries. Other SEZs among the 25 per cent of African zones generating more than 20,000 jobs include, in Morocco, the Tanger FZ, one of the largest zones in Africa, counting about 65,000 employees on its premises (and almost 90,000 jobs when considering the whole Tanger Med Zones (TMZ) ecosystem); in Egypt, the Alexandria FZ and the Nasr City FZ, each accounting for more than 70,000 jobs; and in South Africa, the Coega SEZ, with more than 30,000 workers. At the other end of the spectrum, high-tech SEZs, such as the ASEZ in South Africa, which specializes in green tech, and small SEZs that host only a handful of firms, such as the GIETAF SEZ in the Gambia, report fewer than 500 jobs generated.

Finally, the number of jobs created by SEZs need to be contextualized with the total national employment in industrial activities. Indeed, the national employment contributions of African SEZs remain limited. A sample of 12 African countries was selected for analysis of the national employment contributions of zones. Apart from the SEZ in Djibouti – a country of less than a million people located on one of the major world trade routes – SEZs in the sample account for between 1 and 5 per cent of national employment in the industrial sector (table 4). Notably, this also holds for labour-intensive SEZs in countries, such as Ethiopia and Egypt, with high employment contributions in absolute terms relative to the rest of Africa. When compared with SEZs in the rest of the world, African SEZs fall short in employment contributions. Apart from Cambodia, the selected non-African countries in table 4 consistently report double-digit SEZ employment contributions as a percentage of national employment in the industrial sector. In particular, SEZs in small Central American countries, such as Honduras and the Dominican Republic, register the highest contributions in relative terms (about 30 per cent), and those in larger countries in Asia, such as Malaysia, the Philippines and Viet Nam, report direct employment of over 1 million in absolute terms and over 15 per cent in relative terms. In China, where SEZ employment has been the highest to date, zones represent roughly 14 per cent of national industrial employment.

Table 4. Employment contribution of national SEZs in selected countries

Country	SEZ direct employment, 2019 or most recent estimate	SEZ employment as share of national industrial employment, 2019 (%)
African countries		
Angola	5,000	1
Djibouti	27,000	48
Egypt	400,000	5
Ethiopia	200,000	4
Ghana	30,000	1
Kenya	60,000	4
Morocco	150,000	5
Rwanda	13,000	2
Senegal	4,500	1
South Africa	110,000	2
Tanzania, United Republic of	45,000	3
Togo	15,000	3
Non-African countries		
Cambodia	90,000	3
China	30,000,000	14
Dominican Republic	160,000	36
Honduras	125,000	30
Malaysia	1,000,000	23
Philippines	1,400,000	16
Viet Nam	3,000,000	19

Source: SEZ employment from national SEZ authorities (indicative) and UNCTAD (2017); national industrial employment from World Bank Development Indicators.
Note: Definition of SEZ employment may vary across countries. Numbers for SEZ direct employment are indicative and reflect UNCTAD's classification of SEZs.

2.2.3.5 Target sectors

Another distinctive feature of SEZs is their sectoral specialization or lack of it. The vast majority of African SEZs (89 per cent) are multi-activity zones, hence not focusing on a specific sector but rather hosting a variety of industrial activities (figure 13). Countries at different stages on the development ladder and with different levels of productive capabilities have adopted multisectoral zones. For instance, all nine operational SEZs in Cameroon are multisectoral and their firms operate in industrial activities ranging from agribusiness and steelworks in the Douala-Bonabéri Industrial Zone (IZ), to wood-processing and oil in the Yaoundé-Sud IZ. The flagship zones in both Ghana and Kenya, the Tema FZ and the Athi River EPZ respectively, encompass a large variety of industrial activities. Although the majority of SEZs are multi-activity zones, some sectors are more represented than others: several zones host firms that operate in the food-processing industry or in natural resource-intensive industries, such as oil and gas or wood.

Figure 13. Share of SEZs by target sector (Total = 237) (Per cent)

Source: UNCTAD.

Only 10 per cent of all African SEZs appear to be specialized, meaning that they focus on specific sectors (e.g. services, natural resources), specific industries (e.g. garments, automotive, electronics) or GVC activities (e.g. R&D centres, business process outsourcing (BPO)). Examples of specialized zones are found in Morocco, where the Tanger Automotive City specializes in the automotive industry, the Casablanca Midparc FZ focuses on aeronautics, and Rabat Technopolis and Oujda Technopolis target technology-intensive sectors. Moreover, specialization can occur in lower value added industries, such as garments and textiles, or oil and gas. Ethiopia has so far established 13 sector-focused zones, of which 10 are targeting the textile and garment industries, two aiming for construction and one – the Kilinto IP – focusing on pharmaceuticals.

The remaining 1 per cent of African SEZs are logistics hubs, which usually provide commercial, warehousing and logistics services and are located close to seaports and airports for transshipping and re-export. Examples of logistics hubs are the freeport established in Mauritius and the Luba Freeport in Equatorial Guinea.

2.3 SEZ GOVERNANCE POLICIES

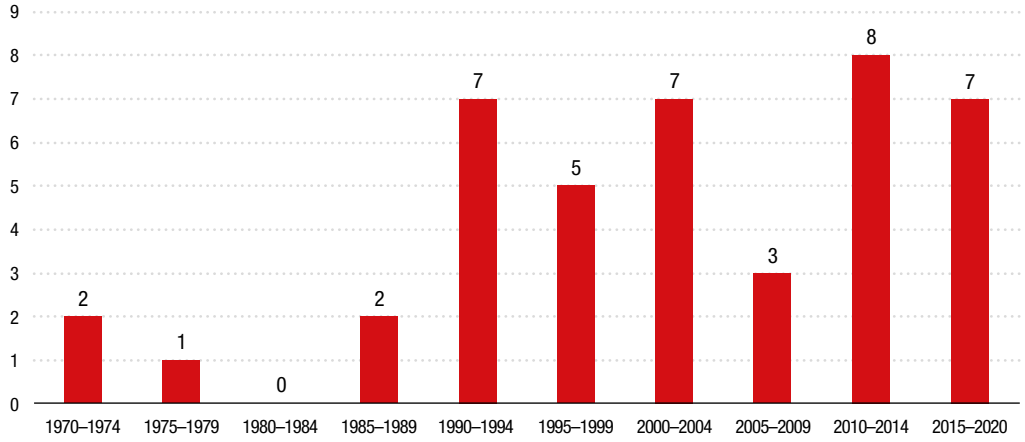
Each SEZ is typically part of a broader national SEZ programme which ensures a certain degree of standardization and alignment across all zones. SEZ programmes are established through national laws, which set the objectives and expected outcomes of SEZs, the incentives provided under the SEZ regime and the requirements to be imposed on SEZ-based firms. Moreover, SEZ programmes tend to be governed by an independent SEZ authority that can take different forms and be involved to varying degrees in the development and management of SEZs. This section provides an overview of SEZ programmes across Africa, highlighting some of their key features, including date of establishment, objectives, incentives and services offered, establishment and operational requirements for companies, and the presence of an independent SEZ authority.

2.3.1 Date established

SEZ policies are a relatively recent phenomenon in Africa. Although a handful of pioneering African countries, such as Egypt, Liberia, Mauritius, Senegal and Togo, established their first SEZ programme before 1990, SEZ policies only started to become popular on the African continent from 1990 onwards (figure 14). Today at least 42 SEZ programmes can be counted in Africa. Almost 60 per cent of African SEZ policies have been enacted since 2000, owing to the emulation by African countries of successful cases of zones around the world. The trend further accelerated in the last decade, with 35 per cent of SEZ policies entering into force from 2010 to 2020. The trend in Africa is generally in line with the rest of the world, where about 70 per cent of all SEZ programmes have been established since 2000 and 40 per cent in the last decade (UNCTAD, 2019d).

Many African countries have sought to update SEZ laws enacted in the 1990s; thus, although 17 countries adopted programmes before 2000, many of them have amended original legislation or created parallel programmes. For instance, in 2004 Mauritius amended its first law with the Freeport Act; in 2017 Senegal adopted a new SEZ policy targeting specifically the establishment of wide-area SEZs; and in the same year, Liberia enacted = its Special Economic Zones Act. Other countries have adopted a double regime, usually with the intention of keeping in place a regime based on EPZs while introducing legislation for new SEZs (understood as wide-area zones). For example, in 2015 Kenya adopted the Special Economic Zones Act, which supplements the 1990 Export Processing Zone Act.

Figure 14. Number of SEZ programmes adopted by periods (1970–2020)



Source: UNCTAD.

2.3.2 Objectives and institutional positioning

Another characterizing dimension of SEZ governance policies is their objectives and the overall institutional positioning vis-à-vis broader strategies for national economic development. The objectives of SEZ policies can entail (i) purely quantitative growth goals, such as FDI attraction, trade promotion, job creation and an increase in exports; (ii) dynamic growth objectives, including skill development, industrial upgrading, integration into value chains, economic diversification and the diffusion of knowledge and innovation; or (iii) socioeconomic objectives related to sustainable development, the quality of employment and protection of the environment (UNCTAD, 2019c).

In Africa, many SEZ policies – about 45 per cent – include goals related to job creation, FDI attraction and other quantitative objectives. Others – roughly 40 per cent – include dynamic growth objectives. For instance, whereas in Togo the SEZ programme goals mainly concern export promotion and job creation (Togo, Law No. 2011-018), in Mali the SEZ policy focuses on dynamic objectives such as structural diversification of the economy, transfer of knowledge and greater productivity of local firms (Mali, Law No. 2012-016).

A minority of SEZ policies – approximately 15 per cent of the total – establish some sort of socioeconomic objectives. In Rwanda, for instance, alongside goals of a more quantitative nature such as the attraction of foreign investment and the provision of infrastructure, the SEZ policy aims to promote a high-quality business climate with an emphasis on environmental protection (Rwanda, Law No. 05/2011). In Liberia, the SEZ law includes a number of far-reaching objectives such as the de-urbanization of highly populated cities, environmental and labour sustainability, and the advancement of human rights (Liberia, 2017 Special Economic Zones Act). And in South Africa, the underlying rationale for the creation of SEZs entails the attainment of decent work conditions and broader social benefits to surrounding communities (South Africa, Law No. 16/2014).

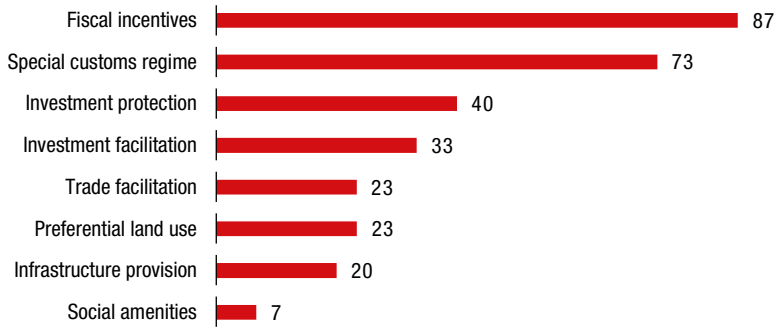
In addition, SEZ policies can be more or less integrated in broader national development strategies. In some countries – especially those where SEZs are many and the SEZ programme is relatively mature – the SEZ policy complements national and regional industrial development plans. In Kenya, for instance, SEZs have been integrated in Kenya Vision 2030, an action plan

that sees zones at the forefront of industrialization and technological development through their boost of manufacturing activities (Kenya Vision 2030, 2020). In Ghana, free zones have been functional to the objectives of the Gateway to West Africa programme, intended to elevate the country to become an investment destination serving the West Africa region. In other countries, such as in Malawi and the Sudan, SEZ programmes have been conceived as stand-alone policies with little or no integration into national industrial plans.

2.3.3 Incentives and services offered

SEZ policies employ a variety of investment attraction instruments, including fiscal incentives, preferential customs treatment, investment and trade facilitation tools, and value added services as well as the provision of social amenities. Fiscal incentives remain the most prevalent incentive used by African SEZ programmes to lure investors and attract FDI. Almost 90 per cent of African SEZ policies provide for fiscal incentives (figure 15). Fiscal incentives can take different forms, such as a tax exemption for a limited period, normally between 5 and 10 years, or a reduced tax rate. Tax breaks frequently include the exemption of profit taxes, corporate taxes and income taxes. In Kenya the 2015 Special Economic Zones Act, for example, provides for a 10-year corporate income tax holiday, a 25 per cent tax rate for 10 years thereafter and a 10-year withholding tax holiday on dividends and other remittances to non-resident parties (Republic of Kenya, 2015). Certain countries provide for tax deductions for skill development programmes sponsored by SEZ-based firms and targeted to local workers, such as in Egypt where the government covers part of the expenses incurred by firms for vocational training (UNCTAD, 2017b). Others tie the provision of fiscal incentives to the use of local content or local employees, or compliance with specified export performance. For instance, in Mali the Code des Investissements permits the concession of tax breaks only after compliance with specific export targets (UNCTAD, 2019c).

Figure 15. Incentives and services offered by SEZ policies (Per cent)



Source: UNCTAD.

In some African countries fiscal incentives have both a temporal and a spatial component. In addition to temporal phasing-out, fiscal incentives can be tied to the particular location in order to incentivize firms to invest in lagging and rural regions. In Ethiopia, for example, IP developers enjoy a 10-year income tax exemption if they locate in Addis Ababa or in SEZs in the surrounding area of Oromia, but a 15-year exemption in zones farther from the capital city (EIC, 2017). Similarly, in Togo firms operating under the SEZ regime and active in remote and

lagging areas – namely the Kara region and the Région des savanes – enjoy extra incentives, such as an extension of the salary tax reduction (for 15 years vis-à-vis 10 years in coastal areas) and exemption from customs duties (for the first 15 years vis-à-vis 10 years in coastal and central areas) (Togo, Law No. 2011-018).

In addition to fiscal incentives, more than 70 per cent of African SEZ policies embrace a special customs regime, which typically includes duty-free treatment for goods, plants and machinery imported into the zone. Among other countries, Ethiopia, the Gambia, Kenya, Mauritius, South Africa and the Sudan offer zero customs duties on imports of capital equipment and production inputs. In general, the exemption of customs duties is more frequently found in EPZ regimes that attract companies for the mere re-export of finished goods than in SEZ regimes that instead plan the development of wide-area zones whose objectives move beyond export performance towards more dynamic economic gains such as the upskilling of the local industrial ecosystem.

The third most-used instrument for attracting investment are investment protection measures, which are present in 40 per cent of SEZ policies. Investment protection measures may include (i) protection against expropriation and unlawful seizure, as in the 2017 Special Economic Zones Act of Liberia and the 2012 Code des investissements of Mali; (ii) guarantees against nationalization, as in the 1995 Free Zone Act of Ghana; and (iii) protection against compulsory pricing, as in the 2017 Investment Law regulating SEZs in Egypt. Other SEZ programmes include non-discriminatory clauses for the equal treatment of foreign and domestic investors – e.g. as in the 2004 Code des zones franches of Djibouti.

Approximately one third of SEZ policies include some sort of investment facilitation measure. Often the SEZ programme provides a single window or one-stop shop to facilitate businesses' access to government services. One-stop shops can be found in Ethiopia, Morocco, Rwanda and Senegal, among others, although with varying degrees of efficiency. Some countries also streamlined preregistration procedures, by providing a list of documents and deadlines for successful approval of applications, as in the case of the Rwanda Development Board, which clearly sets out the 17 steps required to obtain an SEZ user licence (Rwanda Development Board, 2021). Other investment facilitation measures include the establishment of business accelerators and incubators to provide technical assistance and to ensure the availability of work facilities (e.g. Kenya) and the elimination of restrictions on employment of foreign employees within zones (e.g. Nigeria and Djibouti). Many zones also allow for 100 per cent foreign ownership of firms, along with looser rules on repatriation of profits (UNCTAD, 2019c).

In addition, roughly 23 per cent of African SEZ governance policies address trade facilitation, with the aim of reducing waiting times at borders, removing cumbersome formalities and clarifying rules and regulations. For instance, in Gabon the SEZ programme offers the option to report any movement of goods to or from zones or between SEZ companies on a single form filed monthly with a one-stop service (Gabon, Law No. 010/2011). Other SEZ programmes, such as that of Egypt, grant the possibility of dealing with tax records for import and export procedures entirely online so to reduce bureaucracy and administrative tasks (GAFI, 2021a). Finally, certain SEZ policies, such as that of Ghana, aim to reduce formalities through, for instance, the removal of import license requirements.

An equal number of SEZ policies – 23 per cent – grant preferential land use to SEZ-based firms. Usually, preferential land use translates into subsidized land and rent through a permanent or temporary exemption from lease payment or a reduced application of rent.

Among African countries that offer preferential land use are Madagascar, Mali, Mauritania, Nigeria and the United Republic of Tanzania (UNCTAD, 2019c).

An even smaller number, corresponding to 20 per cent of African SEZ programmes, mention the provision of infrastructure as an investment attraction tool within the SEZ laws. In Togo, for instance, the Government grants preferential rates for port services, telecommunication, electricity and water supplied to enterprises established in the zones (Togo, Law No. 2011-018). Other governance policies set out guidelines to determine which agent is responsible for providing the infrastructure. For example, in Mauritania the provision of basic infrastructure, such as water, electricity, fuel and telecommunication, may be carried out by SEZ-based companies and the Government through PPPs (Mauritania, Law No. 2012/052). That said, the recent establishments of wide-area SEZs may challenge the status quo. What are being called new-generation zones – or Zones 2.0, that is zones which have larger areas and more linkages with the local economy and that are multifunctional and less reliant on incentives (Zeng, 2016a) – tend to reinforce their value proposition through the provision of enhanced infrastructure rather than the largesse of fiscal incentives. For instance, in the newly established Suez Canal SEZ in Egypt, investors are required to pay corporate taxes at 22.5 per cent, in contrast with the full exemption granted under the FZ regime; however, they can benefit from improved and integrated infrastructure that extends to the whole region, offering power and desalination plants as well as road and railway networks well integrated with regional projects in neighbouring countries (SCZone, 2021).

Finally, only 7 per cent of African SEZ policies, including those of Liberia and Cameroon, provide social amenities within zones. Social amenities may include health facilities, recreation facilities and educational institutions. It is worth noting that in some countries, despite not being explicitly set out by SEZ laws, individual zones – usually private zones – have some leeway in deciding which incentives and services they want to offer to investors, including the provision of social amenities and value added facilities. For example, most zones in Morocco, such as the Midparc SEZ in Casablanca and the Technopolis in Rabat, offer social amenities within their boundaries that include health facilities, training centres, banks, praying centres, hotels and restoration facilities (Ministry of Industry, 2021); in the Athi River EPZ in Kenya, on-site facilities include a health clinic and restaurants for the zone staff (EPZA, 2015); similarly, the Bole Lemi I IP in Ethiopia is planning residential and recreational areas in the zone as a way to attract additional workers (IPDC, 2021).

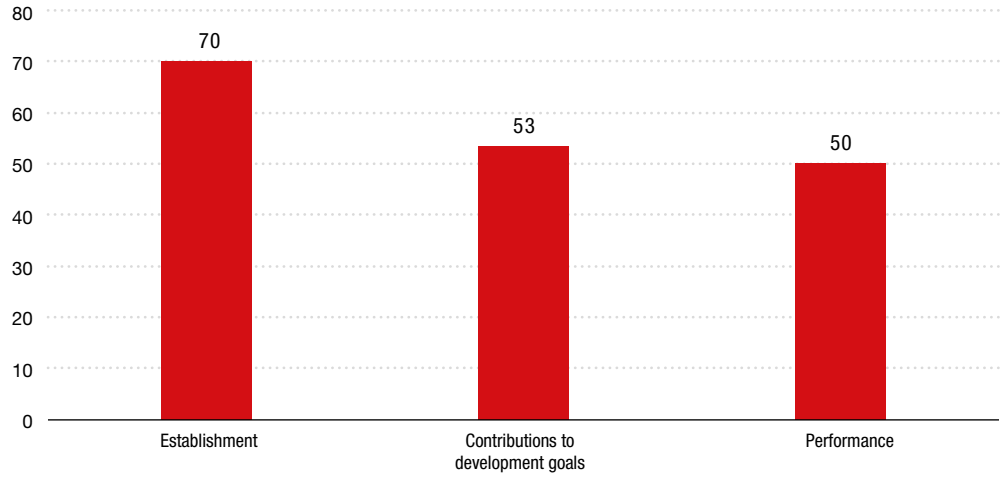
The distribution of incentives and services offered across African SEZ policies is relatively aligned with the global average, although a few characteristics make the African case stand out. Indeed, similarly to Africa, fiscal incentives and a special customs regime are the most prevalent incentives offered by SEZ policies worldwide (UNCTAD, 2019c). The shares of African SEZ policies providing for trade and investment facilitation, for basic infrastructure and for social amenities are also consistent with the global experience – 40, 20 and 4 per cent respectively (UNCTAD, 2019c). What can be singled out is a greater tendency by African SEZs to put in place investment protection mechanisms in order to mitigate the challenges deriving from weaker governance and regulatory systems. Notably, a greater proportion of African SEZs – 40 per cent – appear to offer investment protection measures to investors than do SEZs in the rest of the world, where the share stands at 33 per cent. This factor may indeed reflect the higher levels of political and regulatory risk experienced by investors in Africa vis-à-vis in the rest of the world (UNCTAD, 2019d).

2.3.4 Requirements

Given the extensive incentives and services conferred under SEZ policies, the majority of SEZ programmes foresee certain requirements that firms need to meet in order to invest and operate in zones. Three main categories of requirements implemented by SEZ governance policies can be singled out (UNCTAD, 2019c): (i) a minimum amount of investment, which sets out of the base capital commitment required for a firm to establish operations within the zone; (ii) expectations of contributions to certain development goals, such as job creation, integration with local industry and energy efficiency; and (iii) specific performance requirements, which typically focus on employment-related obligations, export performance and skills transfer.

Establishment and operational requirements are relatively conventional across African countries (figure 16). In particular, establishment requirements can be found in 70 per cent of all SEZ policies, frequently involving prerequisites in terms of minimum investment committed they are widespread across countries at different development stages. For instance, the SEZ policy in the United Republic of Tanzania establishes three requirements for obtaining an operating license for an investment project: (i) it should be a new investment; (ii) it should have minimum investment capital of $100,000 for local investors and $500,000 for foreign investors; and (iii) it must be located within the designated SEZ area (Kinyondo et al., 2016). Similarly, in Djibouti firms need to commit at least $140,000 for their initial investment (Djibouti, Law No. 53/AN/04).

Figure 16. Types of requirements in SEZ policies (Per cent)



Source: UNCTAD.

Expectations to contribute to development goals appear in more than half of African SEZ policies. Whereas some policies include requirements strictly related to the value and volumes of exports, other policies incorporate development goals that cover social and economic benefits for local communities. For example, in Botswana investors are evaluated on the basis of “indicative performance standards”, which include the values, volumes and markets of target exports, whereas in Eswatini investors need to meet key requirements that include the generation of innovative economic activities, the promotion of local industry integration and the creation of employment and other socioeconomic benefits (UNCTAD, 2019c).

At times, development goals may also include environmental standards. In Madagascar, SEZ-based firms are expected to contribute to socio-environmental goals: as part of the application process, each firm needs to be granted an environmental licence, which is based on a diagnostic study conducted by the SEZ authority with the purpose of evaluating the environmental impact of firms' productive processes. In addition, firms are expected to contribute to the development of local communities and the adoption of sound environmental policies (Madagascar, Law No. 2017/023).

Finally, performance requirements are mentioned in 50 per cent of African SEZ governance policies. Specific operational requirements can relate to skills transfer, export requirements and employment-related obligations. For example, in Madagascar investors need to report to the zone authority on the type of training offered to local personnel (Madagascar, Law No. 2017/023), whereas in Ethiopia investors are subject to local staff requirements – investors must gradually substitute foreign personnel with Ethiopian personnel by transferring skills and knowledge (Ethiopia, Law No. 886/2015).

Export requirements are also widespread among African SEZs. In Gabon, for instance, investors operating under the SEZ regime are required to export at least 75 per cent of production (Gabon, Law No.010/2011); in Uganda and the United Republic of Tanzania at least 80 per cent of an SEZ-based firm's production needs to be exported (Uganda, Free Zones Act 2014; United Republic of Tanzania, Special Economic Zones Act 2012). In those countries with an SEZ policy paralleling the EPZ regime, export requirements may differ between the two, with the EPZ policy typically being stricter. For instance, in Egypt under the EPZ regime investors are required to export at least 80 per cent of their production, but under the SEZ regime there are no specific export requirements (Egypt, Law No. 2002/83).

Beside operational requirements related to skill transfers and exports, several African countries impose other employment-related obligations. Investors in SEZs in Djibouti need to employ citizens for at least 30 per cent of their total workforce by the end of the first year of operations, a share that rises to 70 per cent after five years (Djibouti, Law No. 53/AN/04). In Egypt, investors in the FZ scheme are required to retain at least 500 permanent employees for their zone activities (Egypt, Law No. 2002/83).

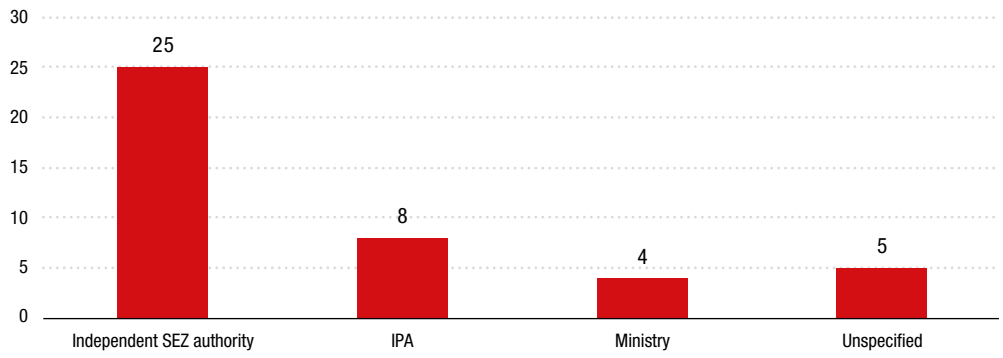
Compared with governance policies in the rest of the world, those in African SEZs appear to be generally more restrictive. Whereas worldwide only about 40 per cent of all SEZ programmes include criteria that companies must meet in order to invest and operate in a zone, in Africa the proportion is almost double – just under 80 per cent (UNCTAD, 2019c). Although such criteria are usually intended to shield domestic competitors from foreign investors, the sort of requirements used by African zones – especially performance-based criteria – can be a double-edged sword and can substantially deteriorate the investment climate, thus undermining the attraction of FDI flows (FIAS, 2008). This topic is addressed in greater detail in chapter 3 in relation to the AfCFTA and in chapter 5 with a focus on international best practice.

2.3.5 Ruling authority

The ruling authority is responsible for overseeing the development and consistency of the SEZ programme, and it can be involved to varying degrees in the management of zones. Although SEZs can be developed according to different models and the participation of the State can vary depending on whether a public or a private model is employed (for a description of the models, see chapter 5), SEZ programmes are eventually initiated by the will of governments;

hence a State entity typically supervises the overall progress. The State entity overseeing the SEZ programme can be either an independent SEZ authority, a ministry – usually the Ministry of Industry or any other relevant ministry – or the national investment promotion agency (IPA). In Africa, 25 of the 42 countries with SEZ policies – nearly 60 per cent – rely on an independent SEZ authority to regulate their zones (figure 17). SEZ authorities can either be limited to regulating SEZs or be in charge of developing and managing SEZs, depending on the governance model chosen by the government. Notably, African countries with well-established SEZ programmes tend to have autonomous authorities whose sovereignty extends outside ministries and other national investment institutions (e.g. IPAs), while political commitment is ensured by placing relevant ministries and government officials on the authority's board of directors. In some cases, SEZ authorities have been subsequently merged with IPAs. This is the case, for instance, of Mozambique's Agency for Investment Promotion and Exports, created in 2016 through the merger of the Investment Promotion Centre, the Special Economic Zone Authority and the Institute for Export Promotion. The institutional capacity of SEZ authorities can vary greatly across countries: Egypt's GAFI can count more than 2,000 employees, whereas countries with resource-constrained bureaucracies might fail to endow such entities with adequate management capabilities and financial resources (Mangal, 2019). Countries with autonomous SEZ authorities include Côte d'Ivoire, Egypt, Ghana, Kenya and Mauritania, among others.

Figure 17. Number of SEZ policies by type of ruling authority (Total = 42)



Source: UNCTAD.

Moreover, in Africa eight countries – almost 20 percent – delegate the management of SEZs to IPAs. Although assigning the task of regulating the SEZ programme to IPAs undermines one of the key assumptions behind SEZs – that is, bypassing the traditional investment channels – it is often the option of choice for African countries that have either limited institutional capacity or limited land area. For instance, Burkina Faso, Eswatini, the Gambia and Zambia assign the mandate of overseeing SEZs to their national IPAs.

Finally, four African countries entrust the supervision of their SEZ programme to relevant ministries. Notably, the Republic of Congo established an ad hoc Ministry of Special Economic Zones in 2009 by government decree and tasked it with the overall design and implementation of the country's four SEZs (currently under development). Other countries that regulate SEZ programmes through ministries include Liberia (Ministry of Commerce and Industry) and Senegal (Ministry of Investment and Partnership Promotion).

2.4 CONCLUSION

This chapter has provided a systematic overview of African SEZs, mapping the key features of individual zones and SEZ programmes in the continent. The analysis has focused on the number and type of zones, some characterizing features such as the number of firms hosted and the employment created, and certain attributes of SEZ governance policies, including the incentives offered and the requirements imposed on investors.

Three main takeaways can be drawn from our analysis. First, African SEZs are growing in number and changing in nature. This trend can be observed both in the number of single SEZs being developed and set up and in the number of countries that are adopting SEZ laws and ad hoc regulations. Moreover, there is evidence to suggest that the traditional enclave-like EPZ model is losing its allure, paving the way for the establishment of new-generation zones that occupy greater territories and use a broader array of investment levers. Recent developments in Egypt, Kenya and South Africa, among others, corroborate such a shift. That said, if the upward trend implies that SEZs can indeed play a greater role as instruments for economic development and the attraction of investment and innovation into the African context, the trend also underscores that there will be an ever-great need to single out good practices that can inform the actions of African policymakers. Indeed, should the increasing number of SEZs turn out to be unsuccessful or poorly performing, the potential economic loss and opportunity cost could be huge for countries already afflicted by long-lasting economic and institutional deficits.

Second, the risk of having a growing multitude of underperforming zones is made even more concrete by the fact that, to date, the ability of African SEZs to attract firms and create jobs has been rather limited. Apart from some notable cases such as those in Egypt, Ethiopia, Mauritius and Morocco, SEZs in Africa have struggled to gain the kind of traction experienced by zones in East Asia and South-East Asia. Moreover, most of the successful cases of African zones, in terms of firms attracted and jobs created, remain restricted to those African countries that already enjoy a better investment climate than their neighbours. The levels of employment creation and firm attraction – outlined in this chapter – achieved by zones in Kenya, Mauritius, Morocco, Rwanda and South Africa well represent this trend. In this regard, SEZs experienced difficulties to be catalysts of firms and employment in severely constrained countries where the establishment of zones was largely motivated by hopes of addressing major economic and institutional bottlenecks. This further reinforces the need for evidence-based policymaking informed by research and international best practice in order to avoid costly false steps during the current wave of SEZ proliferation, which is also driven – as shown in this chapter – by African countries with limited institutional capacity and experience in implementing SEZs.

Finally, the analysis indicates that in Africa SEZ governance policies display high reliance on fiscal incentives and performance requirements, at times more restrictive than those in the rest of the world, but that more progressive attributes of SEZ governance policies, i.e. social amenities and other value added facilities, remain mostly yet to be seen among SEZ laws. Although the advent of SEZs (understood as wide-area zones) may change the pattern towards other types of incentives – e.g. as in Egypt's SEZ in the Suez Canal – fiscal incentives are still the prevalent investment lever across African countries. As illustrated in the chapters to come, that pattern may carry significant risks and turn out to be short-sighted, as it fundamentally fails to equip SEZs with a future-proof value proposition.

NOTES

[1] This is also the main source of discrepancies between data collected by UNCTAD – used predominantly throughout the analysis – and data stemming from other organizations, such as the Africa Economic Zones Organization (AEZO). For the sake of clarity and when considered appropriate, both data sets are reported.

[2] Numbers presented in this section reflect the number of SEZs established by law.

[3] The AEZO (2021) classification of SEZs reports Morocco (26), Nigeria (23), Egypt (16) and Ethiopia (15) as the African countries with the largest numbers of SEZs. According to this classification, North Africa hosts the largest number, with 56 zones.

[4] Significant variations exist in the classification of SEZs according to their governance models. The AEZO, for instance, reports that 53 per cent of African SEZs are PPPs, 38 per cent are public and 9 per cent are private (AEZO, 2021). This is likely the result of using different classification criteria.

[5] The sample's results are likely to be skewed towards SEZs that host more firms, given the data availability issues for small zones with few operating firms. Also, information is unlikely to be available for unsuccessful SEZs. Therefore, this is a selected sample.

[6] Data constraints make it virtually impossible to single out the exact direct and indirect job contributions of African SEZs. Generally, the estimates provided here are conservative and reflect direct job creation. Possible discrepancies may arise with other sources because of differing selection criteria.

CHAPTER 3
THE AFRICAN CONTINENTAL FREE TRADE AREA AND THE FUTURE OF SEZs

CHAPTER 3

THE AFRICAN CONTINENTAL FREE TRADE AGREEMENT AND THE FUTURE OF SEZs

Regional economic integration has been high on the agenda of African policymakers. Trade integration is thought to provide a sustainable means for economic diversification and industrial development. However, apart from a handful of notable cases, SEZs on the continent have demonstrated limited capacity in integrating into RVCs. These shortcomings have been further exacerbated by cumbersome and restrictive national and regional export requirements that often deter the establishment of regional networks. The implementation of the AfCFTA can provide a window of opportunity for creating a level playing field – especially when it comes to fiscal incentives and rules of origin – and facilitate the emergence of new approaches to SEZ development. As shown in this chapter, proactive policy efforts to leverage regional production linkages may entail developing border and cross-border SEZs and establishing zones as regional catalysts capable of capitalizing on trade complementarities among regional partners.

3.1 INTRODUCTION

The proliferation of SEZs across Africa has in many cases been motivated by the prospect of creating employment and attracting investment and technology to a particular region or country. From the perspective of firms, SEZs continue to provide a means for gaining access to cheap labour and national markets, while operating under generous regulatory regimes. Contextually, locational advantages – often derived from external factors, such as market access and proximity to labour pools – have been at the core of SEZs' development and have been the backbone of most investment promotion efforts endorsed by SEZ administrators. Empirical evidence shows that market access remains one of the most important drivers of investors' country choice, possibly carrying more weight than other factors considered equally important, such as advantageous labour costs, the national and local business environment, the availability of hard infrastructure and industry presence (LSE, 2018).

Against this backdrop, the advent of RTAs and other initiatives aimed at increasing trade integration can be a game changer, as they reshape locational advantages and modify the underlying value proposition of many SEZs, in Africa and elsewhere in the world. The adjustment of locational and competitive advantages prompted by RTAs present African countries with both new opportunities and new challenges. Whereas SEZ operators and governments can aim to articulate economic activity and trade in areas that go well beyond national borders, greater economic integration can trigger territorial competition among African countries, stoking rivalries and political and economic tensions. International cooperation and enhanced governance systems will therefore be crucial to tip the scales in favour of economic development and offset threats resulting from political divergence and discord.

This chapter explores the interaction between SEZs and the AfCFTA – and RTAs more generally – highlighting both the opportunities and the challenges for SEZs that arise from regional trade integration. Acknowledging the complexity of the issues at stake, the chapter draws from both the current state of play and future scenarios deriving from the fundamentally altered scope of intervention set to stem from the introduction of the AfCFTA. Following a brief overview of the current extent of trade agreements and regional integration in Africa, the chapter discusses SEZ laws provided under national legislation, WTO disciplines, the recently implemented AfCFTA and other African RTAs, devoting particular attention to rules of origin and the implications for SEZs under different policy options. A comparative analysis of international practice on subjects related to RTAs and SEZs is also presented in order to shed light on the effects that certain policy arrangements have produced in other developing regions and the underlying implications for African SEZs. The last section provides food for thought on specific policy measures needed to realize the full potential of SEZs and the AfCFTA in relation to regional economic integration and industrialization.

3.2 REGIONAL TRADE AGREEMENTS AND REGIONAL ECONOMIC COMMUNITIES IN AFRICA

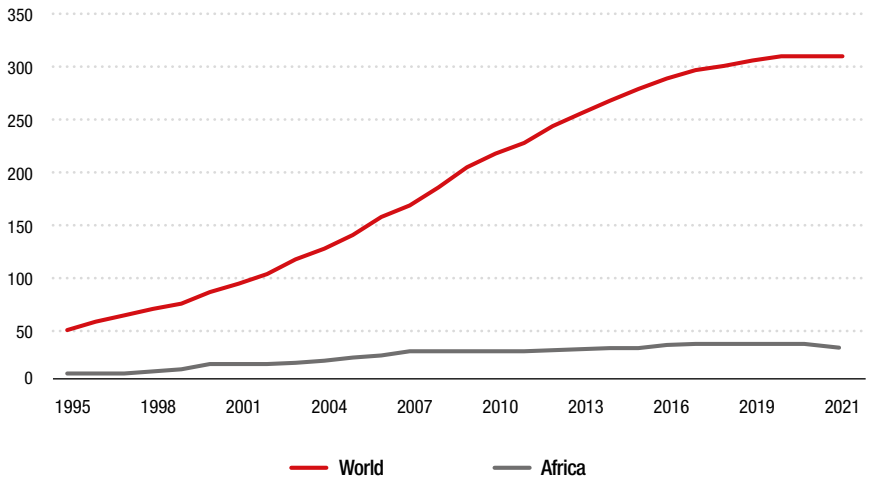
In parallel with the emergence of SEZs, RTAs have gained prominence as trade development tools capable of fostering industrialization and economic diversification. RTAs are treaties between two or more countries that set the rules of trade for all signatories and normally aim to encourage free movement of goods and services by removing trade barriers. As RTAs started covering more and more policy areas, a distinction arose between “shallow” and “deep” treaties. Nowadays, countries usually engage in deep agreements that cover both tariff and non-tariff trade regulations, such as competition policy, intellectual property, rules of origin and government procurement rules (WTO, 2021). In the last couple of decades, the number of RTAs has increased steadily across the world: whereas fewer than 50 RTAs were active in 1995, today one can count more than 300 worldwide.

As shown in figure 18, the number of RTAs worldwide experienced a significant increase during the past two decades, more than tripling, to 305 in 2020 (WTO, 2020). RTAs remain less prominent in Africa. With 33 RTAs, Africa hosts roughly 10 per cent of the global total. Moreover, growth in RTAs has been relatively slow in Africa in comparison with other parts of the world. In particular, growth has been limited since 2007: the numbers in Africa have increased by about a quarter, from 26 to 33, while the number worldwide has doubled, from 153 to 305.

The relatively low adoption of RTAs in Africa can be ascribed to at least four reasons. First, the institutional capacity needed to design and implement cross-cutting trade agreements that affect various sectors of the economy and involve a great number of domestic and foreign stakeholders may not be as readily available as elsewhere (Parshotam, 2018). Second, more unstable political and institutional environments may affect the lengthy negotiations that trade agreements normally involve. Third, the economic complementarities that are frequently considered as the conditio sine qua non for RTAs to produce the expected economic and productivity gains are in short supply (Yang & Gupta, 2005). And fourth, strong interest and lobby groups have frequently opposed the liberalization effects that come from FTAs (Morissett, 2000).

Figure 19 illustrates the geographical coverage of selected African RTAs. As can be noticed, several overlap, with many countries belonging to more than one and, hence, being subject to different provisions under the respective agreements. A number of studies have pointed

Figure 18. Number of RTAs in the world and Africa, 1995–2021

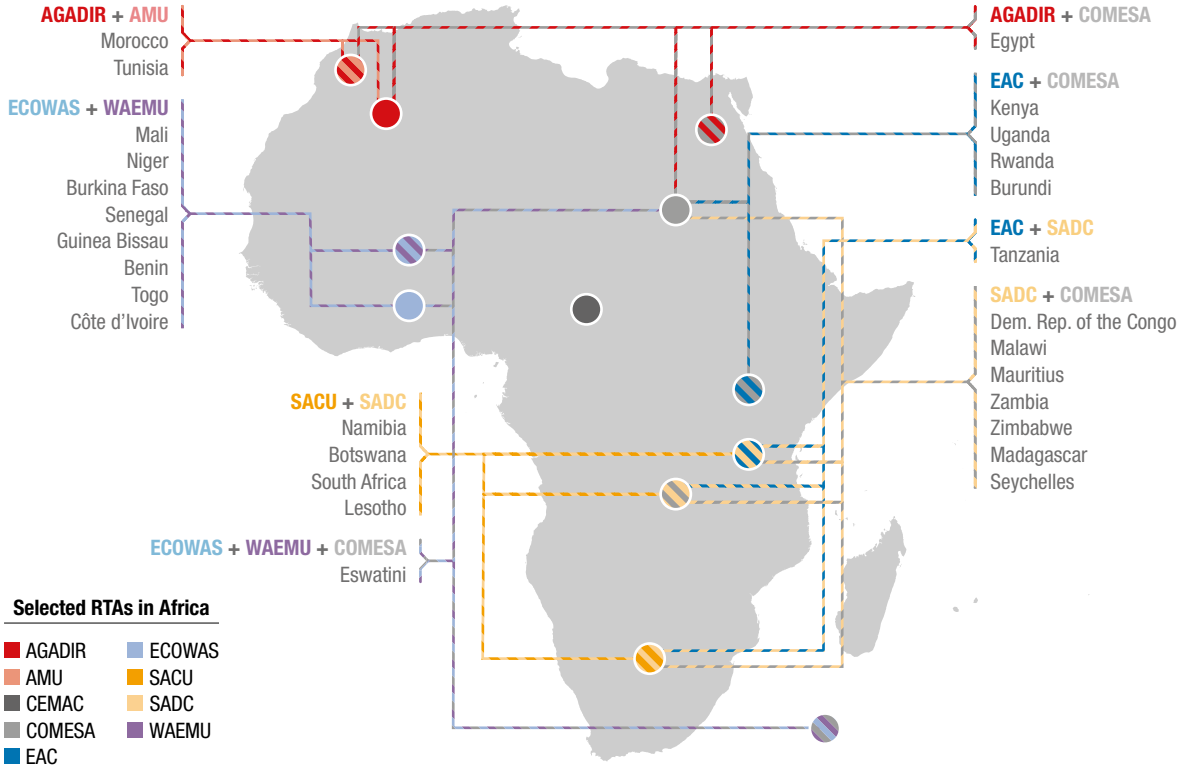


Source: WTO (2021).

out that membership in multiple RTAs may undermine the effectiveness of African RTAs by inhibiting their full potential to stimulate intraregional trade (Yang & Gupta, 2005; Chacha, 2008). Moreover, the overlap also adds to the burdens of member states, as it multiplies customs procedures, paperwork and obligations under each RTA that need to be taken into account in the process of policymaking (ECA, 2004). All these factors can indeed create bottlenecks and inhibit the growth of SEZs, given the additional administrative and regulatory hurdles put on the shoulders of SEZ managers.

In parallel to the diffusion of trade agreements, African countries have sought to establish regional economic communities (RECs) to facilitate regional economic integration between members of the individual regions and through the broader African Economic Community, established under the 1991 Abuja Treaty (African Union, 2021). As of 2020, the African Union recognizes eight RECs: (i) the Arab Maghreb Union, (ii) the Common Market for Eastern and Southern Africa (COMESA), (iii) the Community of Sahel-Saharan States, (iv) the East African Community (EAC), (v) the Economic Community of Central Africa States, (vi) the Economic Community of West African States (ECOWAS), (vii) the Intergovernmental Authority on Development and (viii) the Southern African Development Community (SADC). Almost all RECs have an RTA in place, and they have worked towards the establishment of a single customs union. All African countries are part of at least one REC, and the majority of countries participate in more than one REC with other African countries.

Figure 19. Geographical coverage of selected RTAs in Africa



Source: Based on WTO data.
Note: AGADIR = Agadir Agreement, AMU = Arab Mahgreb Union, CEMAC = Economic and Monetary Community of Central Africa, COMESA = Common Market of Eastern and Southern Africa, EAC = East African Community, ECOWAS = Economic Community of West African States, SACU = Southern African Customs Union, SADC = Southern African Development Community, WAEMU = West African Economic and Monetary Union.

3.3 THE AfCFTA

On 21 March 2018, 44 African countries signed the AfCFTA, giving birth to the largest free trade area in the world by number of participating countries since the establishment of the World Trade Organization (WTO). On 30 May 2019, the AfCFTA entered into force following its ratification by 22 African countries, and in January 2021 countries started trading under the AfCFTA regime. The AfCFTA is considered a key milestone to promote the African Economic Community, as envisioned by the 1991 Abuja Treaty of the Organization of African Unity, and to realize the Agenda 2063 goal of a united and prosperous Africa. The AfCFTA is one of several initiatives promoted by the African Union to enhance structural transformation and improve the competitiveness of African industrial products. Among other continental initiatives are the Boosting Intra-African Trade framework, which aims to increase intra-African trade to 25 per cent of all African trade in the next decade, and the Action Plan for the Accelerated Industrial Development of Africa, which aims to catalyse financial and non-financial resources to improve Africa's industrial performance.

Both economic theory and quantitative evidence provide solid support for the idea that regional integration can significantly contribute to economic development in the continent (UNCTAD, 2019a). Deeper integration among African countries is considered as likely to lead to a number of opportunities, such as (i) the creation of economies of scale and access to cheaper intermediate inputs for African companies, (ii) the formation of RVCs and their integration in

GVCs, (iii) the possibility of African consumers accessing cheaper final products imported from African countries, (iv) the structural transformation of African economies from resource-based and low value added to more diversified and knowledge-based ones and (v) the reduction of risks involved with overlapping trade rules under the current RTAs (Saygili et al., 2018). Nevertheless, critics have emphasized the risk that many countries, especially least-developed countries (LDCs), could see their real incomes decrease because of increased competition, loss of tariff revenues and the terms of trade effect (UNCTAD, 2020a; UNCTAD, 2020b).

In addition to the risks of liberalization, there is widespread consensus that the opportunities generated by deeper regional integration will not fully materialize unless African countries develop productive capabilities, enabling them to take advantage of economic complementarities between their economies (UNCTAD, 2019b). As shown in this chapter, SEZs – if carefully implemented – can provide an effective complementary tool to develop productive capacity within African countries by helping attract firms in strategic sectors and industries. Moreover, although SEZs' contribution to intra-African trade has been minimal up to now, there is scope to expand their share of regional trade with the establishment of the AfCFTA. At the same time, pursuing SEZs in a more trade-integrated environment poses threats, such as economic and political tensions based on claims of unfair competition, and these threats can significantly obstruct the AfCFTA agenda. For all these reasons, understanding the nexus between the AfCFTA and SEZs assumes a pivotal role in enabling regional integration and industrialization in Africa.

3.4 REVIEW OF INTRA-AFRICAN TRADE PATTERNS

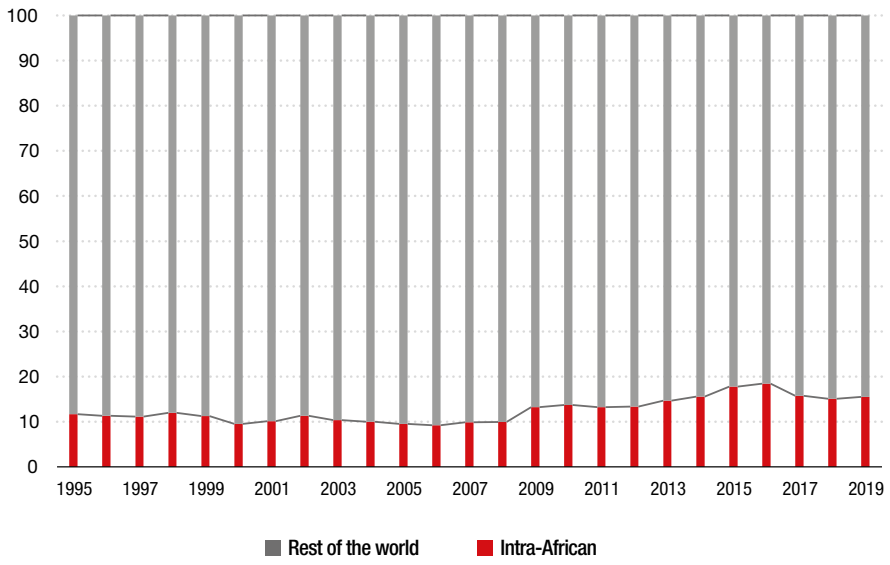
3.4.1 Current trends

Although on a rising trend from the beginning of the millennium until 2012, total trade from Africa still accounts for a modest share of global merchandise trade, capturing only about 3 per cent. Intra-African trade (exports plus imports) accounts for an even smaller part, representing a mere 16 per cent of Africa's total trade in 2019 (figure 20). The trend line in figure 20 shows that the share of intra-African trade has grown between 2007, when it accounted for a mere 10 per cent of total trade, and 2016, when it reached 18 per cent of the total. Since then, the expansion of intra-African trade has somewhat stalled. Overall, the share of intraregional trade in Africa remains small compared with that in other world regions. For comparison, in 2017, intraregional trade accounted for 47.4 per cent in the Americas, 61.1 per cent in Asia, 67.1 per cent in Europe and 7.2 per cent in Oceania. The share of intraregional trade is higher in certain RECs, such as the SADC, the EAC and the Economic Community of Central African States, where in 2017 intraregional trade accounted respectively for 21 per cent, 11 per cent and 10 per cent of the total trade of the REC (UNCTAD, 2019b).

The degree of trade integration varies across African countries. Whereas some countries are relatively well integrated in the region and their subregion, others, especially small commodity exporters, depend heavily on trade with the rest of the world. The five countries with the highest shares of intra-African exports in 2015–2017 were Eswatini (70.6 per cent), Namibia (52.9), Zimbabwe (51.6), Uganda (51.4) and Togo (51.1). The five countries with the lowest share of intra-African exports were Chad (0.2 per cent), Guinea (1.6), Eritrea (2.3), Equatorial Guinea (3.5) and Cabo Verde (3.6). Considering the absolute volume of intra-African trade, the five biggest contributors were South Africa (33 per cent of all intra-African exports), Nigeria (10), Côte d'Ivoire (5), Egypt (4.5) and Algeria (3.4) (UNCTAD, 2019b).

With regard to trade composition, intra-African trade displays higher product diversification and a higher share of high-skill and technology-intensive manufactured goods. Whereas primary commodities account for 82 per cent of total African exports to the rest of the world, manufactured goods have a prominent role in intra-African trade, accounting for 43 per cent of the total. In particular, medium- or high-skill and technology-intensive manufactured goods represent 27 per cent of intra-African exports, as compared with 11 per cent of African exports to the rest of the world (UNCTAD, 2019b).

Figure 20. Trade flows within and outside Africa, 1995–2019 (Per cent)



Source: UNCTADStat.

3.4.2 The AfCFTA

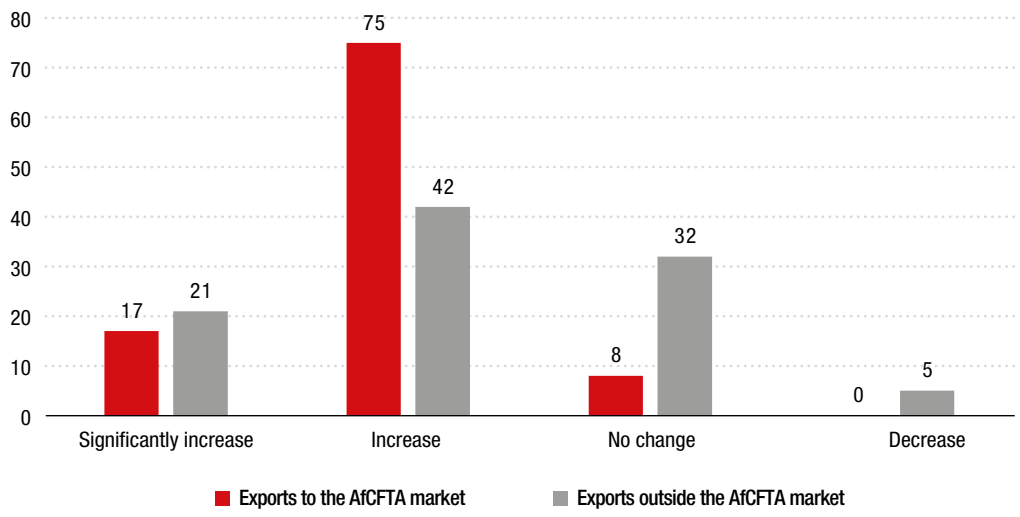
The AfCFTA is expected to boost intra-African trade by lowering trade costs and advancing industrialization across African countries. The magnitude of the increase will likely be determined by the degree of liberalization introduced by the AfCFTA. The capacity of the AfCFTA to develop its full potential will strongly depend on how much it is capable of reducing both tariff and non-tariff trade barriers (UNCTAD, 2019a). According to the Economic Commission for Africa (2018), the AfCFTA is projected to boost intra-African trade by between 40 and 50 per cent by 2040, compared with a scenario without the AfCFTA. With regard to intra-African exports, the AfCFTA is set to increase exports within the continent by 25–30 per cent by 2040 (ECA, 2017). Given the lower share of primary commodities in intra-African trade, the AfCFTA can be an effective tool to pivot African economies away from extractive industries, while fostering diversification in manufactured products. The Economic Commission for Africa expects that the apparel, textiles, transport equipment, wood and paper, and electronics industries will benefit the most from the drive in intracontinental trade (ECA, 2017). Moreover, diversification towards labour-intensive industries is projected to create more employment for the 30 million Africans set to enter the job market every year until 2030 (ECA, 2020).

3.4.3 Role of SEZs

Owing to lack of cross-country data on the destination markets of exports from African SEZs, it is virtually impossible to identify the exact relevance of SEZs for intra-African trade. That said, many SEZs were created as EPZs, thereby resulting in limited integration in RVCs and few linkages with regional economies. This was in part caused by generous trade preferences granted to African Union member countries, especially for textile and apparel products, by the European Union (EU) under the GSP (Generalised Scheme of Preferences) regime and by the United States under the AGOA. These agreements favour light manufacturing in the textile industry and have driven some African countries to re-orient their trade policies and promotion to European and North American markets, instead of African ones.

Research has showcased some notable exceptions, such as SEZs located in Nigeria, Rwanda and South Africa (section 4.1.3). Several firms started serving the local and regional markets, also facilitated by the lack of strict restrictions on local market sales. In the United Republic of Tanzania, many firms in the EPZ programme target the regional African market, leveraging the country's position as a bridge to both COMESA and SADC countries (Farole, 2011). Moreover, anecdotal evidence points towards greater involvement of SEZs in intra-African trade following the implementation of the AfCFTA. With the agreement, exports from SEZs are expected to rise by 20 per cent on average within the AfCFTA countries and 15 per cent outside them[1] (figure 21). Although FDI is expected to grow more from outside Africa than within Africa (30 per cent versus 15 per cent), the AfCFTA could lead to higher FDI from certain African economies, namely Nigeria and South Africa, as well as Egypt, Ethiopia and Senegal. Ultimately, whether SEZs will play a key role in intraregional trade or are destined to remain marginal will depend – at least in part – on specific provisions adopted by the AfCFTA aimed at facilitating inclusion of SEZs in RVCs.

Figure 21. Expected impact of the AfCFTA on SEZs by share of respondents (Per cent)



Source: UNCTAD & AEZO (2020).

3.5 THE AfCFTA–SEZ NEXUS: ISSUES AT STAKE

The nexus between SEZs and RTAs is multifaceted and potentially complex. It does not portray an unequivocally positive relationship nor envisage the two tools as irreconcilable alternatives. Although a number of authors have advocated for the integration of SEZs in RTAs (Dobronogov & Farole, 2012), criticism has also been expressed about the inconsistent economic rationales and the risks associated with an "investment incentive arms race" among RTA member countries (Sargent & Matthews, 2011; Farole, 2011). Rather than following a linear, straightforward relationship, it seems that, when SEZs and RTAs coexist, different elements may prevail in response to specific economic and political policy choices, hence determining whether the two policy instruments eventually work synergetically toward common objectives or instead undermine each other. African SEZ administrators should therefore be aware of a range of new opportunities and threats stemming from the coexistence of SEZs and RTAs, especially following the introduction of the AfCFTA (table 5).

Table 5. Opportunities and threats originating from the coexistence of SEZs and RTAs

Opportunities	Threats
• Access to **lower-cost and higher-quality inputs** within the whole African market (static benefits) • **Lower trade costs,** possibly decreasing production costs and improving SEZ-based firms' competitiveness • **Greater market access,** boosting SEZ specialization and economies of scale (dynamic benefits) • **Consolidation of RVCs** that can be leveraged through SEZs located at border areas	• **Pure-waste competition** at the regional level to attract FDI • **Overreliance on fiscal subsidies and lower ESG standards** to outdo regional competitors • **Trade triangulation,** possibly causing the erosion of national fiscal revenues • **SEZ-made goods leaking into national customs territory,** possibly deteriorating local firms' competitiveness • **Deterioration of SEZs' reputation** following trade triangulation and illicit trade flows

Source: Based on Koyama (2011), Farole (2011), Dobronogov & Farole (2012) and Woolfrey (2013).

In theory, SEZ operators can benefit from the introduction of the AfCFTA in a number of ways. Provided that SEZs are granted preferential treatment under the AfCFTA trade regime, the agreement can offer static and dynamic benefits to SEZs, both at the firm level and at the level of the broader economy. At the firm level, the RTA gives access to lower-cost and higher-quality inputs by expanding the size of the domestic market and reducing trade barriers. Given the importance of market access as a major investment location determinant, the AfCFTA is set to enable SEZs, especially those located in small national markets, to develop business opportunities that will be available to both local and foreign firms. From the viewpoint of the broader economy, the AfCFTA can boost industrialization and specialization in SEZs by strengthening RVCs and enabling SEZs to retain economies of scale (Koyama, 2011).

In another sense, SEZs can be seen as a primary policy tool for tackling institutional, infrastructural and productive bottlenecks that may arise with the implementation of the AfCFTA. Through the establishment of trade- and investment-promoting conditions, SEZs can be a valuable component of proactive regional development initiatives aimed at addressing trade barriers, be they institutional, infrastructural or production-related. In addition, SEZs can work in parallel with the objectives of the AfCFTA by boosting the development of cross-border backward and forward linkages. Border and cross-border SEZs strategically located alongside regional economic corridors can be an important

driver of intraregional trade (Dobronogov & Farole, 2012). Indeed, opportunities that arise from geographical proximity and economic complementarity can be better exploited in the improved regulatory environment, shared processing facilities, infrastructure and logistics platforms typically made available by SEZs (UNCTAD, 2019c).

Yet the integration of SEZs into the AfCFTA trade regime is set to pose significant challenges. Some studies have argued that SEZs and RTAs are driven by conflicting rationales, so SEZs would always be at odds with regional integration efforts (Sargent & Matthews, 2001; Farole, 2011), whereas others have emphasized collective action problems that would in effect only aggravate economic tensions between neighbouring countries (Farole, 2011, Woolfrey; 2013). Among the risks posed by the simultaneous pursuit of regional integration and economic zones-based developmental strategies, collective action problems are arguably the most harmful and challenging to minimize, given the potential vicious, self-reinforcing cycle that could originate from mutual distrust and detrimental competition (Woolfrey, 2013). Among African countries, membership in a free trade area might lead to greater competition to attract regional FDI through ever more bounteous SEZ policies offering extra incentives – in the form of both tax subsidies and reduced ESG compliance – thereby fuelling dependence on fiscal subsidies and undercutting ESG standards.

Empirical evidence shows that foreign firms tend to first choose the region in which to invest and then weigh the different fiscal and non-fiscal incentives offered under national SEZ programmes (Farole, 2011). This sequence can have two important consequences for regionally integrated African countries. First, a zero-sum competition at the regional level could see SEZs at the centre of an incentives "arms race" or a bidding war, with countries using their SEZ-related policy incentives as a means to win over FDI to their countries. African nations could thus end up engaged in a race to the bottom and facing a prisoner's dilemma: although they would benefit by cooperating at the regional level, they act in their own self-interest, trying to offer the best incentives while tilting the playing field towards lower ESG standards in the hope of outdoing regional competitors. As a result, given the stickiness of incentives and their proneness to inflation, such competitions could end up transferring rents to foreign investors as well as undermining national fiscal revenues and considerably reducing the quality and the long-term sustainability of foreign investment (Woolfrey, 2013). The case of Chinese SEZs is representative of the detrimental effects of such a zero-sum competition: with increased devolution of SEZ policies to the regional level, many Chinese local governments competed to build the most attractive SEZs and ended up with wasteful investment, unfair competition and partial failure (Chen, 2019). Reduction in environmental and social standards could also dissuade foreign firms in customer-facing industries that are under increasing scrutiny to abide by higher standards in their production.

Second, such competition is unlikely to leave the region – both subregions and the continent as a whole – better off in terms of increased FDI flows. This is because investors who decide to enter the African market do so before taking into consideration investment incentives available in individual countries; hence in all likelihood more incentives, in the form of both tax breaks and reduced compliance, would not result in significantly higher levels of investment coming into Africa (Farole, 2011). In other words, a spiralling increase in incentives at the country level is not likely to substantially alter firms' investment decisions, which are usually made at the regional level. Rather than fuelling FDI, playing to the lowest common denominator in terms of standards could therefore end up exacerbating long-standing issues among African countries, such as fiscal stability and environmental performance.

In addition to a bidding war on fiscal and non-fiscal incentives and a general reduction in ESG standards, trade triangulation and trade deflection could also contribute to eroding countries' fiscal revenues. If goods that receive preferential treatment in SEZs are to be considered as originating products (made in the SEZ's country) and they leak into customs territory, this could give an incentive for to tariff-jumping by both local and foreign firms, hence undermining tariff collection policies within the AfCFTA (Koyama, 2011). Finally, the preferential duty schemes granted to producers in SEZs offer a significant competitive advantage vis-à-vis local firms based outside SEZs.[2] If SEZ products were allowed to enter local markets free of duty or had the possibility of leaking into a country more or less legally, local producers would be at a disadvantage due to the subsidies and exemptions they do not receive. In this sense, the AfCFTA and SEZs risk crowding out local suppliers, instead of nurturing local industries (Koyama, 2011). The risks linked to a race to the bottom, trade triangulation and deterioration of local firms' competitiveness could create political and economic tensions among the AfCFTA member states and thereby jeopardize regional integration efforts, while eroding SEZs' value proposition and, importantly, damaging their reputation in the eyes of both national policymakers and international investors.

The opportunities and threats outlined by the theory are well reflected in SEZs' current expectations. A recent survey conducted by UNCTAD provides evidence of potential benefits and threats originating from the interaction between the AfCFTA and SEZs. Some results of the survey are illustrated in figures 22 and 23. SEZs are expected to benefit from the AfCFTA through industrial diversification enhancement, promotion of bilateral cooperation with other African SEZs and attraction of new non-African investment. The materialization of these opportunities is to be ascribed to the enlargement of the domestic market and the creation of commercial ties across African SEZs. Nevertheless, facing increased regional competition, most SEZ stakeholders anticipate a deterioration of labour and environmental standards, and SEZ authorities in general are concerned about the heterogeneity of market size, market characteristics and regulations. Firms based in SEZs are concerned that national laws imposing restrictions on sales to domestic markets may mean the loss of their position in selling to regional markets, which is privileged compared with that of firms located outside the zone. Whereas AfCFTA policy measures on trade facilitation and customs cooperation are expected to have a positive impact on SEZs, AfCFTA policy measures on non-tariff barriers (NTBs) and rules of origin are predicted to yield a negative impact by a considerable number of SEZ stakeholders (more than 20 per cent).

Figure 22. Expected positive impact of selected policy areas, by share of respondents (Per cent)

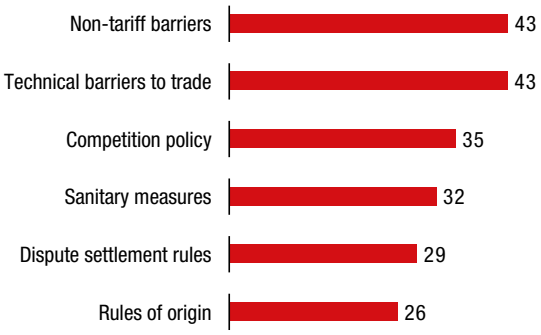
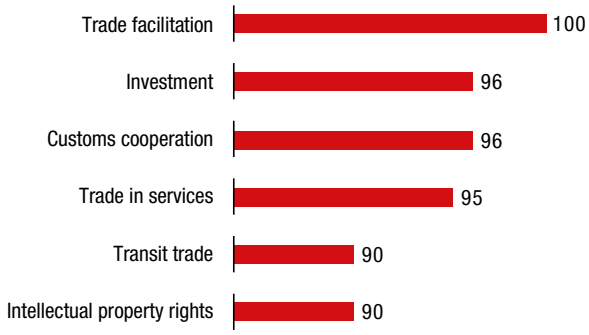


Figure 23. Expected negative impact of selected policy areas, by share of respondents (Per cent)



Source: UNCTAD & AEZO (2020).

The concern associated with SEZ regulations reflects the apparent contrasting nature of SEZs and RTAs. Although both policies aim to favour trade development and industrialization, SEZs remain mostly a region- or country-specific policy tool, whereas RTAs are bilateral or multilateral instruments involving a multitude of countries, each with its SEZ programme. Because of this contraposition, RTAs often have difficulty in developing regulatory frameworks inclusive of common SEZ rules. When regulatory systems are not aligned, there is the risk of diluting the potential benefits of both of these two major trade policy tools (Koyama, 2011).

Against this backdrop, the possibility of exploiting the full potential of the AfCFTA and SEZs will depend on whether future policy developments lead to a win-win scenario in which both SEZs and the AfCFTA can work synergetically towards regional economic integration and industrialization. In an ideal scenario, benefits from the interaction between the AfCFTA and SEZs would be maximized and threats minimized. SEZs would act as logistics and industrial production platforms, located along growth corridors and providing infrastructure and an investment climate suitable for cross-border African trade. Yet, it would be key for the AfCFTA to grant SEZ-produced goods preferential treatment and free circulation in the African domestic market, while harmonizing fiscal incentives programmes across Africa to address tariff-jumping behaviours and bidding wars. Temporary exemptions and differential treatments embedded in the AfCFTA would be deemed essential in order to accommodate LDCs' structural weaknesses. All of these issues are discussed in greater detail section 3.8.

3.6 SEZ LAWS

This section outlines the different provisions granted to SEZs by national laws, the WTO, the AfCFTA and other African RTAs. These three levels of governance (national, regional, international) are often in disaccord, granting concessions and imposing restrictions that frequently clash. Moreover, some restrictions imposed on SEZ-made goods are not compatible with the WTO regime. A misaligned regulatory system not only can fail to lower non-tariff trade costs, but also risks being counterproductive by creating disincentives for SEZ-based firms to trade in the continent vis-à-vis the rest of the world.

The national, regional and international regulatory frameworks each bring their own opportunities and threats. Although the adoption of shared regulations may generally facilitate fair competition among SEZs both within Africa and with other extra-African SEZ competitors, zone managers and practitioners are confronted with significant risks when provisions granted under each level of governance are conflicting. In this regard, African SEZ operators stand to benefit from the harmonization and alignment of SEZ laws so to avoid regulatory risk, thereby enabling them to fully reap the gains stemming from a level playing field and opportunities linked to the AfCFTA and other African RTAs.

3.6.1 National laws

SEZ laws form the core of the regulatory framework. They govern the special SEZ provisions, dealing with a multitude of policy issues, including trade, investment promotion and facilitation, real estate, taxation, and labour and environmental regulations. The majority of SEZ laws offer extensive fiscal subsidies in the form of tax exemptions, as outlined in chapter 2.

SEZ exports either are sold on the international market or enter the domestic market. Given the magnitude of fiscal subsidies and preferential treatments of goods produced in SEZs,

many African Union countries have passed national laws regulating the export of SEZ goods into their national customs territory. Several national regulatory systems impose restrictions on SEZ exports in order to avoid unfair competition with domestic products. Whereas some countries allow SEZ exports into domestic markets upon payment of customs duties, other countries impose strict export requirements, allowing only a small percentage of SEZ products to be imported into national customs territories.

In Kenya, Article 34 (k) of the Special Economic Zones Act prescribes tax and penal liabilities for SEZ developers and operators that allow goods to leak from an SEZ into the customs territory. Goods originating from an SEZ can be exported outside Kenya or traded within Kenya upon payment of customs duties. Similarly, Egypt[3] and Rwanda[4] admit SEZ-produced goods in the domestic market upon payment of customs duties, provided that they satisfy national rules of origin (box I).

Box I. Rules of origin

Rules of origin are the mechanism used to determine the national source of a product. According to UNCTAD (2019b, p. 18), "rules of origin are like a passport for a product to enter a free trade area and circulate without being imposed a duty". Rules of origin are an important measure to support trade policy since trade duties and restrictions are usually imposed on the source of imports. There is no consensus on the practice of governments in relation to rules of origin: some countries apply criteria based on local content and substantial transformation; others base their regulations on change in tariff classification (CTC).

In contrast, countries such as Ghana, Gabon, the United Republic of Tanzania[5] and Uganda impose export restrictions on SEZ-produced goods, regardless of qualification under rules of origin. In the United Republic of Tanzania, the Special Economic Zones Act rules that SEZ exports into the domestic market should not exceed 20 per cent of total annual production of a firm based an SEZ. In Uganda,[6] the regulatory framework also sets a similar cap, at 20 percent of an SEZ-based firm's exports. Other countries across the continent have more or less restrictive policies in place. Gabon[7] allows up to 25 per cent of an SEZ firm's production to be sold on the domestic market upon payment of import duties, whereas Ghana[8] allows up to 30 per cent of SEZ-produced goods to enter the internal market.

The existence of SEZ provisions under national laws that display huge variety implies that SEZs across Africa compete on an uneven playing field. The value proposition of an SEZ in Kenya, where SEZ-based firms enjoy access to the domestic market, is likely to be superior to that of SEZs in the United Republic of Tanzania, where SEZ-based firms are required to export at least 80 per cent of their output – and the restriction may apply also to the broader EAC market, as outlined in the following sections. Such differences not only induce distortions in the investment decisions of firms – especially for those that consider the lack of domestic market access as a binding constraint – but could also ignite rivalries between African countries and national SEZ authorities on the grounds of unfair competition. This arguably applies even more in the context of RTAs, as shown in the following subsections. As a consequence, SEZ managers stand to benefit from the harmonization of national SEZ laws to prevent the rise of tensions and to foster competition among African SEZs on other more positive attributes than export requirements, such as the provision of high-quality infrastructure or enhanced aftercare for investors through dedicated services.

3.6.2 The WTO regime

Although most international trade treaties do not single out SEZs and international rules do not regulate national rules of origin, the WTO has explicit provisions[9] that regulate some types of incentives that are typically employed in SEZ policy. The WTO Agreement on Subsidies and Countervailing Measures (SCM) prohibits export subsidies and tax breaks that are contingent on the use of domestic goods (Art. 3 and Annex 1, SCM Agreement). Similarly, the WTO Agreement on Trade-Related Investment Measures (TRIMs) identifies investment measures, such as import-export balancing requirements and local content requirements, that are prohibited under the WTO regime.[10] In the specific case of SEZ exports, "a restriction on the sales to be made domestically is at the same time a requirement for the enterprise to export a portion of its production, thus turning the benefits received by enterprises in the free zone into export subsidies" (Torres, 2007: 219).

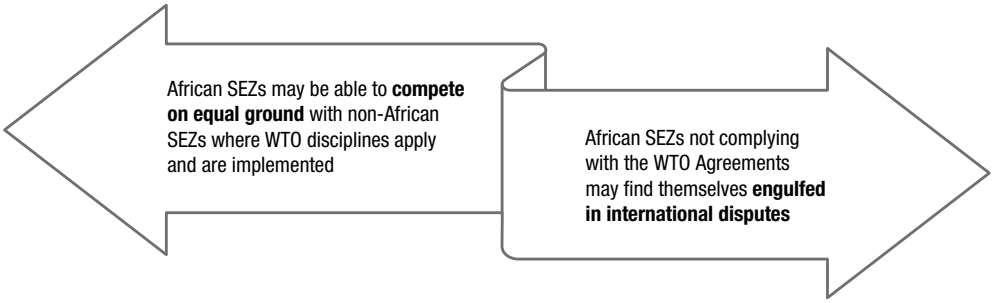
The SCM and TRIMs agreements identify actionable subsidies and measures to allow certain developing countries and LDCs some degree of flexibility to improve their market access (Art. 27.2a, SCM Agreement). Special and differential treatment is granted to LDCs[11] – countries[12] whose per capita gross national product is under $1,000 (in 1990 United States dollars) – and countries that are in grandfathered programmes in the process of phasing out non-actionable incentive measures are exempted.

Nevertheless, WTO rules and regulations will become increasingly relevant to a greater number of countries as LDCs graduate to developing countries, and those countries that are now granted differential treatment pass the $1,000 threshold. Thus, it is crucial for African Union members to start phasing out export requirements that are not WTO-compatible. Arguably, the most important policy change towards eliminating banned subsidies is to remove export requirements, thus allowing goods produced in SEZs to be imported into the national customs territory without any restrictions other than the payment of import duties and taxes (Creskoff & Walkenhorst, 2009).

The extension of WTO discipline to an increasing number of African countries has both positive and negative ramifications for SEZ authorities and policymakers (figure 24). On one hand, African SEZs can hope to compete on similar terms with international competitors, such as zones located in Asia and South America. Indeed, one of the aims of the WTO provisions is to create a common ground for SEZs the world over to compete fairly, avoiding uneven incentives and diverging performance requirements that would in effect erode the value proposition of many SEZs, both in Africa and elsewhere. On the other hand, with an ever-increasing number of African countries being subject to WTO provisions, the risk of SEZs falling victim to international disputes will also rise. Worldwide, the sort of incentives offered under SEZ regimes has become a wedge issue. For instance, in 2018 export subsidies conceded under India's SEZ regime were a matter of a dispute with the United States under claims of their inconsistency with Articles 3.1 and 3.2 of the SCM Agreement. International disputes can be costly undertakings, especially for countries with limited institutional capacity.

Against this backdrop, African SEZ administrators may have to stagger the removal of export share requirements – and of other prohibited incentives – in order to comply with WTO discipline on subsidies. This will minimize the risk of international disputes. In this regard, empirical evidence shows that making a country's SEZ regime WTO-compliant can have positive implications for SEZs' value propositions, as demonstrated by the experience of the Dominican Republic (box II).

Figure 24. Diverging ramifications for African SEZs from the application of WTO provisions



Source: UNCTAD.

Box II. Rendering the SEZ programme compliant with WTO discipline: evidence from the Dominican Republic

With the application of WTO discipline over a growing number of countries around the world, several governments and SEZ authorities have had to rethink the incentive packages offered under national SEZ regimes in order to render them compliant with the provisions set out by WTO agreements. The Dominican Republic is representative of a country that successfully phased out illegal provisions through a staggered approach while maintaining the overall competitiveness of its SEZs.

The island country has been one of the world's pioneers in the use of SEZs. Established in 1990, SEZs (zonas francas) have been a relatively effective tool for FDI attraction, job creation and economic growth (Burgaud & Farole, 2011). At their peak in 2003, SEZ firms accounted for 7.5 per cent of the country's GDP, favoured by proximity to the United States and preferential trade agreements (i.e. the Multi-Fibre Agreement).

In 2007, the WTO set the end of 2015 as the deadline for the elimination of prohibited export subsidies in the Dominican Republic. Prior to 2007, in order to receive the subsidies provided by the SEZ regime, SEZ-based firms were required to export at least 80 per cent of their output. The phasing-out of subsidies was carried out in two stages: first, in 2007 export share requirements were eliminated for products of the leather, textiles and apparel, and footwear industries – considered national priority sectors. Then, in 2011, export subsidies were phased out for all other industries.

The impact of the removal of banned export subsidies was positive overall. In particular, eliminating export share requirements made SEZs more desirable locations for firms to be based in, as firms were no longer subject to the distortion associated with export requirements. The positive effect reflected both the relocation of firms from the national customs territory to SEZs and the entry into SEZs of new firms. Following the elimination of export requirements, the number of firms operating in Dominican SEZs increased by about 6 per cent in both priority and non-priority sectors. The relocation of local firms within SEZs also favoured inter-industry linkages and a gradual upgrading of the local industrial context. Despite the removal of trade preferences in the garment industry, in 2017 the country's SEZs provided more than 160,000 direct jobs (accounting for more than 30 per cent of national industrial employment), with the share of high-skilled workers having increased steadily since 2012.

The evidence from the Dominican Republic indicates that the elimination of export requirements can not only help African SEZ programmes to align with international regulations set by the WTO, but also could be instrumental in rendering the SEZ regime more attractive in the eyes of foreign and local investors.

Source: Defever et al. (2018).

3.6.3 The AfCFTA

In the past, FTAs have regulated SEZs either by stipulating specific clauses for SEZs or by establishing rules of origin applicable anywhere in the free trade area, including SEZs. Rules of origin are the criteria used to determine the nationality of a product, hence determining a product's qualification for preferential treatment inside a free trade area. Although negotiations are still under way, the AfCFTA appears to be relying on rules of origin to regulate SEZs, without establishing specific restrictions. Nevertheless, rules of origin remain an outstanding matter and need to be agreed upon by the AfCFTA members (table 6).[13]

Table 6. Main provisions pertinent to SEZs within the AfCFTA and status

Provision	Contents of provision	Status
Article 23 of the Protocol on Trade in Goods	The Article regulates the entry into force of the Investment Protocol and other regulations related to SEZs.	The Article is currently being developed by the Council of Ministers.
Article 9 of Annex 2 on Rules of Origin	The Article sets the criteria under which products made in SEZs can obtain certificates of origin.	The Article is outstanding. The African Union Commission is developing a paper on the options in respect of goods from SEZs.

Source: Based on EAC (2020).

The AfCFTA[14] states that "Goods produced in Special Economic Arrangement / Zone shall be treated as originating Goods provided that they satisfy the rules in this Annex and in accordance with the provisions of Article 23.2 of the Protocol on Trade in Goods". Practically, the AfCFTA considers goods produced in SEZs as domestic products, granting them free circulation within the area on par with non-SEZ goods, upon qualification based on rules of origin. Depending on how stringent rules of origin are, this provision could, in theory, aid the process of industrialization and integration on the continent, since SEZs would be allowed to export their products to all AfCFTA member countries. As outlined earlier, the integration of SEZs in an RTA can potentially equip SEZ-based firms with a vast array of static and dynamic benefits, ranging from enhanced market access to new opportunities for specialization. Regulating SEZs through sensible requirements for regional content may also incentivize SEZ-based firms to create supply linkages across the continent, as regional production inputs may allow firms to access the whole African market under preferential treatment (i.e. reduced tariffs).

The Investment Protocol of the AfCFTA is under negotiation, with Phase II launched at the beginning of 2021 and Phase III to be concluded by the end of 2021. The AfCFTA Investment Protocol could be an important benchmark agreement to be used to formulate and facilitate a common African approach to international investment policymaking, while also targeting some of the barriers to FDI entry. Traditionally, international investment agreements have been oriented around investment protection provisions; new approaches include a growing focus on investment promotion and facilitation (MacLeod, 2020). The AfCFTA Investment Protocol is set to incorporate common frameworks on both protection and facilitation, therefore having wide-ranging ramifications for African SEZs and SEZ programmes which, as shown in chapter 2, often include provisions concerning these two policy areas. Table 7 lists the main potential implications for African SEZs deriving from deeper cooperation within this context.

Generally, the introduction of a common regulatory framework could aid SEZ authorities in framing investment protection measures at the national level, transcending overlapping provisions and favouring collaboration between African SEZs on areas such as excessive

Table 7. Main implications and potential outcomes of the deeper cooperation envisaged by the AfCFTA Investment Protocol

Policy area	Potential implications for SEZs
Investment protection	• Joint legal obligations on responsible business conduct (i.e. investor obligations) • Common objectives for continental investment and FDI (e.g. productive capabilities, sustainable development, corporate social responsibility, ESG standards) • Enhanced regulatory frameworks on the resolution and prevention of disputes and expropriation — i.e. fair and equitable treatment • Shared provisions on institutional commitments on environmental, labour and consumer protection, in addition to financial reporting standards
Investment facilitation	• Exchange of information between IPAs • Shared principles and rules for administrative procedures • Mutual rules-based governance • Best-practice sharing platforms • Technical cooperation between African SEZ practitioners

Source: Based on ECA (2019) and Chidede (2021).

bureaucracy, red tape, transparency and accountability. In addition, the investment rationale of many African SEZs could be further strengthened in the eyes of investors who are likely to welcome the adoption of supranational legislation on the resolution of investor–State disputes, fair treatment and expropriation (Erasmus, 2021). The materialization of such outcomes will however depend on the scope of the AfCFTA provisions and whether they will be binding and enforced – i.e. through the establishment of a regional competition authority – or flexible, hence giving freedom to member States on how and to what extent shared regulation is implemented. In addition to the Investment Protocol, other important benefits for SEZs might originate from the AfCFTA Annex on NTBs (box III).

Box III. The AfCFTA Annex on Non-Tariff Barriers and its implications for SEZs

NTBs are restrictive regulations and procedures, other than tariffs, that add to the cost of importing or exporting products. African countries have recognized the importance of eliminating these NTBs to facilitate investment and trade. As a consequence, they have passed an Annex to the AfCFTA Agreement specifically dedicated to NTBs, which mandates the establishment of a mechanism for identifying, categorizing and eliminating NTBs.

The online tool developed by the AfCFTA in this domain is of particular relevance. Fully operational since January 2020, the online mechanism (https://tradebarriers.africa/) is open to the private sector. Businesses operating in Africa can directly report trade obstacles on the portal. The complaints are then sent to nominated government officials (called national focal points), who are tasked to collect the evidence and find solutions. Moreover, another element of the AfCFTA Annex on NTBs seeks to improve the regulatory transparency of all trade-related regulations, not just barriers. Comprehensive regulatory data are collected at the national level and publicly disseminated on various online portals such as the Global Trade Helpdesk.

/...

Box III. The AfCFTA Annex on Non-Tariff Barriers and its implications for SEZs (Concluded)

This sort of initiative, together with others aimed at easing barriers related to intellectual property rights, contributes to improving economic conditions in Africa and can bring considerable benefits to SEZ operators and firms as well. According to UNCTAD, African countries could gain $20 billion in GDP growth by tackling NTBs at the continental level. Improving regulatory transparency may, in addition, reduce the costs of non-tariff regulations by 25 per cent. Moreover, such initiatives can address some of the pressing concerns recently voiced by SEZ managers on the effects of additional NTBs following the implementation of the AfCFTA. Firms located in zones, along with SEZ authorities themselves, will be able to directly report any bottleneck or questionable practice in their day-to-day operations. Provided that adjustments are then implemented, a more accessible and transparent business climate can be instrumental to improving the economic conditions of SEZ-based firms and, potentially, their local suppliers.

Source: UNCTAD (2021).

Whereas what is included in the AfCFTA may well be beneficial to SEZs in terms of enlarging market access and enabling economies of scale, the agreement leaves uncovered three main policy areas that risk undermining the role of SEZs as drivers of economic development (table 8). First, AfCFTA provisions conflict with national laws, meaning that harmonization of regulatory frameworks is required in order to avoid barriers to economic integration. Indeed, in addition to being WTO-incompatible, national export requirements that set a cap on the percentage of SEZ production that can be sold in the domestic market can severely hinder regional economic integration. With the implementation of the AfCFTA, the domestic market expands across all AfCFTA member states, which will eventually account for most of the African territory. Consequently, in countries such as Ghana and the United Republic of Tanzania where domestic sales are restricted, only a small percentage of SEZ production would be allowed to enter the African domestic market, making SEZs less attractive for investors looking to serve the regional market. This could have a major impact on investment in SEZs, given that, as shown in chapter 4, a number of SEZs have successfully attracted trade and investment by leveraging their role as regional trade hubs. The prevention of sales to African regional markets under national laws could then cause investment flight, as the value proposition of those SEZs would be significantly eroded.

Table 8. Potential risks for African SEZs in the context of the AfCFTA regulatory framework

Risks for African SEZs	Source of risk
Restricted market access	• Conflict between the AfCFTA and national laws regulating the share of SEZ production that can be sold in the domestic market
Regional incentive war	• Lack of coverage by the AfCFTA of sensitive policy areas, e.g. state aid and environmental regulation
Illicit financial flows and trade misinvoicing	• Missing measures aimed at minimizing the risk of trade triangulation and tariff-jumping

Source: UNCTAD.

Second, under current agreements SEZs may be at the centre of a zero-sum competition to lure FDI by increasing fiscal incentives and lowering ESG standards, as mentioned in section 3.2. African SEZ developers might end up being both victims and perpetrators of a race to the bottom, which, in turn, may result in greater political and economic tensions and nullify the economic gains set to originate from enhanced regional integration. This may happen because, although the AfCFTA covers policy areas that have been largely overlooked by other African RTAs, such as intellectual property and State trading enterprises, and is generally regarded as promoting deeper integration, it does not include provisions on State aid (subsidies), environmental laws, labour market regulations and public procurement (World Bank, 2020b). This is in contrast to other African RTAs, such as COMESA, the EAC and the SADC, which include provisions on subsidies and on labour and environmental standards. If no provisions are introduced to regulate State aid and control the extent and magnitude of incentives that individual countries can concede under their SEZ policy, the risk is that SEZ authorities will engage in a regional incentive war. Consequently, SEZs may lose their commercial viability, since the forgone fiscal revenues might outweigh the static and dynamic benefits induced by SEZs, and the overall environmental and social standards in zones might end up being significantly lowered to lure foreign investors.

Finally, under current agreements, African SEZs may experience a rise in illicit financial flows and trade mis-invoicing, with greater leakage of duty-free goods from the zones into the domestic economy. This can cause further damage, through not only negative fiscal consequences but also unfair competition with domestic products. In particular, measures to minimize the risk of trade triangulation and tariff-jumping – i.e. memoranda of understandings and mutual initiatives to strengthen the capacity of national customs authorities – appear to be missing within the AfCFTA framework, at least at the present stage. The risk of SEZ production leaking into domestic territory is potentially amplified with the introduction of the AfCFTA. As described in section 3.2, this practice might crowd out local non-SEZ firms that are thereby placed at a disadvantage (Koyama, 2011).

3.6.4 African RTAs

The implications of SEZ laws under other African RTAs may as well provide a reference point for future developments in the context of the AfCFTA. Whereas African RTAs have at times opened up regional market opportunities for SEZs, hence reinforcing their value proposition in the eyes of investors, national restrictions imposed on SEZs, in combination with strict provisions of RTAs, can significantly hinder industrialization and regional integration efforts.

The majority of African RTAs treat goods from SEZs as originating goods provided that they fulfil the requirements outlined by the respective rules of origin (table 9). However, rules of origin can be more or less stringent depending on the RTA. For instance, the COMESA rules of origin are relatively relaxed, allowing up to 60 per cent of foreign inputs in goods that are traded in the region's domestic market.[15] Other RTAs, such as the SADC, despite having no special provision regulating SEZ-made products, have stricter, product-specific rules of origin that require a higher percentage of local content. Some RTAs both provide strict rules of origin on SEZ goods, in the form of local content requirements, and fix a cap on the volume of SEZ production that can be exported into customs territories. For instance, the EAC sets distinct percentages of local content for goods to qualify as originating products, ranging from 30 per cent for chemicals to more than 70 per cent for tobacco products. Moreover, EAC provisions rule that SEZ goods exported to the customs territory should not exceed 20 per cent of the

Table 9. Rules of origin and SEZ export restrictions in selected African RTAs

RTA	Provisions and treatment	Source
Common Market for Eastern and Southern Africa (COMESA)	Local content at least 60 per cent in SEZ goods to qualify as originating products	Article 2.2.3 of the Protocol on the Rules of Origin
East African Community (EAC)	Strict regulations on local content to be considered as originating products (percentages vary from 30 to 70 per cent) and SEZ exports restrictions to the internal market (maximum 20 per cent)	Annex VII of the EAC Customs Union Regulations
Economic Community of Central African States	No specific provision	–
Economic Community of West African States (ECOWAS)	SEZ goods not to be considered as originating products	Article 7 of ECOWAS Protocol
Southern African Development Community (SADC)	Product-specific local content thresholds for treatment as originating goods Special arrangements for textiles and garments goods produced in SEZs and exported to the SACU	SADC FTA Handbook and Annex I of Protocol on Trade
West African Economic and Monetary Union (WAEMU)	SEZ products to not qualify as originating products	Article 8 of Additional Protocol on Trade

Source: Based on UNCTAD (2018).

total annual production of the company concerned.[16] Often such provisions clash with national regulations, which is the case of the EAC. For example, Kenya's Special Economic Zones Act does not set export restrictions on SEZ production other than the payment of import duties when entering the domestic market. Such export restrictions are problematic when they collide with national SEZ regulations of member countries, as they add non-tariff costs for SEZ firms that must disentangle themselves from regulatory asymmetries.

The way African RTAs regulate SEZs has serious implications for the integration of zones into African markets. SEZ developers located in certain countries have effectively branded themselves as regional trade gateways, building on the introduction of African RTAs. For instance, Ghana's SEZs – facilitated by the World Bank's Ghana Gateway initiative – have actively sought to become regional hubs for the whole of West Africa under the opportunities brought about by ECOWAS (Ghana Free Zones Authority, 2021). Investors in Nigeria and Rwanda have also expressed their interest in serving the broader regional markets through ECOWAS and COMESA (World Bank, 2018). Similarly, SEZs developed by the Mauritius Africa Fund are set to leverage regional markets in West and Southern Africa, taking advantage of preferential treatments granted under the two RTAs. In this context, SEZs represent a tool that can improve the effectiveness and completion of FTAs.

That said, the opportunity prompted by RTAs to enlarge the regional market access of SEZ-based firms, thereby favouring integration of SEZs in RVCs, has been hindered by excessive and overlapping restrictions imposed by African national governments and certain African RTAs (UNCTAD, 2018). In addition, these restrictions, aimed at protecting the competitiveness of non-SEZ local producers, risk fuelling trade distortions in favour of extraregional trade flows for at least two reasons. First, under stringent rules of origin foreign producers can be favoured over local producers, which are required to rely on expensive local inputs, increasing their production costs. This issue arises especially when external tariffs for finished goods do not compensate for the cost differential between foreign and local inputs (Flatters, 2002). Second, most economic partnership agreements[17] between African countries and the EU have explicit provisions for products originating in SEZs, granting preferential treatment. The only exception, the EAC–EU Economic Partnership Agreement, has no specific clause on SEZs. Consequently, SEZs are entitled to preferential treatment when exporting to external partners

(e.g. the EU), while being subject to restrictions when exporting to the regional domestic market, fostering extracontinental trade at the expense of regional economic integration (UNCTAD, 2018).

In some cases African RTAs have been instrumental in strengthening the value proposition of African SEZs, but the overlapping regulatory frameworks coupled with strict restrictions on exports have, to some degree, diluted the potential role of the zones as drivers of regional economic development. As a result, if SEZ developers and firms are to fully reap the benefits of African RTAs, a number of actions are likely to be required: (i) easing local content requirements on SEZ-made goods, to render local firms more competitive internationally; (ii) ensuring tariffs compensate for the cost differential between foreign and local inputs, to similarly ensure fair competition between firms that rely on local production inputs and those that source inputs from abroad; and (iii) removing those export requirements that can divert trade towards extra-African destinations (e.g. the EU), to foster intra-African trade.

3.6.5 Conclusion

As shown in this section, national laws regulating the export of SEZ-produced goods into domestic markets are problematic for at least three reasons. First, they often impose restrictions that are not WTO-compliant. As the geographical extent of WTO rules expands, an increasing number of African countries will have to phase out subsidies and requirements that are prohibited under the WTO agreements. Second, national measures preventing SEZ goods from entering the domestic market might work in direct contraposition with the AfCFTA agenda of regional integration. With the enlargement of the African internal market, SEZ exports risk being banned within the whole African market, hence seeing their competitive edge meaningfully reduced vis-à-vis international competitors. Third, national laws, combined with export restrictions provided under African RTAs, may favour extra-African trade at the expense of intra-African trade. SEZs would have an incentive to export to the EU and the United States under preferential treatment, rather than creating economic ties with neighbouring economies.

Furthermore, although the provisions on rules of origin currently included in the AfCFTA may facilitate the integration of SEZs into RVCs, and investment protection and facilitation measures contained in the AfCFTA Investment Protocol may exert positive signals to investors, some policy areas still remain unaddressed. Examples include the homogenization of national SEZ laws, the inclusion of regulations on State aid and ESG standards, and measures aimed at strengthening the capacity of customs authorities in member states. The lack of regulatory frameworks in these fields could potentially undermine both SEZs' role as drivers of regional economic development and the overall effectiveness of the AfCFTA.

Finally, table 10 summarizes the opportunities and risks emerging from our analysis and stemming from the combination of the four governance levels: national SEZ laws, WTO provisions, the AfCFTA and other African RTAs. As illustrated, policy action will be needed to ensure SEZ developers benefit from the provisions enacted under the different levels of governance. Such adjustments are also essential to minimize the risks of unequal footing terms, mainly arising from the overall misalignment between regimes set out at the national, regional and international levels.

Table 10. Opportunities, risks and actions needed at each governance level

Governance level	Opportunities	Threats	Implications for SEZs
SEZ national laws	• African SEZs subject to **uniform performance requirements** under consistent national SEZ provisions	• **Incongruous exports requirements** among African countries, possibly favouring SEZs in certain countries over others	• Undertake shared initiatives to **homogenize export share restrictions** and national SEZ laws
WTO provisions	• **Equal footing for SEZ competition** within Africa and with international competitors under WTO discipline	• **International disputes** spurred by concessions of WTO non-compliant incentives and restrictions	• **Phase out WTO non-compliant restrictions** and incentives where WTO discipline applies
The AfCFTA	• Possibility to **export SEZ-made goods to the whole African market** under preferential treatment • **Enhanced investment protection and facilitation** measures provided by the Investment Protocol • **Cooperation between SEZs on trade deflection** and common efforts to curb illicit financial and trade flows	• **Erosion of SEZs' value proposition** (restricted market access) stemming from misalignment between national laws and AfCFTA provisions • **Race to the bottom** between regional competitors • Rise in illicit financial flows and SEZ-made goods leaking into customs territory **(trade deflection)**	• Promote **harmonization of SEZ provisions** and export requirements at the national level across African Union member countries • **Harmonize regulations** on State aid, environmental laws, labour standards and public procurement • Undertake shared initiatives aimed at **strengthening the capacity of national customs authorities**
Other African RTAs	Generally consistent with opportunities stemming from the AfCFTA, plus: • Rebranding **SEZs as regional hubs and points of entry** to RTAs markets (e.g. Ghana) • **Cross-African partnerships** allowing national companies to benefit from RTAs' preferential treatment (e.g. Mauritius Africa Fund)	• **Favoured foreign producers** as a result of excessive restrictions on local content requirements imposed on local firms • **Rise in extracontinental trade** from SEZs following export restrictions in regional markets (e.g. the EU)	• **Ease local content requirements** on SEZ-made goods • **Ensure tariffs compensate for cost differential** between foreign and local inputs • **Remove exports requirements** causing trade diversions towards extracontinental trade

Source: UNCTAD.

3.7 INTERNATIONAL BEST PRACTICES: MERCOSUR AND THE AFTA

The relative marginality of African RTAs, which account for about 10 per cent of all RTAs worldwide, calls for shifting the analytical focus towards other emerging countries' free trade areas that have a longer trajectory than the AfCFTA and that, as a consequence, offer the possibility of identifying best practices and extracting useful lessons. Although caution should be exerted when generalizing lessons learned – especially within the complex and context-dependent interplay between RTAs and SEZs – Mercosur, in South America, and the AFTA, in South-East Asia, provide insights into do's and don'ts associated with specific policy options that have been incorporated into the respective trade agreements. Indeed, as a result of those policy options, the two trade areas experienced what can be considered diverging levels of success. Whereas Mercosur has been relatively unsuccessful at increasing trade among its members and taking SEZs on board, the AFTA, with simpler regulation, has been much more capable of boosting intraregional trade while enabling SEZs to contribute to its objectives. At the outset, the two FTAs are particularly suitable for comparison as they embody two different approaches to regulating SEZs in the context of regional integration efforts.

Whereas Mercosur has regulated SEZs by stipulating specific SEZ clauses, somewhat limiting SEZs' ability to extend their operations in the regional bloc, the AFTA has sought to establish rules of origin applicable anywhere in the free trade area, including SEZs. These policy choices have been crucial in determining the fortunes of the RTAs and hence deserve a closer look.

Mercosur, officially the Southern Common Market, is a South American trade bloc comprising a customs union between Argentina, Brazil, Paraguay and Uruguay. The objectives of Mercosur include the promotion of economic development, the enhancement of regional economic integration and the harmonization of economic policies. Created in 1991, today Mercosur represents the fifth largest economic group in the world (MERCOSUR, 2020).

In terms of rules of origin, Mercosur has a strict regime in place: for goods to be considered as originating goods, it is necessary that they meet an origin requirement of at least 60 per cent of regional value added.[18] In other words, at least 60 per cent of production inputs need to come from member states. Moreover, Mercosur provides specific clauses for SEZ-produced goods. Goods from SEZs are treated as non-originating products and hence subject to import duties when entering the regional internal market. They are not granted certificates of origin.[19] No exceptions are envisaged based on rules of origin. As a consequence, with the implementation of Mercosur, many SEZ operators shifted their activities towards offshoring to foreign companies. In Uruguay, the share of regional trade among SEZ firms drastically diminished, favouring extraregional trade flows and thereby undermining the integration objectives of the FTA and creating no synergies with other Mercosur countries (Malaver, 2009).

Although Mercosur protocols do not set out any export requirements for SEZs, member states have adopted fiscal subsidies contingent in law on export performance. In countries such as Brazil and Paraguay, tax incentives vary depending on the proportion of SEZ firms' revenues coming from sales to the domestic market. In Paraguay, for instance, SEZ investors pay a single free zone tax of 0.5 per cent of the total revenues from exports, as long as sales to the domestic market do not exceed 10 per cent of total annual revenues. Alternatively, if exports to the Mercosur internal market exceed 10 per cent, SEZ operators must pay the single free zone tax of 0.5 per cent on total revenues from exports, in addition to the national income tax on total revenues from domestic market sales.[20] These types of subsidies create strong incentives in favour of exports to third parties, in opposition to the Mercosur objective of regional integration. Almost 30 years after its creation, Mercosur is still far from realizing what would be considered a satisfactory share of intraregional trade: only 14.5 per cent of all trade conducted by its member countries takes place within the RTA, a mere 0.5 per cent higher than prior to its implementation.

Whereas the case of Mercosur is representative of the risks associated with strict regulations on SEZ-produced goods, the FTA negotiated by ASEAN, the AFTA, provides empirical evidence of the use of transparent rules of origin, collaborative efforts among its members and a comprehensive approach to regulating investment issues (box IV). The AFTA was established in 1992 with six countries – Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand – as its initial signatories. Since then, four other countries have joined: Cambodia, the Lao People's Democratic Republic, Myanmar and Viet Nam. One of the main objectives is to encourage trade among member states by reducing tariffs. In this respect, the free trade area has been a success. By 2003 the AFTA had managed to lower the average tariff rate in member countries to 2.4 per cent, from 11.4 per cent in 1993 (ASEAN, 2021).

Box IV. Different approaches to regulating investment issues under Mercosur and the AFTA

As discussed for the AfCFTA Investment Protocol, the scope and depth of investment protocols in the context of RTAs can affect SEZs' competitiveness and attractiveness as seen by international investors. Supranational investment protection measures, together with provisions on investment facilitation, can aid SEZs in strengthening their proposition, as the joint frameworks provided by RTAs may have non-negligible signalling effects that indicate more protection and lower transaction costs for international investors.

The Investment Protocols adopted by Mercosur and the AFTA differ in a number of ways. Signed in 2017 by the four member states of Mercosur – Argentina, Brazil, Paraguay and Uruguay – the Protocol on Investment Cooperation and Facilitation represents the second attempt by the trading bloc to agree on a regional discipline on investment. The scope of the agreement remains relatively narrow. Notably, the protocol does not incorporate any provision on investor–State dispute settlement – although providing for State–State dispute settlement – and explicitly rejects from its scope the standards of both fair and equitable treatment and full protection and security (Art. 4.3). The Protocol also expressly excludes the protection of international investors against indirect expropriation (Art. 6.6).

The ASEAN Comprehensive Investment Agreement, signed in 2009 by its member states, displays significant differences, when it comes to both investment protection and investment facilitation. The Agreement not only includes provisions on fair and equitable treatment (Art. 11), protection and security for investors (Art. 11) and investor–State dispute resolution (Art. 28), but it also contains measures to jointly promote the region as an integrated investment area (Art. 26) and streamline administrative procedures (Art. 25). The Agreement further facilitates cooperation between member states and their IPAs (Art. 24). In addition, it also promotes the exchange of best practice and information on trade facilitation through mutual regional initiatives.

The consequences for SEZs of different scopes and depths of investment protocols can be wide-ranging. In fact, SEZs – especially if located in countries with weak judicial systems – benefit from the provision of additional investment protection measures that could, at least to some extent, minimize the regulatory risk of international investors entering a new market. Although most SEZ programmes establish investment protection measures on their own, the existence of an additional legislative layer may in effect further shield investors from expropriation and unfair treatment. Finally, the inclusion within investment protocols of joint investment facilitation measures can ignite all-important cooperative mechanisms as part of which SEZ developers can share best practices, while promoting dissemination of investment information, including investment rules, regulations, policies and procedures for mutual benefit.

Source: Aznar & Moraes (2017); Mercosur Protocol; ASEAN Comprehensive Investment Agreement.

The ASEAN RTA has relatively simple and transparent rules of origin, with most trade flows subject to a 40 per cent requirement for regional value content or a CTC.[21] To qualify as an originating product under the CTC rule, the final product must not have the same classification as the non-originating intermediate inputs. ASEAN countries managed to maintain consistent rules of origin criteria also, under FTAs negotiated between ASEAN countries and third parties, such as China, Japan and the Republic of Korea. In the respective agreements, the requirement for 40 per cent regional value added requirement or a CTC remain in place, with limited variations in product-specific rules. Unlike the Mercosur protocols, the AFTA protocols do not provide any specific clause on SEZ-produced goods, extending the validity of those requirements to SEZs.

This somewhat more liberal and simpler approach to regulating SEZs allows SEZ-based firms to trade with the rest of the regional bloc as long as they fulfil the 40 per cent rule or the CTC. Although the ability to fulfil the requirements and obtain certificates of origin depends to some extent on the specific industry in which firms operate (firms may still find it more convenient to source their inputs from third countries), the possibility of gaining market access to ASEAN works as an incentive to create dynamic benefits in the form of supply linkages, both locally and regionally. In fact, research has shown that many SEZs in ASEAN work synergetically with the AFTA and significantly contribute to regional economic integration by facilitating RVCs (ADB, 2015; UNCTAD, 2017a). Although intraregional trade in ASEAN still lags behind that in other regions of the world such as Europe, the AFTA, with the involvement of SEZs, has helped to increase the share of intra-ASEAN trade among all trade in ASEAN, attaining 25 per cent of the total in 2019 compared with 17 per cent prior to the implementation of the AFTA.

In addition to simple and to some degree lenient rules of origin in SEZs, collaborative efforts by ASEAN countries to bring SEZs to the centre of regional integration efforts have been crucial to ensure that zones are well aligned with the objectives promoted by the AFTA. In particular, and in parallel with the introduction of the AFTA, SEZs have been part of a multilevel strategy that simultaneously pursues global market integration and regional integration. On the one hand, through the regional integration of production networks, ASEAN countries have benefitted from specializing in the production of single components of complex final products, boosting their intra-industry trade and improving their competitiveness vis-à-vis international competitors (Dobronogov & Farole, 2012). On the other, and in striking difference to Mercosur countries, ASEAN countries have sought to collaborate in order to benefit from regional trade complementarities and differences in labour costs by establishing transnational SEZs. A number of recently established SEZs in the region were set up expressly to facilitate not only regional trade but also exchanges of resources. In Cambodia, the Lao People's Democratic Republic and Thailand, for example, most new SEZs have been developed near border corridors with neighbouring countries, to promote cross-border trade and investment (UNCTAD, 2019c).

As shown, Mercosur and the AFTA followed different trajectories. Whereas the AFTA's results in terms of regional integration and SEZs can be considered satisfactory, the promised economic gains deriving from greater integration have failed to materialize in Mercosur. There, SEZs still play a marginal role as sources of intraregional trade. That is not to suggest that the AFTA's approach can be singled out as unequivocally positive. A balanced assessment needs to highlight the opportunities and threats of each regulatory approach when it comes to operationalizing and resolving the interplay between RTAs and SEZs. Nevertheless, several general lessons can be learned by comparing the AFTA approach to regulating SEZs through simple rules of origin and Mercosur's more strict provisions on SEZs. The following seven lessons provide a summary of the key points emerging from the comparative analysis:

1. ***Simple, transparent and business-friendly rules of origin can help reduce NTBs and compliance costs.*** The benefits deriving from such streamlining of trade-related bureaucracy can be enjoyed by both non-SEZ firms and SEZ firms.

2. ***Low compliance costs increase the rates of utilization of FTA preferential treatment.*** During the first decade of the AFTA implementation, that rate was extremely low as a result of both high administrative costs and low accounting capacity in ASEAN SMEs. To tackle this underutilization, ASEAN countries developed other criteria of origin, such as the CTC, that were considered more business-friendly and less costly (Medalla & Balboa, 2009).[22]

3. ***Regulating SEZs through rules of origin can be both an opportunity and a threat for SEZ-based firms.*** SEZ firms usually have high import ratios and therefore often fail to meet local content requirements. Thus, sufficiently low content requirements can allow SEZ firms to benefit from both duty-free imports from foreign countries and duty-free exports to the FTA internal market.

4. ***It is vital to have safeguards in place to create a level playing field.*** Whereas low local content requirements can facilitate SEZ firms' participation in intraregional trade, a loose regime can place non-SEZ local firms at a disadvantage.

5. ***Imposing strict provisions on SEZ-produced goods and ruling out certificates of origin for SEZ firms can impede SEZs' involvement in intraregional trade.*** In particular, there is the risk that SEZs become geographical enclaves disconnected from the local economies and end up offshoring their activities to foreign firms, as in the case of SEZs in Uruguay.

6. ***Collaborative efforts among RTAs' member states are key to incorporate SEZs in RVCs.*** Initiatives aimed at leveraging regional trade complementarities, such as border and cross-border SEZs, to promote the active participation of SEZs in regional integration efforts can be effective means to do so.

7. ***Overall, the ASEAN approach is more conducive to increasing intraregional trade with the inclusion of SEZs.*** However, safeguard measures should be established to make sure SEZs do not harm the competitiveness of local non-SEZ firms and to reduce the risk of tariff jumping (see the discussion in the following section on how to minimize these risks).

Three key direct implications for African SEZs stem from the Mercosur and AFTA experiences. First, *the fortunes of African zones and their ability to deliver will increasingly be determined by the specific provisions of the AfCFTA*, especially those pertaining to rules of origin and qualification criteria for SEZ-produced goods. They will not only depend on the degree of strictness of such provisions, i.e. percentage requirements for local content. Instead, the way rules of origin and value-content requirements are designed and implemented will also be decisive to either creating a conducive environment for SEZs or deterring the use of the AfCFTA preferential treatment by SEZ-based firms. In this regard, SEZs stand to benefit from simple and business-friendly rules of origin applied as blanket policy applicable to both SEZ-based and non-SEZ-based firms, as no additional trade costs deriving from specific SEZ clauses would then have to be borne by firms operating under SEZ regimes, as in the case of the AFTA. Differently, more ad hoc SEZ provisions, like those adopted by Mercosur, will end up adding more complexity to an already intricate web of African NTBs.

The second implication points to the *risk of African SEZs being precluded from participating in intra-African trade and being increasingly disconnected from the local industrial context,* should certificates of origin be denied to SEZ-produced goods and no incentives to trade in the regional bloc be in place. This is exemplified by the case of SEZs in Uruguay, which shifted their focus to outsourcing to companies outside the regional free trade area following the introduction of strict certification criteria set by Mercosur. Notably, the exclusion of African SEZ-produced goods from the possibility of obtaining originating status could further impede the materialization of indirect economic gains through forward and backward linkages, given that SEZ-based firms would not have any incentive under FTAs in sourcing their production inputs locally or regionally.

And finally, the third implication, of a more positive nature, is that, under the right conditions, *SEZ developers can indeed find a space for manoeuvring following the introduction of FTAs.* In particular, the AFTA is representative of the potential opportunities for SEZ-based firms that can come with the implementation of "deep" FTAs. African SEZs can find significant competitive edges by leveraging trade complementarities deriving from differences across regional partners. Furthermore, African SEZs' participation in RVCs need not to be an end in itself: the experience from ASEAN showcases the gains in terms of global competitiveness that could arise with SEZs' specialization at the regional level. That said, favourable conditions stemming from the rules of origin regime are likely to be a necessary but not sufficient element for the success of SEZs in the context of a more integrated Africa. All potential benefits are likely to accrue only if proactive and collaborative policy interventions – of the kind implemented by ASEAN countries – place African SEZs in the right spot to reap the gains of augmented regional integration. Bearing this in mind, the following section outlines a number of ways in which policymakers can rethink the role and functions of SEZs through coordinated strategies following the implementation of the AfCFTA.

3.8 CAPITALIZING ON SEZs AND THE AfCFTA: THE WAY FORWARD

Looking ahead, there will be a growing need to create synergies between SEZs and RTAs, especially in the AfCFTA, with the aim of integrating regional economies by creating strong economic ties among African countries. In this section we build on lessons learned that emerged from the comparative analysis of the AFTA and Mercosur and see how and under which circumstances SEZs can contribute to the goals of the AfCFTA and its implementation. The section also provides food for thought about the type of policy interventions needed in the context of the AfCFTA to improve the regulatory framework pertaining to SEZs, acknowledging that African countries are now at a crossroads and today's policy choices might concretely determine the trajectory of both the AfCFTA and SEZs in the future.

3.8.1 SEZs and RVCs

International best practice suggests that zone managers need to rethink the economic rationales behind the design and implementation of SEZs if zones are to be actively involved in regional integration efforts (Koyama, 2011; UNCTAD, 2017a). In practice, this often means embedding SEZs in existing and emerging RVCs, while collaborating with regional partners in the development of shared regional industrial policies. This shift has been effectively operationalized in other world regions. For instance, in the context of increased regional integration across ASEAN, Malaysia launched five regional economic corridors along which SEZs have been established to serve as trade hubs and regional transshipment centres for the countries in the region (Indonesia, Malaysia and Thailand) (UNCTAD, 2017a). The following discussion presents two ways that the conceptualization of SEZs within RVCs could look in Africa: as catalysts for regional industrial strategies and as transformers of transport corridors into economic corridors.

3.8.1.1 SEZs as regional catalysts

SEZs can be crucial in expanding the scale of production and facilitating the creation and development of RVCs as part of a common regional industrial policy (Farole, 2011). To achieve this, SEZ developers need to shift away from the traditional EPZ model – which is still prevalent

among African countries, as shown in chapter 2 – and move towards a model that integrates SEZs into regional industrial strategies. Such a shift would allow both for a broader range of industrial activities, including logistics, manufacturing and services, and for more flexibility in terms of investment sources and destination markets. In particular, a model of integrated SEZs could entail greater openness to domestic and regional investment and sales to local and regional markets than its enclave-like counterpart (Farole, 2011). Attesting to the feasibility of such a paradigm shift, the SADC has already made the initial steps towards establishing SEZs part of an integrated industrial strategy that leverages regional synergies (SADC, 2015).

Provided that existing and future legislation allows SEZ firms to sell to the domestic market, SEZs can provide a platform for production and distribution in regional markets, while letting firms take advantage of complementarities and competitive advantages of member states. With this aim, it is essential for SEZ authorities and IPAs to equip SEZ-based firms with information on regional trade opportunities. Awareness of business opportunities, especially in LDCs, will be key to create linkages between economies and to exploit countries' competitive advantages.

Finally, the integration of SEZs into a broader regional strategy may also involve advertising the region's SEZs collectively as investment destinations (Koyama, 2011). Initiatives in this regard have been taken in Asia since the early 1990s in the so-called growth triangles, where countries such as Indonesia, Malaysia and Thailand have sought to harmonize SEZ regulations on investment, immigration, labour and tax, with the intention of marketing them as a package to investors.

3.8.1.2 Border and cross-border SEZs as economic corridors

Consistent with the objectives of the AfCFTA to boost RCAs, SEZs can provide a powerful means to foster intracontinental trade and economic cooperation when located along major regional trade routes and falling under joint ownership of neighbouring countries. Border and cross-border SEZs have the potential to transform transport corridors into economic corridors. They can contribute considerably towards the industrial development of GVC sectors, where strong ties with neighbouring economies are key to build productive capacity. For instance, in the last decade South-East Asian countries have established an increasing number of cross-border SEZs to exploit regional economic corridors (box V), and cross-border partnerships have been effective in driving regional cooperation and economic development (Aggarwal, 2019).

Border SEZs may be located in border towns to leverage urban infrastructure and support structures or they can be built right behind border lines to facilitate the movement of goods and people; cross-border SEZs occupy land in multiple countries and use pooled resources from different governments. An important advantage of SEZs located at border zones is their ability to benefit from differences in prices of production inputs, including capital and labour. For instance, the Mae Sot SEZ, located at the border between Myanmar and Thailand, hosts mostly Thai firms using domestic production inputs and capital while employing cheaper labour from Myanmar (ADB, 2018).

Box V. Border and cross-border SEZs in the Greater Mekong Subregion

Capitalizing on the opportunities catalysed by enhanced regional integration and differences in factor costs, many South-East Asian countries have sought to establish cross-border economic initiatives, frequently involving the development of SEZs. An area of particular interest has been the Greater Mekong Subregion (GMS), home to more than 300 million people and with a GDP of more than $3 trillion. In this region the six countries involved have worked since 1998 to improve connectivity through physical infrastructure and transnational economic corridors, thereby improving competitiveness through cross-border trade and market integration, and building a sense of community through social and environmental programmes (GMS Secretariat, 2015).

For instance, the Ayeyawady–Chao Phraya–Mekong Economic Cooperation Strategy, launched in 2006 by Cambodia, the Lao People's Democratic Republic, Myanmar, Thailand and Viet Nam, is a core initiative to develop SEZs in border areas. To date, four such SEZs have been established. The key economic rationale behind the strategy is to take advantage of provisions under various bilateral and RTAs as well as interregional disparities in factor costs (capital and labour), by creating regional production bases for goods and services.

Another example of regional integration through SEZs is the Mohan-Boten Cross-Border Economic Zone between China and the Lao People's Democratic Republic. It consists of the Mohan SEZ in China, established in 2001 as a logistics hub, and the Boten SEZ in the Lao People's Democratic Republic, established in 2003 as a warehouse and trade centre. In 2015 the two countries finalized the development plan, and the resulting SEZ is expected to become an important growth pole (Chen, 2019).

Currently the GMS has more than 200 projects in the pipeline, worth more than $60 billion. Border and cross-border SEZs, along with other cross-country initiatives, have contributed to increasing intra-GMS trade from $5 billion in 1992 – corresponding to roughly 2 per cent of all trade in the six countries – to $483 billion in 2017, about 10 per cent of the total (GMS Secretariat, 2018).

Source: GMS Secretariat (2015, 2018); Chen (2019).

A few examples of border and cross-border SEZs already exist in Africa. For instance, the Musina–Makhado SEZ in South Africa is strategically located near the Beitbridge Border Post between South Africa and Zimbabwe, a gateway to SADC countries and a critical location on the north–south trade corridor. The SEZ is intended to boost regional trade in energy and manufacturing – especially in the metal industry – while creating at least 50,000 job opportunities in the next 10 years. In another cross-border SEZ, Ethiopia and Kenya agreed in 2019 to establish a commonly administered FTZ along the Moyle border region and near the Lamu transport corridor, which connects Ethiopia, Kenya and South Sudan. Although border and cross-border SEZs are still in their infancy in Africa, there is arguably scope to identify and develop other border regions and economic corridors, where establishing SEZs can be a game changer for the regional integration of industrial value chains and the competitiveness of local firms.

Furthermore, cross-border SEZs can prove to be an effective development instrument for LDCs. Indeed, this type of SEZ enables small and landlocked economies, with few productive capabilities, to improve trade complementarity with neighbouring economies. At the same time, it could aid LDCs with low institutional capacities in the design and implementation of SEZs through the assistance of neighbouring countries at a higher development stage. The CODEVI FTZ, located on the border between the Dominican Republic and Haiti, illustrates

the potential benefits for LDCs. The cross-country production model employed by firms in the zone – set up in 2003 and now operating at full capacity – allows businesses to tap into both the large pool of Haitian labour and the skilled workforce and modernized transport networks of the Dominican Republic (UNCTAD, 2010a). The zone now counts more than 14,000 employees and has contributed to the creation of 20,000 indirect jobs in Haiti's northern corridor. In Africa in 2018, the governments of Burkina Faso, Côte d'Ivoire and Mali established the first cross-border SEZ in West Africa, located across the regions of Bobo Dioulasso (Burkina Faso), Korhogo (Côte d'Ivoire) and Sikasso (Mali). The development plan of the SEZ aims to support the integration of local economies, especially downstream integration in agro-industry and in mining. The availability of resources in neighbouring countries, the proximity of neighbouring markets and the creation of supplier linkages are only some of the potential benefits of SEZs established in LDCs' border areas.

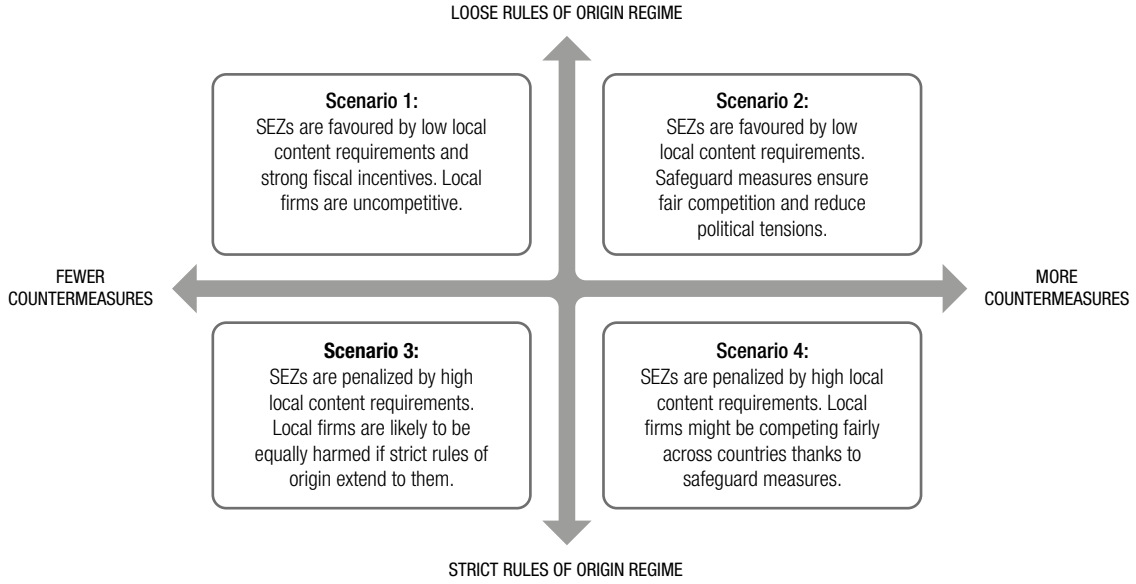
Though cross-border SEZs may prove crucial in a more integrated Africa, their establishment and development is not without challenges. Indeed, such SEZs require close cooperation between governments along with the conciliation of immigration, customs, labour and SEZ policies. Moreover, participating countries need to share trust and clear objectives, as well as ensure adequate institutional capacity throughout the design and implementation process (UNCTAD, 2019c). These challenges are well reflected in the types of constraints experienced in developing the cross-border SEZ between Burkina Faso, Côte d'Ivoire and Mali, where the lack of an existing framework for SEZs and cross-country operational consultations risk derailing the development plan (African Union, 2020). That said, a way for African SEZ developers to minimize these challenges is to establish international partnerships with foreign countries or international organizations that possess expertise in developing this sort of SEZ, following the steps of some African countries (outlined in chapter 4).

3.8.2 The importance of a level playing field

Even assuming that SEZs located along border areas and incorporated in common regional industrial strategies can promote the integration of African economies, little will be achieved if the AfCFTA does not enable a conducive environment for such developments. The evidence shows that RTAs yield greater results when they are implemented fully and include provisions for the harmonization of rules of origins and tariff incentives. Indeed, studies show that the lack of a harmonized tax and incentives policy can compromise regional integration in the context of a customs union or RTA, as overlapping rules make it difficult for member countries to develop trade relations and integrate into GVCs (IMF, 2015). Moreover, regulatory harmonization will be necessary to remove SEZ export restrictions set by national governments and RTAs, in light of the fact that different export-based tariff incentives provide the basis of most proposals by AfCFTA member countries to ban the entry of SEZ goods into the AfCFTA customs territory. Thus, it is critical for the AfCFTA to work towards the creation of a level playing field, in which financial incentives granted to SEZ investors are consistent across African Union member countries, rules of origin are harmonized to a common simple set and temporary exceptions are awarded in consideration of country-specific circumstances.

A level playing field is achieved by reaching a balance between rules of origin and policy countermeasures, such as regulations on State aid, harmonization of fiscal incentives and trade remedies. The relationship between rules of origin and policy countermeasures determines the competitiveness of SEZ firms and non-SEZ firms, both within countries and between countries. Figure 25 presents four scenarios that can originate from different combinations of the rules of origin regime and policy countermeasures.

Figure 25. Scenarios deriving from different combinations of rules of origin and safeguards



Source: UNCTAD.
Note: The vertical axis represents different levels of strictness of rules of origin, which can be simply thought of as an increase or decrease in the percentage of local content requirements applied to SEZs. The horizontal axis corresponds to the extent of countermeasures provided for under the FTA. The extent of countermeasures, in turn, can be operationalized with safeguards covering harmonization of fiscal incentives, State aid and other policies aimed at homogenizing SEZ laws.

Scenario 1 portrays a situation in which rules of origin are relatively loose and no policy countermeasure is included in the FTA protocols. In such a scenario, SEZ-based firms are favoured by low local content requirements – enabling them to qualify for preferential treatment under the RTA – and generous incentives offered under SEZ regimes. As a result, local non-SEZ firms are uncompetitive, given that although they might benefit from preferential treatment under RTAs, they lack the gains from incentives. In this scenario, SEZs can in theory take part in regional integration even though unfair competition deriving from the lack of safeguards risks fuelling political tensions within and between countries. Here is where the AfCFTA currently stands, having provisionally agreed on relatively loose rules of origin applicable to SEZs but missing agreements on safeguards and harmonization of incentives.

Scenario 2 describes a situation in which SEZs can effectively contribute to the diffusion of intra-African trade, leading to more integration and specialization of African economies. This opportunity is operationalized by low local content requirements and sufficiently loose rules of origin to allow SEZs to take part in the regional economy. Nevertheless, safeguard measures, such as harmonization of fiscal incentives and State aid regulations, are put in place to ensure that local firms are not crowded out by privileged firms based in SEZs and that a certain degree of homogenization is achieved across members of the RTA. Although the choice of which scenario to pursue ultimately lies in the hands of policymakers and is likely to be driven also by ideological and political factors, scenario 2 is arguably better poised to achieve equilibrium in the context of the AfCFTA.

Scenarios 3 and 4 depict the eventuality of SEZs being regulated by strict – and possibly cumbersome – rules of origin that limit their ability to trade in the regional bloc. As seen in the example of Mercosur, in such a case SEZs may end up refocusing towards offshoring to third countries and playing an increasingly marginal role in regional integration efforts.

Under these two scenarios, the fate of local firms located outside SEZs is somewhat less certain and likely to depend on the nature and strictness of rules of origin applied to non-SEZ firms. Under scenario 3, local firms located outside SEZs may equally be harmed if stringent rules of origin impose the use of expensive local materials and burdensome administrative procedures to confer originating status under the RTA. Under scenario 4, local firms can at least compete fairly with other African countries, thanks to the introduction of safeguards (Cadot et al., 2006).

In order to strengthen the AfCFTA's regulatory framework, work toward a level playing field and minimize political tensions, the AfCFTA can adopt three specific policy and regulatory measures to facilitate SEZs' participation in RVCs while ensuring that competition is fair between and within countries.

3.8.2.1 Harmonization of fiscal subsidies

The harmonization of fiscal subsidies across African Union member countries would allow SEZ goods to be traded in the internal market, hence fostering regional integration. Common rules could also ensure compatibility with the WTO regime, whose geographical application is set to expand with the expiration of special provisions for developing countries. Given the WTO membership of most African Union member countries, the WTO SCM and TRIMs agreements provide the appropriate references for legal trade remedies. It is therefore opportune for the AfCFTA to rely on WTO rules concerning anti-dumping, countervailing and safeguard measures, to regulate incentive schemes conceded to SEZs (UNCTAD, 2018). Common adjustments on financial subsidies may need to be promoted between countries and within countries. Indeed, shifting to a continent-wide set of fiscal subsidies for all promoted industries and firms would eliminate unfair competition as well as fiscal and incentive wars that often arise among countries (and even regions within a country) when identical activities located within and outside SEZs enjoy different income tax rates (Rodríguez-Pose & Arbix, 2001; Akinci & Crittle, 2008). Moreover, a blended set of subsidies could to a large extent prevent a race to the bottom triggered by harmful tax competition between African countries, as outlined in section 3.2. In this regard, the EAC Export Processing Zone Regulations provide a good starting point for developing common SEZ regulatory frameworks (box VI). Nevertheless, these efforts need to be further expanded towards tax cooperation on SEZ subsidies.

Box VI. Collaboration between national SEZ authorities: evidence from the EAC Customs Union Protocol

A few attempts – arguably restricted in scope and depth – have been made to reach some level of harmonization across Africa's various SEZ schemes. For instance, the EAC Customs Union Protocol, active since 2009, includes provisions regulating export promotion schemes (Art. 25), duty drawbacks (Art. 26), tax remission (Art. 27), EPZs (Art. 29), freeports (Art. 31) and exemption regimes (Art. 33). Moreover, the EAC Export Processing Zone Regulations (Annex VII) aim to establish uniform SEZ regimes across the region and require national regulations to align with the EAC provisions. More recently, the EAC developed a draft for a common SEZ policy which includes new types of SEZs, such as educational zones and regional economic zones.

The extent to which such a unified regional approach can succeed remains to be seen. Indeed, some countries of the bloc still maintain conflicting regulations, while others cannot agree on a common threshold of export restrictions. Yet the EAC experience may be representative of one way in which national SEZ authorities can collaborate to facilitate institutional convergence and reduce collective action problems arising from misaligned national incentive schemes.

Source: Woolfrey (2013); EAC (2020).

It should also be noted that there are other ways by which the AfCFTA – and national SEZ authorities – can promote industrialization in SEZs, other than export-based fiscal subsidies. For instance, the AfCFTA could work towards continent-wide incentive programmes based on other economic rationales, such as skills creation, employment creation and sectoral performance. In the the former North American Free Trade Agreement, the case of Mexico shows how a country can successfully shift away from export performance incentives towards sector-focused incentives over a transitional period (seven years, in this case) (Granados, 2003). In another example, in Asia, the case of Malaysia shows how a country refocused its SEZ incentive programmes by aligning them with RTAs and ensuring fair competition, granting the same subsidies to SEZ-based firms and promoting enterprises outside SEZs (Akinci & Crittle, 2008). African SEZ authorities may want to look at these cases for ideas on how to retain the value proposition of their zones following the introduction of RTAs.

3.8.2.2 Harmonization of behind-the-border measures

The maze of rules of origin, value-content requirements, certification and absorption rules across African Union member states contributes to increased transaction and trade costs, thereby hampering participation by SEZs in supply chain trade. Evidence shows that the reduction and *harmonization of behind-the-border measures* – referring to a variety of NTBs, including rules of origin, standards requirements, registration procedures and other administrative regulations – can significantly increase participation by regional firms in GVCs (de Melo & Twum, 2020). Conversely, if SEZ investors have to navigate complex rules of origin, the primary objectives of the AfCFTA will fail to materialize as firms will naturally trade under most-favoured-nation tariffs. Establishing simple, predictable and business-friendly rules of origin is crucial to avoid the "spaghetti bowl effect", a counterproductive paradox in which the administrative burden caused by the multitude of FTAs deters firms from using the AfCFTA's preferential tariffs (Bhagwati, 1995). Also, policymakers should exert caution to take into account the different levels of productive capacities and structural asymmetries between the AfCFTA member states. With strict rules of origin, LDCs could face daunting challenges to using preferential treatment for their exports, given their lack of local inputs and the low capacity of their customs authorities.[23]

Finally, according to the WTO – and following what is customary in other international FTAs, such as the EU Customs Union – treaty provisions should aim at instituting common rules of origin as a device to support trade policy instruments, rather than converting rules of origin into a trade policy instrument per se. In this sense, the AfCFTA provisions may require greater detail on State and regional aid policies, rather than limiting the circulation of goods based on their origin. In that way, SEZ operators will not be at a disadvantage and will be able to compete on an equal footing.

3.8.2.3 Temporary exceptions for country-specific circumstances

For the creation of synergies between the AfCFTA and SEZs, success will also hinge on the implementation of temporary exceptions for country-specific circumstances. Recent developments in RTAs can provide the AfCFTA with excellent policy adjustments aimed at incorporating SEZs in regional integration plans. For instance, Mercosur implemented until 2013 temporary special provisions[24] for SEZs located in underdeveloped geographical contexts, such as the special customs areas in Tierra del Fuego, Argentina and in Manaus, Brazil. Certificates of origin were granted to goods produced in these SEZs, with the aim of favouring economic development in lagging regions (Koyama, 2011). Similar concessions can be granted to SEZs in LDCs, accompanied by flexible and simplified rules of origin that encourage the development

of productive capacities. Temporary differential treatment for lagging countries or regions has proven effective in RTAs both in Africa and in other continents. Within the SADC, for instance, temporary special provisions were granted for textile and garment manufacturers in Malawi, Mozambique, the United Republic of Tanzania and Zambia (Koyama, 2011). Firms based in those countries could benefit from preferential treatment within the free trade area, even though they sourced their intermediate inputs from outside it. This type of measure allows member states to develop a comparative advantage in a sector considered strategic so as to increase their productive capacity.

3.9 CONCLUSION

This section has explored the nexus between RTAs and SEZs, exposing both opportunities and threats set to originate from the interaction of the two. The advent of the AfCFTA and other initiatives aimed at increasing regional integration can boost SEZs' competitive positioning by enabling and incentivizing SEZ operators to expand their reach to regional markets. Indeed, the opportunity exists for SEZs to refocus their value proposition as gateways to neighbouring countries, hence moving beyond the attraction of firms looking for a platform to re-export to extra-African countries under trade agreements such as the AGOA. The AfCFTA has the potential to offer a platform for the establishment of productive bases to serve regional markets. This opportunity can be further leveraged by including SEZs in regional industrial policies and establishing border and cross-border SEZs along transport and economic corridors. Notable cases from Africa, such as the Musina–Makhado SEZ in South Africa, and the recent developments in the GMS provide African policymakers with illustrative examples of the modalities through which SEZs can be used to scale up regional production, capitalize on differences in production endowments across regional partners and improve competitiveness vis-à-vis international competitors. In addition, the gains emanating from the introduction of the AfCFTA may not accrue only to zone-based firms. The whole continent stands to benefit from increased shares of intra-African trade, given its potential to foster economic diversification and strengthen RVCs.

These gains are in no way automatic. A number of caveats may ultimately determine whether SEZs stand to benefit from the adoption of a pan-African FTA. First, African RTAs, although somewhat less prevalent than in other regions, create an intricate web of overlapping regulatory frameworks that add to the already complex entanglement of national SEZ laws. This disjunction can have important repercussions on SEZ and non-SEZ firms by increasing trade costs and compliance burdens. Second, the way rules of origin are framed within the AfCFTA provisions is likely to affect SEZs' capacity to thrive in regional markets. Restrictive rules that limit SEZs' exports into the regional bloc may cause a deterioration of SEZs' competitive positions, as restrictions on market access potentially reduce some of the locational advantages of being located in SEZs. These threats are likely to persist even though the AfCFTA refrains from adopting strict regulations, as it does not provide for the harmonization of provisions under national laws and other African RTAs. Third, elements of the political economy concerning SEZs and RTAs may play a role in fuelling detrimental regional competition among the AfCFTA states. With countries competing against one another to attract FDI and become the country of choice to gain access to the African market of 1.2 billion people, governments may view SEZ policies as a tool to lure foreign investors by outdoing regional competitors.

As a result, the introduction of the AfCFTA may cause a spiralling increase in incentive-based policy interventions, in the form of both tax breaks and reduced social and environmental compliance requirements. In such bidding wars, LDCs and weaker states are likely to be losers, exacerbating regional inequalities and structural weaknesses.

Finally, and on a brighter note, international best practice and research show that these challenges can be minimized, at least to a certain extent, through specific policy options. In the context of overlapping and at times conflicting regulations on SEZ-related policy areas by national legislation and African RTAs, the AfCFTA could serve as the platform for harmonizing the different regimes, providing equal footing in terms of State aid, fiscal subsidies, and labour and environmental standards. Evidence from the EAC, the EU Customs Union and Mexico, among others, provides insights on how to operationalize this harmonization process and reconcile national SEZ policies with the SEZ provisions under FTAs. The homogenization attempts may also serve as a powerful tool to create a level playing field, thereby minimizing the threat of harmful, incentive-based, regional competition. In this regard, the different scenarios presented shed light on the precarious balance between the integration of SEZs in RVCs and the creation of fair competition both between and within countries through safeguard measures.

On the issue of rules of origin, the experience of the ASEAN countries vis-à-vis the Mercosur countries showcases the potential benefits of simple, transparent and predictable rules of origin that regulate goods originating from SEZs, while the evidence stemming from Mercosur and the SADC shows the importance of accommodating the needs of LDCs and lagging regions through the enactment of special provisions. Yet African countries stand to gain more by providing clearer, simpler and harmonized rules of origin. The current maze in this field – with countries adopting different policies and distrusting one another – will not only affect the capacity of SEZs in Africa to thrive but may also hurt cross-country trade when clashing regulations are taken into account. Homogenizing rules of origin across the continent may therefore bring benefits that go well beyond SEZs and affect the all-important capacity to trade across Africa.

NOTES

[1] Data are based on a survey covering 39 SEZs from 30 countries: Angola, Benin, Burundi, Cameroon, Comoros, the Congo, Côte d'Ivoire, Djibouti, Egypt, Gabon, the Gambia, Ghana, Guinea, Kenya, Lesotho, Libya, Mali, Mauritania, Mauritius, Morocco, Mozambique, Nigeria, Rwanda, Seychelles, South Africa, the Sudan, Togo, Tunisia, Uganda and Zambia.

[2] It is debated whether fiscal subsidies granted to SEZ firms provide competitive advantage. Some studies argue that, in Africa, fiscal incentives often do not reduce costs of production in a significant way (AEZO, 2020).

[3] Article 20 and 21 of the Law of Economic Zones of a Special Nature.

[4] Article 34 of Law No. 05/2011 of Regulating Special Economic Zones in Rwanda.

[5] Article 35 of Special Economic Zones Act.

[6] Article 47b(iv) of the Free Zones Act.

[7] Article 44 of Law No. 010/2011 on the Regulation of the Special Economic Zones in the Gabonese Republic.

[8] Section 23 of the Free Zone Act.

[9] It should be noted that WTO discipline applies only to incentives granted by WTO members. Non-governmental measures imposed by private SEZ operators are not subject to the WTO regime.

[10] Among other WTO provisions relevant to SEZs, are these: GATT Article 1, contravened if national laws discriminate between goods based on country of origin; GATT Article 3, violated if national laws impose measures in favour of domestic goods; and GATT Article 8(1), contravened if national laws provide for fees on imports and exports in excess of the cost of the services rendered.

[11] In Africa: Angola, Benin, Burkina Faso, Burundi, the Central African Republic, Chad, the Democratic Republic of the Congo, Djibouti, the Gambia, Guinea, Guinea-Bissau, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Senegal, Sierra Leone, Tanzania, Togo, Uganda and Zambia (according to the UN).

[12] In Africa, excluding these LDCs: Cameroon, Côte d'Ivoire, Ghana, Kenya, Nigeria and Zimbabwe (according to the World Bank). Egypt and Morocco have transitioned from Annex VII status and are subject to the Article 3(1)(a) prohibition as of December 2015. Cameroon and Kenya are close to reaching the $1,000 threshold.

[13] Art. 42 of Annex 2: "States parties agree that issues pertaining to Special Economic Arrangements/Zones and drafting regulations for goods produced thereunder are outstanding issues".

[14] Art. 9 of Annex 2 on Rules of Origin.

[15] Art. 2.2.3 of the Protocol on Rules of Origin of COMESA.

[16] Art. 15.b.IV in Annex VII of EAC Customs Union Regulations.

[17] The economic partnership agreements (EPAs) are the ACP–EU EPA (Cotonou Agreement), the ESA–EU Interim EPA, the SADC–EU EPA, the West Africa–EU EPA and the SACU–EFTA EPA.

[18] Dec. 01/2004, Art. 3.

[19] Dec. 08/94.

[20] Law 523/1995, Art. 17.

[21] Art. 28 of the ASEAN Trade in Goods Agreement.

[22] Utilization rates of the AFTA remain relatively low (below 50 per cent), suggesting low margins of preference (Tambunan, 2015).

[23] Many African countries are already unable to tap preferential treatments, including Benin (utilization rate, 0 per cent), Burkina Faso (0 per cent), Equatorial Guinea (0 per cent), Guinea (6.8 per cent), Liberia (0 per cent), Mali (0.4 per cent), Somalia (1.1 per cent), Togo (0 per cent) and the United Republic of Tanzania (6 per cent) (according to UNCTAD).

[24] Dec. 08/94, Art. 6.

CHAPTER 4
AFRICAN SEZ PRACTICES AND LESSONS LEARNED

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A subtle and thin line frequently separates success from failure in SEZs. Whether a zone becomes a springboard for greater innovation, employment, exports and industrial upgrading or, conversely, stagnates and fades into oblivion depends on a limited number of critical factors. These factors include a well-targeted strategic focus, the role of integrated policies and institutional collaboration, context adaptability, international partnerships, ESG standards and dynamic economic gains. Important lessons can be extracted from African and non-African SEZ practices on important aspects such as the key role of investment promotion and the growing relevance of enhanced ESG standards. That said, a proactive and whole-of-government approach to SEZ design and development remains distinctive of every successful attempt to develop an SEZ programme that effectively dynamizes the local industrial context, ideally exerting a positive impact beyond the gates.

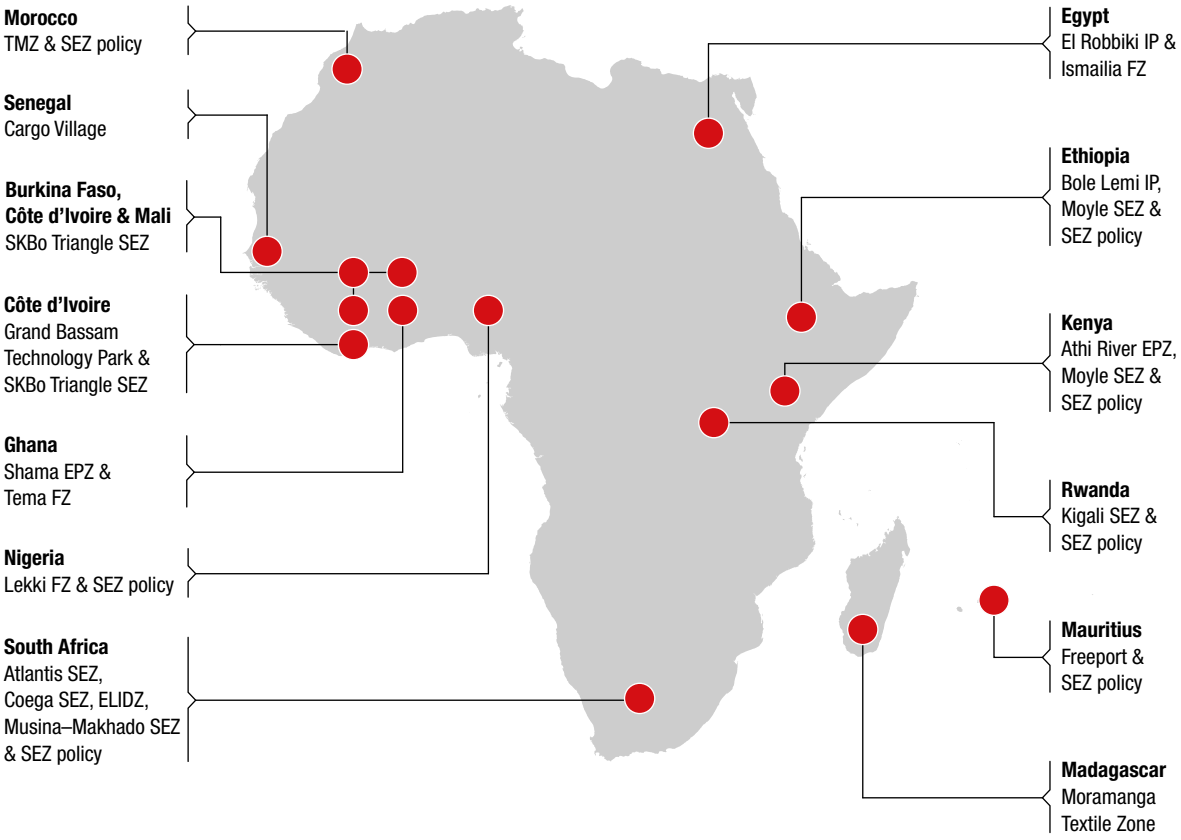
This chapter examines the design and implementation of SEZ policies in African countries – both successful and not so successful cases – in order to draw evidence-based lessons from experience and provide guidelines on how to make the most of the use of SEZs as a development tool. The cases covered in this Handbook have been chosen for illustrative purposes and represent a wide variety of aspects of SEZ policy and different country contexts. They are not meant to be a comprehensive list of practices related to SEZ policy in African countries. International practices – mostly from emerging countries – are also included in order to complement the African cases and provide further examples.

The chapter is structured along themes that cover areas considered crucial for the success of SEZ programmes, according to the academic and policy literature dealing with economic development and the role of SEZs. There are six themes:

1. **Play to your strengths** – the importance of a well-targeted strategic focus
2. **Unite the team** – the crucial role of investment promotion, integrated policies and institutional collaboration
3. **Know your place** – SEZ design tailored to the local context and strategic focus
4. **Tap into outside experience** – international partnership and SEZs
5. **Be green and social** – ESG standards to increase impact and competitiveness
6. **Get the full benefits** – reaping dynamic gains of SEZs

The chapter dwells on examples from specific countries in Africa that have considerable experience in the design, implementation and monitoring of SEZs (figure 26). SEZs in Egypt, Ethiopia, Ghana, Kenya, Nigeria, Mauritius, Morocco, Rwanda and South Africa are covered in detail. SEZs in Côte d'Ivoire, Madagascar and Senegal are also analysed. The analysis is complemented with information stemming from SEZ experiences in other parts of the world, with a particular emphasis on those in emerging countries.

Figure 26. SEZ cases by country



Source: UNCTAD.

SEZ policies in these countries have been introduced at varying times. Some of the programmes are relatively recent, as in Ethiopia and Rwanda, where SEZ policies were introduced in 2015 and 2011, respectively. Other countries have a long history of implementing this type of policy. Mauritius, for instance, was among the first countries in Africa to implement an SEZ policy, in 1971, and its programme has undergone many changes since then. In other countries, such as Nigeria and South Africa, SEZ policies, although introduced relatively early, have only gained traction recently, in some cases years after their establishment. The SEZ policies of the sampled countries differ in size and scope. In some countries, e.g. Ethiopia and South Africa, the programmes are part of broader economic and industrial policies (EDB, 2021b; SARS, 2021). In others, e.g. Rwanda, the SEZ policy is embedded in investment promotion efforts and targets specific country-wide constraints, such as the availability of industrial and commercial land, the availability and cost of energy, limited transport linkages, market access, reduced bureaucracy and availability of skills (RDB, 2021). In contrast, in countries such as Côte d'Ivoire and Senegal – where zones are few – the SEZ programme substantially remains a stand-alone policy initiative. Recently, there have been greater efforts to integrate SEZ policies with national economic and industrial development targets sponsored by governments (Oxford Business Group, 2020). Table 11 provides an overview of the basic characteristics of each country and programme.

Table 11. Overview of case countries

Country	Introduction of SEZ policy	Terminology	Number of SEZs	
			UNCTAD data	AEZO data
Côte d'Ivoire	2004	Technology park	1	4
Egypt	1997	FZ and SEZ	10	16
Ethiopia	2015	IP	18	15
Ghana	1995	FZ	4	5
Kenya	1990	EPZ and SEZ	61 (plus free points)	13
Madagascar	1989	EPZ and SEZ	4	2
Mauritius	1971	Freeport and free points	1 (plus free points)	3
Morocco	1994	FZ	6	26
Nigeria	1992	FZ	22	23
Rwanda	2011	SEZ	2	1
Senegal	1974	IP	3	4
South Africa	2000	Varies, including industrial development zone and FTZ	8	8

Source: Based on UNCTAD and AEZO data.

4.1 PLAY TO YOUR STRENGTHS – THE IMPORTANCE OF A WELL-TARGETED STRATEGIC FOCUS

4.1.1 Introduction

Most SEZ policies in Africa and around the world share similar objectives in terms of attracting (foreign) investment, generating jobs, promoting industrialization and upgrading the economy. They also frequently rely on the same set of policy instruments, such as investment incentives and administrative facilitation, in order to achieve their intended policy objectives. Despite these similarities, though, SEZs do not operate in a void and always need to be designed with consideration of the respective country and regional context as well as broader global economic trends.

One key feature of many successful SEZ policies is a clear strategic focus in terms of realistic target sectors and investors based on a country's value proposition and comparative advantage, using the SEZ policy as a catalyst to attract investment. A recent survey of firms in seven SEZs, four of them in Africa, is revealing: among the responding investors, one third stated that although they were primarily attracted to a country because of specific endowments that matched their requirements, they would not have invested if the country did not have an SEZ policy (World Bank, 2018).[1] This highlights the interconnected nature of a country's general comparative advantage and SEZ programmes.

Traditionally, the availability of cheap(er) labour as well as proximity and/or preferential access to markets have been emphasized as major performance drivers for SEZs and, more generally, for FDI attraction (Farole, 2011; Madani, 1999; Rolfe et al., 2004). Many of the most successful SEZ policies have, in fact, focused – at least in their initial stages – on attracting relatively low-tech, labour-intensive industries, such as garments and electronics, which take advantage

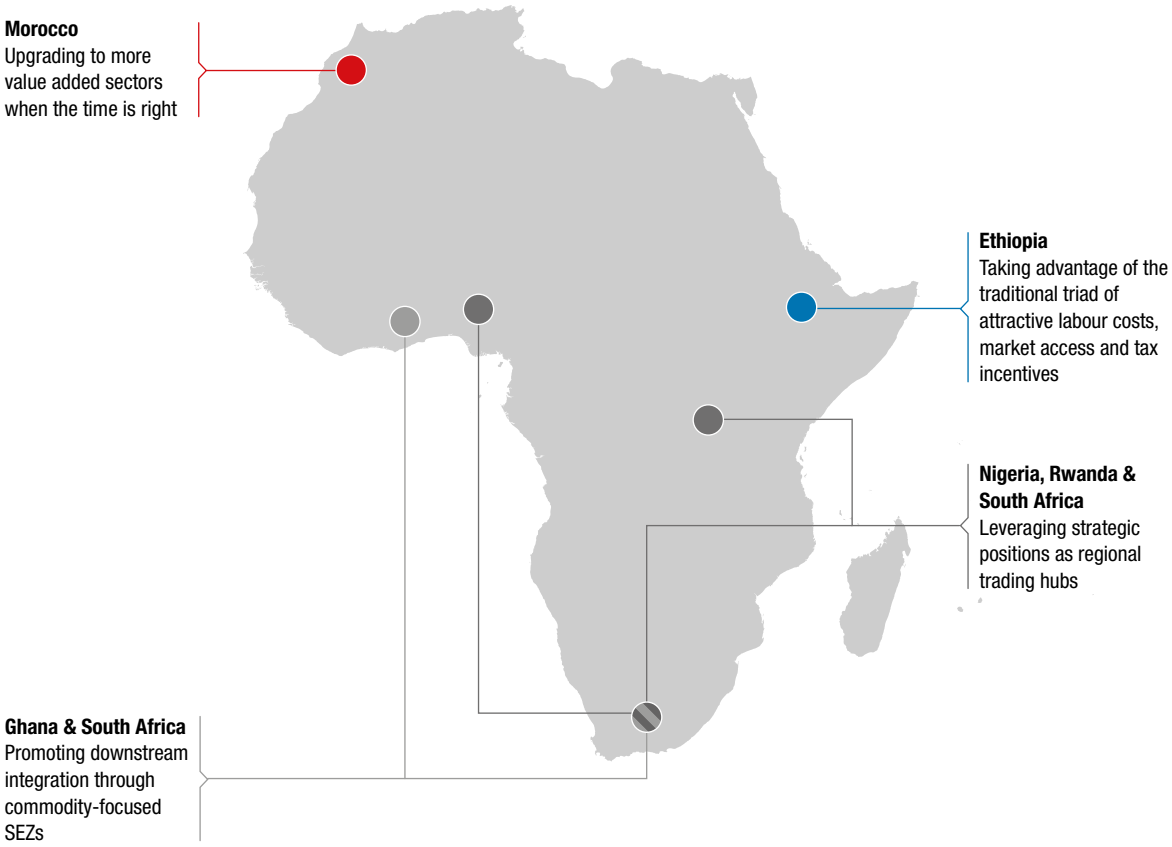
of these factors. Well-known SEZ country programmes, as in Bangladesh, China, Viet Nam and many Central American countries, are examples. Furthermore, recent studies confirm the continued importance of these factors for SEZ policy viability (Frick et al., 2019).

In emerging and less-developed countries, SEZs are now often designed and implemented with the aim of promoting sectors with higher value added activities, as opposed to the low-tech, labour-intensive industries that were traditionally targeted by SEZ policies in these countries and generally dominate the industrial and economic panorama. However, when the gap between the targeted investment and the local reality is too large, such attempts go up in smoke. Many zones in developing countries that have targeted high-tech investments have failed to attract any meaningful investments, becoming what Castells and Hall (2014) called high-tech fantasies. The reasons behind these failures frequently relate to the lack of locational factors required to attract such industries, including a sufficiently skilled labour force and advanced research institutions and universities. One such example are the early zones in Bangladesh, which targeted high-tech firms but were unsuccessful. The tide changed only when the focus was shifted to the labour-intensive garments industry, which is more aligned with the skills set in the country and with the productive environment (Farole & Akinci, 2011). After this shift, SEZs in Bangladesh began attracting considerable foreign investment. Countries following a more incremental approach are often more successful. SEZs in Costa Rica and Viet Nam, for example, began by targeting lower value added segments, in line with the conditions of the country and the skills available. After initial success with this strategy, they were gradually capable of setting their sights higher and targeting firms with greater technological components. This strategy only came about as the local economic conditions, the characteristics of the labour force and the capacity of local firms improved. These improvements in local conditions were both the cause and the consequence of adopting a more realistic and steadier SEZ strategy.

However, the success of SEZ policies does not depend only on local conditions. Global economic trends can play an important role in their effectiveness. Many successful SEZ programmes have benefited from specific periods in which multinational enterprises – facilitated by decreasing trade and communication costs, advances in technology and policy innovations – have sought to outsource (parts) of their production from high-cost locations to more cost-efficient places in the developing world. At first, this move primarily implied shifting production from Europe and North America to Latin America and East Asia. The reshuffling of production locations remains an ongoing process. A more recent move from increasingly expensive locations in South-East Asia is currently benefiting new locations around the world, including many African countries.

Successful cases in Africa are no exception to these trends and processes, and underscore the importance of building SEZ policies on the backbone of a country's comparative advantage, while further strengthening that advantage. The following section showcases the multitude of ways in which African countries have built national SEZ policies or specific SEZs with a clear strategic focus, based on their position in the global economy and on country endowments. Figure 27 identifies the locations of the cases covered in this section.

Figure 27. Representation of cases covered – "Play to your strengths"



Source: UNCTAD.

4.1.2 Ethiopia – taking advantage of the traditional triad of attractive labour costs, market access and tax incentives

Ethiopia has been, of recent, identified as a success story in terms of economic growth, FDI attraction and poverty reduction. Over the last decade, it has been among the fastest-growing economies in Africa and in the world, with average growth rates of 9.8 per cent a year from 2008/09 to 2018/19, in contrast to the regional average of about 5 per cent (World Bank, 2020c). FDI inflows have grown by almost 50 per cent each year since 2010, reaching $4 billion in 2017 (UNCTAD, 2020c). This puts Ethiopia in one of the top spots in Africa in terms of its attraction of FDI. This economic dynamism has also translated into better social outcomes, with the poverty rate falling from 30 per cent in 2011 to 24 per cent in 2016 (World Bank, 2020c).

The Ethiopian Government's SEZ policy, the IP policy, has been at the core of the country's strategy to transform its manufacturing sector and is often credited with playing a key role in this success story. The policy was introduced in 2015. Since then, 18 IPs have been built. Eleven are government-owned and run. They include the Hawassa and Bole Lemi IPs. The remaining seven parks are privately administered and operated, including the Huajian IP and the CCCC Arerti IP, both operated by Chinese companies.

Ethiopia's SEZ regime also stands out because of its financing sources. They differ from other more traditional ways of raising finance for the development of zones. The Ethiopian Government raised financing by issuing a sovereign bond on the international capital market, becoming the first developing country to do so. About $1 billion was raised by the sale of Eurobonds in 2014, which was then spent for the realization of IPs, including Bole Lemi IP, Hawassa, Kombolcha and Mekelle (Giannecchini & Taylor, 2018). For the development of the Hawassa IP, the Government provided $250 million – some of it from the Eurobond sale (DAI, 2017). Other financing sources include the Ethiopia Jobs Compact (totalling $500 million, granted by the European Investment Bank), the World Bank, the United Kingdom Department for International Development and EU member state agencies. Private Chinese investments were also involved. This type of private investment was frequently undertaken by Chinese contractors chosen through a competitive process handled by the Chinese Ministry of Commerce. Moreover, the Chinese contractors were conferred long-term loans, subsidies and grants, and the Chinese Government would cover up to 30 per cent of pre-construction and implementation costs, in order to minimize entry risk (Tyson, 2018).

In order to lower entry and operational costs for foreign investors, a number of fiscal and non-fiscal incentives are offered to firms located within the IPs in a variety of industries, including garments, textiles and agro-industries. The incentives vary from the exemption from customs duty for imports of inputs and capital goods to exemptions from income tax for a specific period of time, depending on the location of the investor and the activity. For instance, park developers enjoy a 10-year exemption from income tax if located in Addis Ababa or in SEZs in the Oromia region surrounding Addis Ababa. In other zones, 15-year exemptions are granted. Similarly, park enterprises can be granted up to 10-year exemptions, of which 6 years may depend on their specific sector of engagement; an additional 2–4 years can be conferred if they export at least 80 per cent of their production (EIC, 2017). Heavily subsidized rental prices and pre-built factory units are also included in the incentive package in a plug-and-play system. The underlying premise is that IPs will enable the country to provide fast access to industrial land, a reliable electricity supply, and waste and water management facilities. These are factors that remain lacking in many parts of the country. Providing all those elements in a less concentrated form in different places across the country would have surpassed both resource and implementation capacities in the country.

Yet, the IP policy was not a stand-alone tool. It was underpinned by a detailed strategic analysis of both the country environment and strategic target sectors included in Ethiopia's economic strategy, the Growth and Transformation Plan II. The plan aims to transform the country into a manufacturing hub and targets an average GDP growth of 11 per cent annually. While highlighting the importance of the manufacturing sector in general for driving economic transformation in the country, the plan also focuses more specifically on labour-intensive industries, such as leather and garments, and those that use agricultural products, in order to leverage the country's comparative advantages (Centre of Government and Delivery, 2020). A number of factors make Ethiopia an attractive location for these industries. They include a large and young labour pool and one of the lowest wages in Africa – one quarter of the average in the garment industry in China (Wiggins & Keats, 2016) – as well as recent improvements in infrastructure and one of the cheapest energy supplies in the world. The recent renewal of the AGOA, offering duty-free access to the United States market, and other preferential trade agreements with large markets, such as the Everything But Arms Agreement with the EU, have further enhanced the attractiveness of Ethiopia as an export hub for global producers in the industry.

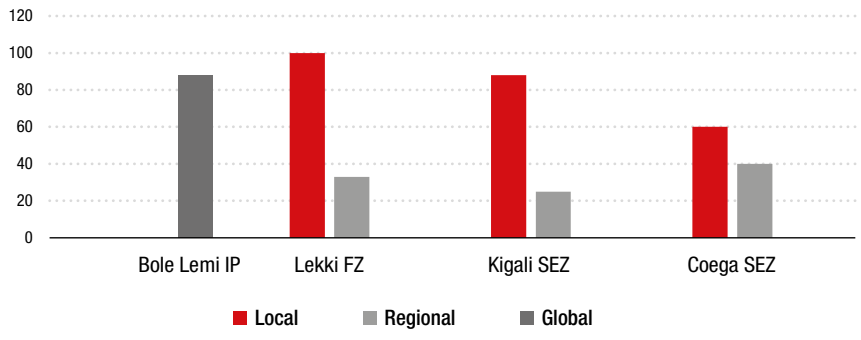
A recent survey of investors in the Bole Lemi IP, the first park developed under the policy, confirms the importance of these factors. All of the firms interviewed stated that one of the main drivers for their decision to invest in Ethiopia was the attractive cost of labour. Some 88 per cent named favourable access to global markets as a crucial factor (World Bank, 2018). In the same survey, investors also highlighted the important facilitating role of the IPs for their investment decision, and the majority confirmed that they would not have invested outside one of the parks, given the challenges they would have expected to face. Furthermore, they underscored that by reducing the risks and associated set-up costs the IPs enabled them to test Ethiopia as an entirely new investment location for the industry. Without IPs, the investors may not have taken the leap of faith to open operations in what until recently has been uncharted territory, despite the interesting endowments Ethiopia offers. These numbers illustrate that IPs, in particular, and national SEZ policies, in general, can play important roles as the entry point for FDI into developing and emerging countries, provided that local comparative advantages and a well-targeted industrial strategy are in place. The SEZ policy in Ethiopia has helped to provide an initial stepping stone for international investors seeking attractive locations for manufacturing, as well as to display the advantages of a country that has become a far more attractive investment location than in previous decades.

4.1.3 Nigeria, Rwanda and South Africa – leveraging strategic positions as regional trading hubs

Whereas Ethiopia built its SEZ policy on what is often perceived to be the traditional approach to SEZ development (i.e. advantageous labour costs and favourable access to the global market), other African countries have approached the development of SEZs and the targeting of foreign investment using a different strategy. A number of SEZs in Nigeria, Rwanda and South Africa are interesting examples of zones that, rather than serving as low-cost global export hubs, have had relative success in leveraging their strategic position within the regional context, serving both the local and the broader regional markets.

One such zone is the Coega SEZ in South Africa. In that zone 40 per cent of foreign firms stated that one of the key reasons for their investment in South Africa was to serve other Southern African countries, whereas 60 per cent of firms were keen on the local market. In the Kigali SEZ in Rwanda, the picture is similar (figure 28). Foreign firms invested in the Kigali SEZ with the aim of serving a fast-growing local market (88 per cent of interviewed firms) – and one in which competition was still rather limited. One out of four investors also chose Rwanda as a gateway into other East African countries. In the Lekki FZ in Nigeria, 34 per cent of interviewed firms wanted to access the regional market using Nigeria as their regional hub (World Bank, 2018).

Figure 28. Importance of market type to firms' location choice, selected African SEZs (Per cent)



Source: LSE (2018).

In none of these cases did the investors who were interviewed have any interest in serving other global markets from their operations in the SEZ. This was in complete contrast to the Ethiopian SEZs, where access to global markets played an all-important role and serving the regional or local markets was regarded as a subsidiary goal. This is also true for the second factor traditionally combined with SEZ policies: advantageous labour costs. In the three SEZs in Nigeria, Rwanda and South Africa, only one of the investors interviewed mentioned the cost of labour as an important driving factor for the firm's decision on where to locate in Africa. In fact, labour costs in these countries are generally higher than in other countries in the region. For instance, in terms of purchasing power parity, in South Africa the monthly minimum wage – one of the highest in sub-Saharan Africa – totals more than $400 and in Nigeria it totals more than $200. In the majority of sub-Saharan African countries, the monthly minimum wages average between $100 and $200 (Bhorat et al., 2017).

Despite this, each of the three SEZs has been among the leaders in Africa in attracting relatively strong interest from international investors. The Rwanda SEZ, for example, had an occupation rate of between 75 and 90 per cent in 2020.[2] Factors such as a strategic position within the regional context in combination with country-level features that distinguished each of the countries from its regional competitors made the difference. The decisive factor in Nigeria and in South Africa – the two largest economies on the continent – was the presence of a large and growing domestic market. Economic dynamism and political stability made Rwanda attractive to investors. Additional factors that contributed to luring foreign investment to these zones included a business environment perceived to be more attractive, an attractive SEZ policy or pre-existing industrial capabilities (e.g. in South Africa) (World Bank, 2018).

SEZs as regional export hubs are a particularly interesting proposition, given recent developments in terms of export destinations from African countries. Between 2005 and 2014, intra-African manufacturing exports as a share of total manufacturing exports increased by 15 percentage points to 34 per cent. In Rwanda, intra-African manufacturing exports accounted for 78 per cent in 2014 (Balchin et al., 2016). This share is set to increase further with the implementation of the AfCFTA.

These cases demonstrate the importance of considering different possible strategies for targeting investors, depending on the country context.

4.1.4 Morocco – upgrading to more value added sectors when the time is right

Morocco represents an entirely different approach to using SEZs in order to target investors. It is also one of the few African examples of a country that has succeeded in attracting a significant amount of investment in more high-tech industries in recent years.

Morocco's industrial sector was long dominated by a focus on low-tech exports in industries such as garments and textiles. Over the last decade, however, Morocco has been able to shift gears and attract more and more investment in higher value added industries. This is reflected in a rising share of products with higher technological content in manufacturing exports and a rising share of FDI. Overall, exports grew by $2 billion from 2010 to 2016. During that period, the share of automotive exports rose from a mere 2 per cent to 16 per cent (GMIS, 2018). The share of medium- to high-tech exports also grew: between 2000 and 2007, it represented an average of 23 per cent of total exports, a share that rose to more than 40 per cent between 2008 and 2015 (Lahsini, 2017). Similar transformations have taken place in FDI. Between 2008 and 2015, 22 per cent of FDI went into manufacturing. Automobile, aeronautics and food processing were

rapidly growing industries (Oxford Business Group, 2020). By 2018, Morocco had become the second largest African producer of automobiles – second only to, and marginally behind, South Africa – with a total annual production of 430,000 automobiles. Over 300,000 of those cars were produced in the Renault Tanger Med Zone, established in 2012, the company's third largest plant (Mills, 2019). The PSA Group – which includes Peugeot, Citroën, DS and Opel – opened a production plant in June 2019 at the Atlantic FZ in Kenitra, with a planned production capacity of 200,000 cars from 2020 onwards (PSA Group, 2019). The foreign car producers in the zones are also engaging local firms in the production process. A network of 62 local suppliers is set to provide parts and services for the plant. Similar networks of supplier zones are growing around the TMZ, with 9 of the world's 15 largest auto parts firms present there (Mills, 2019).

This shift has been enabled by a strategy carefully crafted by the Government on the backbone of a detailed analysis of Morocco's comparative advantage. Factors such as political stability, proximity to Europe and low salaries for relatively highly skilled workers – especially in comparison with competitors – make Morocco an attractive destination for FDI. In 2018, the minimum wage was $300 per month, compared with $338 in Tunisia and $430 in Turkey (Mills, 2019). FTAs with the EU, the United States and the Gulf States have contributed to strengthening the country's locational advantages.

To build on these advantages, the Moroccan Government launched the National Pact for Industrial Emergence in 2008, followed by the Industrial Acceleration Plan in 2014. Specific industries were prioritized on the basis of Morocco's suitability for investment in them, including automotive, aerospace, electronics and agro-industrial processing, as well as offshoring sectors. The establishment of SEZs that were focused on specific industries in order to provide a more favourable environment for the development of industrial clusters formed an integral part of these strategies (Oxford Business Group, 2020). Attractive incentive packages for firms in Moroccan SEZs complement the locational advantages. The typical incentives offered in Moroccan zones involve (i) a 5-year corporate tax exemption and 20 subsequent years of additional reductions; (ii) a 5-year income tax exemption, with an 80 per cent reduction in the 20 following years; (iii) a business tax exemption for 15 years; (iv) exemptions from input duties and value added tax (VAT), as well as from corporate registration expenses; (v) an exemption from urban taxes for 15 years; and (vi) a simplification of customs procedures. Further incentives are focused on subsidizing training for high-tech skills, with up to $6,000 per person per year (Mills, 2019). However, there are also questions about to what extent these incentives may detract from other types of investments needed to make Moroccan development more sustainable. In any case, Morocco represents an interesting example of an African country that has used its SEZ policy in a relatively effective way to complement a national industrial development plan.

4.1.5 Ghana and South Africa – promoting downstream integration through commodity-focused SEZs

In countries where commodities represent a large portion of the economy, governments have sought ways to promote investment in downstream integration. Ghana and South Africa, in particular, chose to build on their endowments in the agriculture and natural resources sectors, respectively. Agrocommodity and natural resource-based zones usually include firms that process raw materials and intermediate inputs coming from agriculture, forestry and the extractive industries. This type of zone offers a chance for resource-rich countries to vertically integrate in those sectors, thereby achieving higher value added exports and a broader economic transformation.

In South Africa, a net food exporter, the agriculture sector contributed about 10 per cent to total export earnings in 2019, with a value of $10.7 million (International Trade Administration, 2020b). In 2012, South Africa established the Dube AgriZone, part of the Dube TradePort SEZ, to stimulate growth in the agriculture-based province of KwaZulu-Natal, while leveraging its comparative advantage in the agrocommodity sector. Given the region's good and reliable rainfall, together with its fertile soil, KwaZulu-Natal's agriculture sector has become increasingly productive and is known for its specialist capabilities across a number of crops, including sugarcane, as well as for horticulture and forestry. The province has 6.5 million ha of land for farming purposes, of which 82 per cent is suitable for extensive livestock production and 18 per cent is arable (Trade & Investment Kwazulu-Natal, 2020). Against this backdrop, the establishment of the Dube AgriZone offers the potential to take advantage of the province's natural endowments, while attracting investment through both FDI and local investment across the agricultural value chain.

The Dube AgriZone is part of a broader government plan to increase food security and reduce poverty through the stimulation of the agribusiness sector in the province of KwaZulu-Natal. According to the KwaZulu-Natal Poverty Eradication Master Plan, the AgriZone could be a catalyst for the development of the perishables sector, supporting employment creation and productivity improvements (Dube TradePort, 2020). The zone hosts the largest climate-controlled, glass-covered growing area in Africa, and it offers the opportunity for improved agricultural yields, consistent quality and year-round production. To date, the zone includes 16 ha of greenhouses, a packing and distribution centre, and a laboratory. The focus of the zone is on vegetables with a short shelf life that require immediate air transportation after being harvested. For this purpose, the zone is well integrated with the nearby airport terminal and Dube Cargo Port. In terms of economic results, the zone has consistently met its goals for occupancy rates and generated revenues. As of 2019, more than 90 per cent of the AgriZone facilities were occupied (Dube TradePort, 2020).

In addition to zones based on agricultural commodities, some African countries have sought to foster downstream integration in the mineral and hydrocarbon sectors. Ghana is a relatively new player in Africa's hydrocarbon sector. Following the discoveries of oil reserves in the 2000s, the country started national oil production in 2010. Because the upstream oil sector provided only about 7,000 jobs in 2015 for a total population of almost 30 million, it was hoped that the establishment of a natural resources-focused zone will increase local participation in the oil and gas supply chain, while expanding oil industrial activities towards the downstream sector (International Trade Administration, 2020a). The Shama EPZ is located in the Shama Ahanta East Metropolitan area in Ghana's Western Region. Its strategic location, covering 1,300 ha of seafront land, is well positioned to target the petroleum and petrochemical industry, which is largely based on offshore oil blocks. In addition, the Ghana Free Zones Authority provides a wide range of support mechanisms to firms, including investment support for downstream refinery, distribution and transit, and supply chain business services for manufacturers of by-products such as plastics and jellies (Ghana Free Zones Authority, 2021). Despite the zone still being in an early stage of development, the Government aims to achieve economic diversification in downstream activities, such as marketing and pre-mixing of petroleum products for other industrial uses, by leveraging FDI flows into the oil sector.

In parallel to the development of the Shama EPZ, the Government, together with the Ghana National Petroleum Corporation, has established a Local Content Committee to facilitate local participation in some ancillary business opportunities in the oil and gas supply chain,

including onshore support and logistics, real estate, transportation and supply chain services, telecommunication, banking and insurance services, and a host of construction opportunities, from pipeline manufacturing to the construction of onshore and offshore structures (UNCTAD, 2010b). These policy initiatives favour the establishment of small- to medium-scale local companies, and Ghana has seen an increase in the numbers of such companies that are active in downstream oil activities and related sectors (International Trade Administration, 2020a). Moreover, a recently approved government bill proposed the establishment of the Petroleum Hub Development Corporation, which is set to occupy nearly 8,100 ha, hosting refineries, storage tanks and petrochemical plants. The aim of the hub is to accelerate the growth of Ghana's downstream subsector and to work hand in hand towards the objectives set out by the Ghana Free Zones Authority, whose representatives participate on the Petroleum Hub's board of directors (Petroleum Commission Ghana, 2020).

Commodities are an important sector for many African countries. Agriculture still accounts for more than 30 per cent of GDP in many African economies and remains the main activity for more than 60 per cent of the African population (AfDB, 2016). Moreover, primary commodities represent more than 82 per cent of all African exports to the rest of the world. Against this backdrop, the Dube AgriZone in South Africa and the Shama EPZ in Ghana show that SEZs can offer a complementary tool to transform sectors where African economies hold a natural comparative advantage, by stimulating downstream local value addition and productivity enhancements. Both cases highlight the opportunities that arise with alignment between an SEZ's strategic focus and the endowments of the broader economy.

4.1.6 Conclusion

The cases presented in this section illustrate the interplay between a country's comparative advantage and its SEZ policy. Adapting the strategic focus of the SEZ policies to a country's endowment is crucial to ensuring its effectiveness. The examples also show that this can take a variety of forms. Ethiopia has sought to capitalize on its cheap labour costs and strategic market access. To do so, the country's SEZ policy has been calibrated towards the attraction of investors active in labour-intensive industries, such as garments and textiles, while leveraging the use of attractive incentives to reduce investors' transaction costs when settling in IPs. Despite the relatively recent adoption of SEZs, the alignment between the country's comparative advantages and its SEZ policy has meant that Ethiopia has been able to emerge as a global export hub for low-tech sectors. Nigeria, Rwanda and South Africa have adopted a different strategy, offsetting their higher labour costs by strategically positioning themselves as regional leaders. An SEZ policy tailored to the countries' endowments, rooted in a variety of factors, ranging from political stability in Rwanda to market size for Nigeria and South Africa, has allowed them to gain prominence on the regional stage.

Comparative advantages in both low value added and high value added industries can also be linked to a country's SEZ programme. Whereas Morocco developed specialized SEZs to attract investors in high-tech activities, such as automotive and electronics, South Africa and Ghana established commodity-focused zones to harness the potential of their natural endowments in the agrocommodity and oil sectors. In all three cases SEZs were key to the achievement of the comprehensive objectives set out by national authorities: industrial upgrading in Morocco, poverty reduction and productivity gains in South Africa, and downstream integration in Ghana.

Choosing the right strategic focus for the country is a challenging undertaking and will have to be decided country by country on the basis of a careful analysis of national endowments as well as global economic trends. Though arduous, a well-targeted strategic focus can have major implications for countries. On the one hand, it can help countries set a clear road map for defining strategies and priorities. On the other, it instils trust in investors looking for incentives targeted to a country's locational advantages.

4.2 UNITE THE TEAM – THE CRUCIAL ROLE OF INVESTMENT PROMOTION, INTEGRATED POLICIES AND INSTITUTIONAL COLLABORATION

4.2.1 Introduction

SEZ policies touch upon many different policy areas. Trade and investment promotion, as well as labour and environmental standards, are just a few of the fields typically related to and/or overlapping with SEZ programmes. Coordinating different government institutions in these areas and ensuring policy coherence therefore becomes of crucial importance for the SEZ policy – and other related policies – to become and remain effective.

Investment promotion is one of the areas that is frequently highlighted as ensuring the success of SEZ policy. This is hardly surprising given the focus of SEZs: to attract investment. In a recent survey, 41 per cent of more than 100 firms interviewed in seven SEZs around the world stated that government efforts and support were a key reason behind the decision to invest in a specific SEZ (World Bank, 2018). This support took the form of IPAs either proactively approaching firms prior to their investment and often even before they had signalled any interest in the country or actively facilitating investment once a firm expressed interest. Such a proactive role by government agencies may be particularly important in countries with a low industry base that do not have an established track record of investors already operating successfully in the country. The case of Costa Rica is a prime example of the potential benefits of such a proactive approach. Similarly, the consistent efforts of government agencies in this regard in countries such as Ethiopia and Rwanda seem to have paid off, especially in view of investors' interest in these countries over the last years.

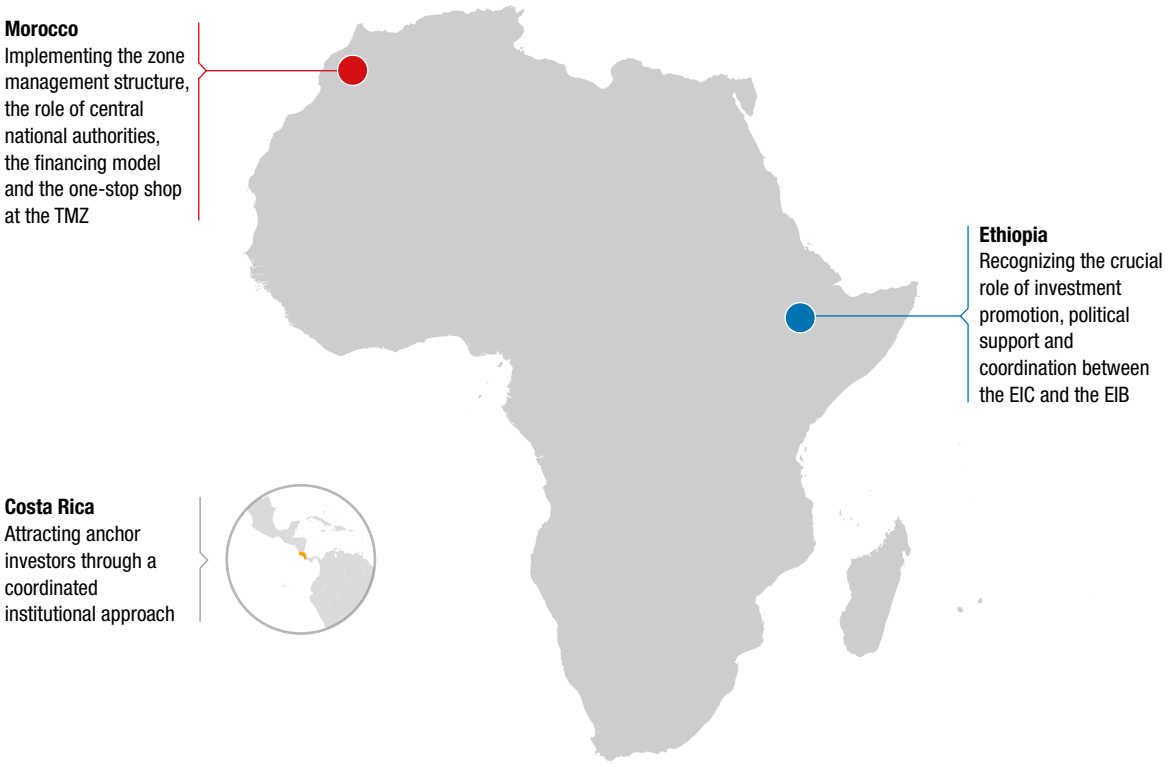
At the same time, a recent survey also confirmed the importance of SEZ policies for investment promotion activities. Some 47 per cent of 120 IPAs surveyed said that SEZs had given a significant boost to FDI in the country (UNCTAD, 2019c). Both survey results thus highlight the interconnected nature of the two areas and the importance of an active approach to investment promotion for SEZ development and vice versa. Yet, this connection is often not sufficiently considered when designing SEZ policies.

Investment promotion is one crucial policy area intimately linked to SEZ policies. Many other fields, such as trade, customs regulations and labour laws, also have an influence on the effective development and implementation of SEZ programmes. The establishment of on-site customs offices and/or one-stop shops for administrative facilitation within many SEZs around the world is often highlighted as best practice and illustrates the intertwined nature of these areas. These on-site facilities deal with administrative issues and red tape, such as visas for foreign workers, firm registration, permit approvals and the like, contributing to facilitating the activity of foreign firms. Embedding the SEZ policy into an integrated and coherent overall strategy is therefore considered an important driver for SEZ success.

In order to ensure such policy coherence, an effective mechanism is required for institutional collaboration between those government agencies involved in the different fields. Although there is no one-size-fits-all approach to ensure this coordination, high-level government support for the SEZ policy can go a long way to facilitate the collaboration between different ministries. It allows the creation of enough political will to focus institutional attention on implementation of the strategy and ensure that an intervention is followed through, even in challenging circumstances. Active involvement of the highest levels of government can, furthermore, signal investors that the country is serious about the implementation of the SEZ policy and thus generate the trust required for converting investors' interest into real investment.

The following section describes some of the best practices in Africa related to these themes and highlights their interrelated nature. Figure 29 illustrates the locations of the cases covered.

Figure 29. Countries of cases covered – "Unite the team"



Source: UNCTAD.

Ethiopia – SEZ policy

Ethiopia is often regarded as a prime example of a country having managed to put itself on the global investors' map through a smartly designed SEZ policy, active investment promotion activities and strong government support. After attracting low levels of FDI – both in manufacturing and across the board – throughout most of the previous decades, Ethiopia has seen FDI inflows soar in recent years. In 2013, FDI amounted to only $1.3 billion; in 2017 it had more than tripled, to an unprecedented $4 billion (UNCTAD, 2019c).

Part of this success story can be traced back to favourable external conditions, including the extension of the AGOA, and the country's endowment with cheap labour (as described in section 4.1.2). But a combination of SEZ policy and proactive investment promotion efforts, along with high levels of government support, is frequently credited with being a crucial driver of this success.

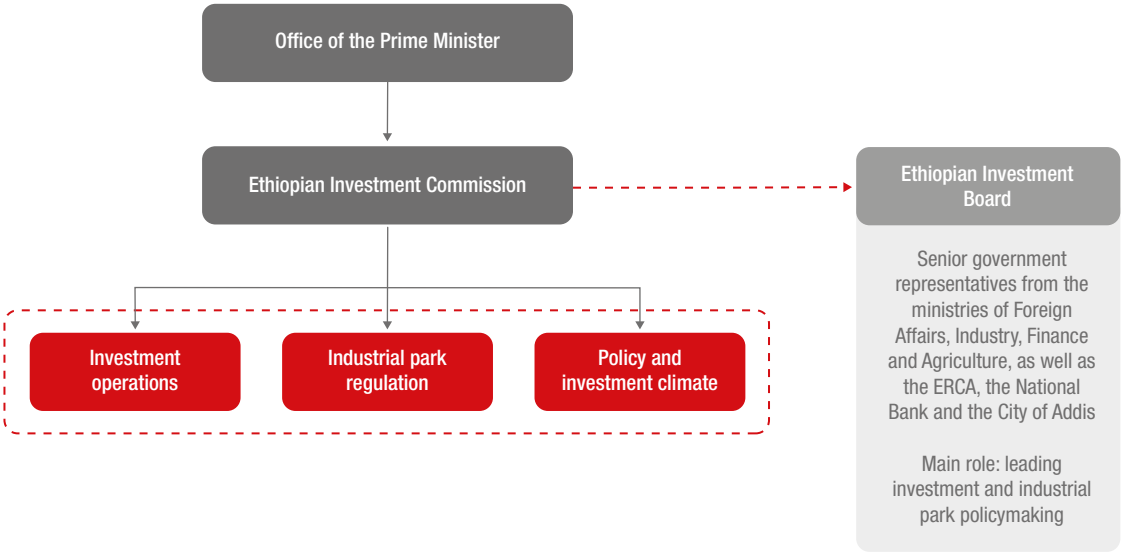
As part of its industrial development strategy, the Ethiopian Government decided to put a particularly strong emphasis on investment promotion. Attracting investment became a key objective of government policy (UNIDO, 2018a). This included sending high-level delegations – frequently involving ministers and top officials from other institutions – to high-profile events in targeted industries, such as garments and textiles. The aim was to meet potential investors and signal strong government commitment. Particularly large and important investors were singled out and granted priority and personalized attention. Senior government officials frequently met these key investors both before and after the investment took place. The aim of these meetings was to persuade key investors to choose Ethiopia, in the case of the former, and to hear out their concerns and try to find solutions to them, in the case of the latter (Centre of Government and Delivery, 2020). This generated confidence among investors and ensured that any arising issues were being addressed effectively.

The results of a 2018 survey of investors in the Bole Lemi IP, the first SEZ operational in Ethiopia, reflect these efforts (World Bank, 2018). Almost half of all investors interviewed highlighted that one of the primary reasons for their investment in Ethiopia was the strong government commitment to support them, confirming the important role of investment promotion and government support for their investment location decision. Furthermore, 75 per cent of interviewed firms indicated that they had been proactively approached by the Ethiopian Government and/or that its continued support was essential to their decision to invest in the country.

Probably the most notable case in this regard is the investment of PVH, the second largest garment producer in the world, in the Hawassa IP in 2017 (Mihretu & Llobet, 2017). Considering that Ethiopia until that date had mainly attracted relatively smaller subcontractors from countries such as Bangladesh, India and Turkey, securing investment by one of the main players in the global garment industry was seen as a major coup and a game changer. It signalled to the rest of the industry that Ethiopia was ready to host important investment in the industry. PVH's decision process to determine where in Africa to locate its investment is illustrative of the key role played by government support. Among eight criteria applied to rank African countries in terms of their suitability for investment, government proactiveness was considered to be the second most important factor, behind costs and quality of electricity. Bill McGrath, PVH's chief supply officer, explained that "the number one reason for [investors' interest] was because of what they saw in the governmental side. And that to me, after doing this for the last 26 years all over the world, the biggest difference we see is in this effort. It is not the investor group. It is not PVH. What makes it attractive is that when you come to Ethiopia, in no time in my history have I ever seen any one more prepared to attract the apparel sector into its economy. There are institutions established, there are rules put in place and there are airports being built."

As highlighted in this quote, the Ethiopian success in attracting FDI in this industry relates to the institutional structure it developed as well as to the comprehensive and complementary nature of the interventions implemented across policy areas, such as infrastructure and investment laws. To achieve this, the Ethiopian Government restructured a number of institutions and created new ones (UNIDO, 2018a). Figure 30 schematically lays out the institutional set-up used in the country to attract FDI.

Figure 30. Institutional set up of Ethiopia's SEZ programme



Source: Mihretu & Llobet, 2017.

The Ethiopian Investment Board (EIB) is responsible for policy, strategy and oversight of the overall investment promotion and IP policy, while the Ethiopian Investment Commission (EIC) is in charge of the day-to-day work and has the mandate to promote investment and attract investors to the targeted industries. The EIC also regulates IPs developers, operators and firms. In addition, the Industrial Parks Development Corporation (IPDC) was established, with the task of developing and operating IPs and making industrial land and infrastructure available for investors (UNIDO, 2018a). It was established as a State-owned profit-making enterprise, following the model of Singapore's JTC Corporation.

Three aspects of the institutional set-up are particularly noteworthy. First, the institutions charged with the implementation have the highest possible political backing. The Office of the Prime Minister oversees the implementation of all activities and the Prime Minister presides over the EIB. It has been noted that this role of the Prime Minister's Office allowed for effective cooperation between all agencies involved and signalled to investors that the Ethiopian Government was serious about its strategy (Centre of Government and Delivery, 2020). Second, the EIB and the EIC are equally responsible for the development and implementation of the IP strategy, as for investment promotion. Such a set-up may not be feasible in all countries, but it clearly underscores the intertwined nature of both activities and the need to combine and coordinate investment promotion and SEZ policies. Finally, senior officials from key ministries, including Foreign Affairs, Industry, Finance and Agriculture, form part of the EIB. This has allowed for effective collaboration between the different institutions and has ensured policy coherence.

The Ethiopian case can thus be considered an interesting example of a country that integrated its SEZ policy with investment promotion and other related policy areas, while building the institutions to implement the strategy in an effective way. Policy coherence and coordination was ensured through high-level political backing of the overall strategy and intervention to address bottlenecks and conflicts.

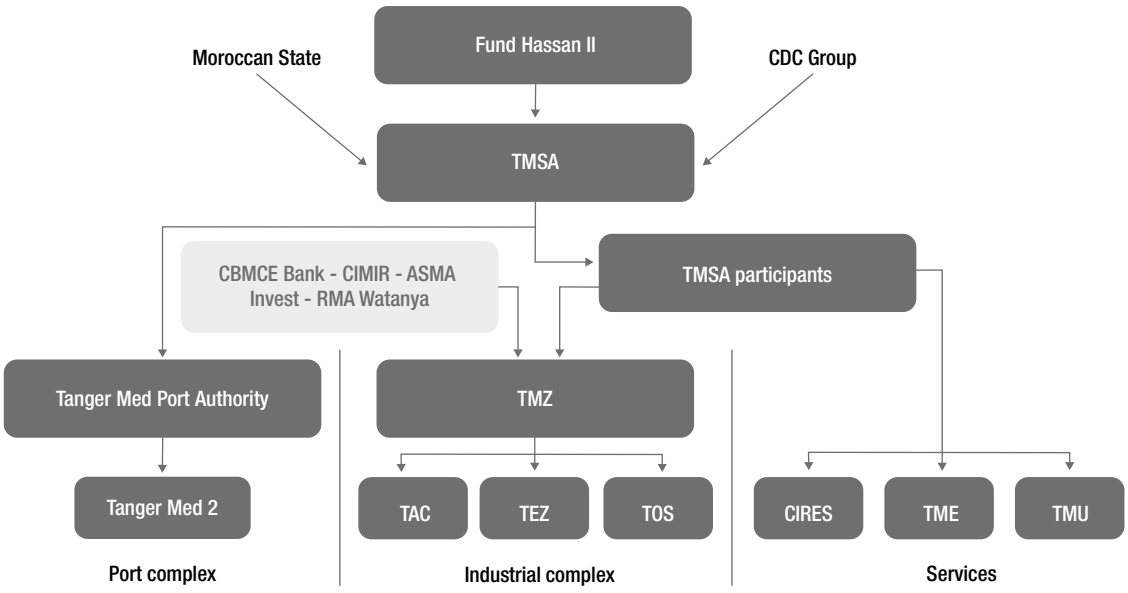
4.2.2 Morocco – Tanger Med Zones

In 2009, the Moroccan Government established the Tanger Med Zones (TMZ), an ecosystem of different industrial activities that includes six FZs and IPs, in the hinterland of the Tangier port. The total area developed and occupied area accounts for 2,000 ha; the almost 1,100 firms located on-site have generated close to 90,000 jobs (AEZO, 2019). The establishment of the TMZ had a huge economic impact on the surrounding region, and the city of Tangier has grown from Morocco's fifth largest by GDP contribution in 2005 to its second largest in 2019. Its contribution to GDP is behind only that of Morocco's business capital, Casablanca.

The TMZ is endowed with a natural locational advantage. Its strategic position on the Strait of Gibraltar – a waterway that sees the crossing of approximately 20 per cent of global maritime trade – makes it highly accessible and puts it in an ideal position to take advantage of world trade flows. In addition to its geographical advantages, a raft of other factors have contributed to the rapid growth of the TMZ. These include relatively good infrastructure provision, political commitment, a relatively skilled labour force and a comparatively efficient institutional set-up. Interviews with the authority in charge of administration, the Tanger Med Special Agency (TMSA), and SEZ firms have revealed that the governance model was considered essential for attracting and retaining firms since the zone's formation (COMCEC, 2017). Within the TMZ's institutional structure, four elements were singled out as crucial to the SEZ's success: (i) the zone management structure, (ii) the role of central national authorities, (iii) the financing model and (iv) the establishment of a one-stop shop mechanism.

First, the zone management structure has the TMSA at its apex, acting as an overseer and a centralized regulator of the TMZ, as illustrated in figure 31. The TMSA reports directly to the Moroccan State and the Hassan II Fund. The TMSA supervises the broader TMZ, which consists of the Tanger Med Port, Tanger FZ, Tanger Automotive City, Renault Tanger Med, Medhub, Tetouan Shore & Tetouan Park and Findeq Commercial FZ. Each of these zones engages in a defined set of industrial activities, ranging from automotive to textiles and agribusiness.

Figure 31. Governance model of Tanger Med Zones



Source: World Bank (2019).

The TMSA is a State agency established by government decree in 2002. It is a public limited company with a board of directors and a capital of DH 1,250 billion (approximately $150 million), largely held by the Hassan II Fund for Economic and Social Development. The TMSA is both the regulator and the first point of contact for all activities in the zone. The objectives and prerogatives of the TMSA are set by State decree and include provision of technical and economic assistance to its subsidiaries and to SEZ firms, preparation of the overarching development scheme of the zone, mobilization of funds, commercial promotion and administration of public domain areas. The TMZ, responsible for the industrial complex, is the operational vehicle of the TMSA. It has been set up as a subsidiary, owned by both the TMSA and private investors, such as ASMA Invest, CIMR and RMA.

Three primary advantages derive from the TMSA's zone management structure. First, having a single regulator helps in coordinating the subsidiaries in the Tangier area. Although each company is responsible for its zone management, the fact that they are all TMSA subsidiaries enables fast and efficient cooperation between investors and administrative units. Second, the separation between the TMSA's regulator role and the operator role of subsidiaries reduces the degree of overlap among authorities. The subsidiaries are responsible for screening applications, value added services (i.e. services such as banking, restaurants and hotels in the SEZ) and facility leasing, and the regulator (the TMSA) is in charge of the overall strategy, compliance, infrastructure investment and the one-stop shop. Finally, the involvement of private actors as shareholders in the TMZ helps to instil market-based practices in the SEZ. Indeed, having private investors embedded in the governance model can lead to more informed decisions, if they have better access to market information (Mangal, 2019).

The second factor for success is the role of national central authorities in the governance structure. The TMSA's board of directors reports to the TMSA's supervisory board, which includes members from the highest level of government, such as the Minister of Transport, the Minister of the Economy and Finance, the Minister of Industry and the CEO of the Hassan II Fund. This ensures not only strong political backing, but also the capabilities and experience to achieve coordination with other government bodies relevant to the SEZ. Moreover, a direct line to a high-level central authority facilitates alignment between the SEZ policy and the country-wide investment policy, which is crucial to maximize the economic impact of SEZs. Finally, strong coordination between the regulator and the Ministry of the Economy also guarantees continuous knowledge transfer between the zone and government officials on the effectiveness of policies. This is especially important in view of potential policy experimentation that could be replicated in other zones across the country.

Third, financial and administrative autonomy is considered fundamental in increasing the effectiveness of the TMSA and reducing conflicts of interests with political stakeholders. The Hassan II Fund for Economic and Social Development holds 87.5 per cent of the TMSA's shares, while the Government directly holds 12.5 per cent of shares. Its participation in the TMSA's capital facilitates greater political commitment, while its minority share guarantees that the TMSA is not driven entirely by political interests. Moreover, the TMSA enjoys high degrees of both financial and administrative autonomy. It has diversified revenue streams, including corporate income taxes, personal income taxes on direct employment, administration fees (i.e. one-stop shop fees), and land rental and sales (Tanger Med Zones, 2019). Furthermore, administrative autonomy is secured by granting freedom to set labour regulations, such as firing, hiring and setting salaries, among other administrative tasks (COMCEC, 2017).

Fourth, the establishment of a one-stop shop for investors has contributed to a streamlined administrative process. The various roles and responsibilities involved in SEZ governance structures, as well as their relationship to public sector ministries, departments and agencies, can often result in institutional complexity. In order to streamline the provision of permit applications, such as visas and company registration, and customs clearance, the TMSA acts as a centralized one-stop shop for investors in all six local SEZs. The one-stop shop facilitates approvals for initial set-up and ongoing operations, and facilitates the connection between government and business. In particular, through the establishment of the one-stop shop, the TMSA achieved high levels of operational efficiency: a new legal entity can be set up, on average, in just 48 hours, and construction permits and operational licences are delivered, on average, in seven days (COMCEC, 2017). The TMSA also acts as a single reference point for investors. Each investor is assigned to a business account manager, who is responsible for overseeing the relationship between the firm and the SEZ.

The case of the TMZ shows the importance of having the right power structure in place to regulate SEZ programmes. An autonomous, centralized and powerful SEZ regulator can be crucial in avoiding overlapping mandates and promoting greater coordination between stakeholders. Similar coordinated approaches have been fruitful in other parts of the world as well, as in Costa Rica (box VII). Although the institutional complexity of the TMZ may require specific adjustments, some basic principles – such as the separation of SEZ regulator and operator, financial and administrative autonomy, and the establishment of a one-stop shop – can be seen as distinctive of an efficient governance structure.

Box VII. Intel in Costa Rica – lessons on investment promotion

Efficient, coordinated and proactive institutions have traditionally played an important role for the attraction of FDI everywhere in the world and, in particular, in emerging countries. Costa Rica is a representative example outside Africa of how high-level government commitment and a well-coordinated investment promotion effort can shift firms' investment decisions. In 1996, Intel, a leading producer in the semiconductor industry, decided to research sites for a new assembly and test plant. Although Costa Rica offered important location-specific advantages, such as stable political institutions and an educated labour force, its small economy placed it at a disadvantage compared with larger markets, such as Mexico, where supplies of inputs and labour were more accessible.

In order to win the bid, the Costa Rican Government created a unified front and adopted a whole-of-government approach. Intel's investment in Costa Rica became a high priority for the Government. Costa Rica's president at the time, Jose Maria Figueres, aware of the potential impact of Intel's investment on the country's economy, took a strong personal interest in relations with Intel and was one of the crucial elements for the success of Costa Rica's strategy. Figueres suggested the creation of enhanced training programmes to meet the needs of Intel and appointed the Minister of Foreign Trade as the main point of contact to handle any communication with Intel representatives. According to Intel, the president's involvement outdid expectations. This involvement was crucial to increasing the chances of Costa Rica securing Intel's investment.

/...

Box VII. Intel in Costa Rica – lessons on investment promotion (Concluded)

High-level government commitment was also fundamental to make sure that the investment was accomplished in a speedy manner. The extensive engagement from the top was critical to solve bureaucratic tangles and promptly authorize new programmes in education and infrastructure. Senior officials were notified early on of the project's importance, and potential conflicts and jurisdictional overlaps were resolved before meetings. CINDE, the agency responsible for investment promotion, played a crucial role in coordinating the seven government institutions involved in the project. CINDE made the first contact, established a relationship with Intel officials, and became a one-stop shop to facilitate the decision-making process. Throughout the selection process, CINDE gathered information for the company, answered any queries and organized meetings with government officials. In short, CINDE became "the voice of the government with Intel, and the voice of the investor with the government" (Spar, 1998, p. 4).

Intel's investment in Costa Rica totalled $600 million over two years, about 4 per cent of Costa Rican GDP. Notably, government involvement compensated in the eyes of Intel for a raft of incentives that are frequently used by governments to target key FDI investors, as no special benefits were promised to Intel other than incentives already available under the free-zone regime.

Source: Larrain et al. (2000); Spar (1998).

4.2.3 Conclusion

The cases presented in this section highlight the importance of uniting the team behind the SEZ policy. Although SEZ programmes can be designed as stand-alone laws, they will not bear the same fruits if other areas closely related to SEZs are not considered and policy coherence is not guaranteed. Among those policy areas affecting and affected by SEZs, investment promotion requires particular attention. Many of the most successful policies around the world have linked investment promotion activities closely with their SEZ policy and vice versa, including the country cases presented here.

The Ethiopian case underscores the extensive and coordinated efforts on investment promotion that have been placed at the centre of the country's SEZ policy. The adoption of an investor-centric, whole-of-government approach to investment promotion is an essential part of any well-functioning SEZ programme. The successful attraction of Intel by the Costa Rican Government and that of PVH by Ethiopia attest to the value of singling out anchor investors and offering them personalized services that can range from one-to-one meetings with leading ministries to establishing one-stop shops to streamline administrative procedures. In this sense, investment promotion is not intended as a mere marketing exercise, but rather should entail a devoted effort to understand investors' needs, reduce transaction costs by providing timely information and propose actionable solutions.

Furthermore, the cases of Ethiopia and Morocco, together with the case from Costa Rica, also show that ideally the SEZ policy should have the highest political backing. In the sophisticated governance model of the TMZ in Morocco, high political commitment has been ensured by placing some of the country's most prominent line ministries directly on the zone's board of directors. That said, the TMZ also substantiates the idea that SEZ authorities should retain a certain degree of autonomy to avoid becoming prey to political interests that bring about little or no economic gains.

Ultimately, improvements leading to the formation of an adequate and nimble institutional structure are required in order to make sure that local actors garner sufficient implementation capacity and can count on important institutional collaboration to secure the attraction of investment and maintain it over time.

4.3 KNOW YOUR PLACE – SEZ DESIGN TAILORED TO LOCAL CONTEXT AND STRATEGIC FOCUS

4.3.1 Introduction

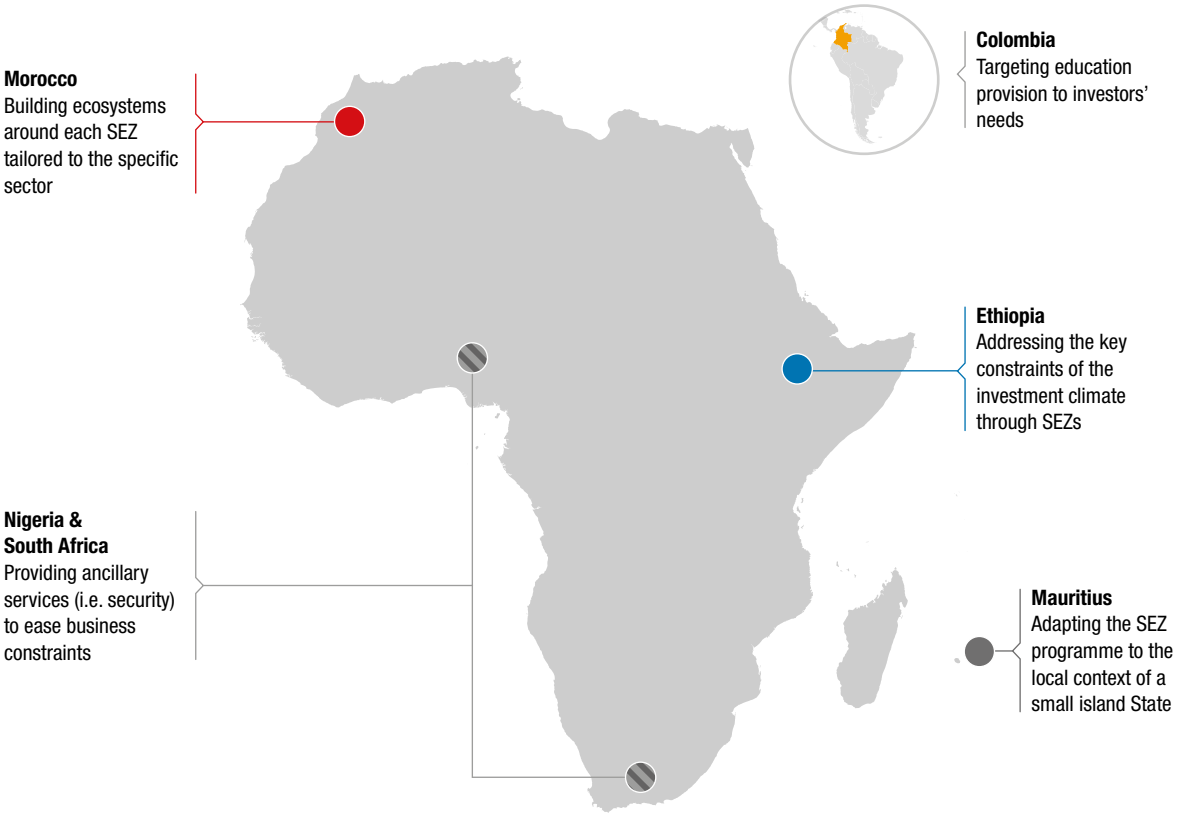
SEZ policies typically comprise similar policy instruments across the world. As seen in chapter 2, African SEZs are no exception and fiscal incentives, duty reductions and administrative facilitation continue to play important roles in the design of SEZ policies. Despite these common features, SEZ policies and the specific SEZ set-up need to be tailored to the local context and consider the strategic focus of the SEZ programme in order to become truly effective in attracting investments and stimulating economic activity. What works and matters in one country might not be important in another. Features that are relevant for one type of investor may be less so for others. Many commonly assumed best practices in SEZ development require adaptation to local conditions and realities, as has been highlighted by recent research that underscores the context-specific nature of successful SEZ interventions (Frick et al., 2019).

Two aspects therefore need to be considered during the policy design phase. First, the SEZ policy and SEZ set-up should be designed to address specific bottlenecks in the business environment of a country rather than relying on a generic one-size-fits-all approach. For instance, if a country faces particular challenges with regard to customs clearance and border processes, a dedicated customs office within the premises of the SEZ could be an important feature of the zone design, whereas in other cases it may be less relevant.

Second, the targeted investor profile is important for nuancing the policy approach. For example, a plug-and-play set-up, in which pre-built factory units and warehouses can be rented by SEZ firms, could be an attractive feature for investors and thus a worthwhile investment for the zone operator in industries such as garments and electronics. In other industries, for example pharmaceuticals, where firms require factory units tailored to their specific requirements, pre-built units may not add to the appeal of the SEZ for investors and thus would represent an unnecessary cost in the SEZ development phase. Similarly, whereas stable electricity supply is undeniably important for any industry, the costs incurred by power cuts are significantly higher for some industries than for others. Firms in these industries may not consider investing in an SEZ where the electricity supply is unreliable. Special attention should therefore be given in the planning phase to this aspect when targeted industries have particular requirements in this regard.

Many successful SEZs around the world have adapted their policy and set-up to match the local context and strategic focus. The following section provides examples of the different ways in which African SEZs have adopted this approach. Figure 32 locates the cases covered in this section.

Figure 32. Countries of cases covered – "Know your place"



Source: UNCTAD.

4.3.2 Mauritius – EPZ programme

An interesting example of an SEZ programme tailored to the local context is the Mauritian Export Processing Zone programme. Launched in 1971, it is one of the oldest SEZ programmes in Africa and often cited as one of the most successful. Its initial objectives were to diversify the economy away from a dependence on sugar exports, stimulate industrialization and create employment for a young and growing labour force (IMF, 1990). At its height in the late 1980s, it employed nearly 90,000 people in more than 900 firms. The programme transformed Mauritius into the second-largest producer of knitted textiles in the world (Farole, 2011). Although the number of knitted-textile firms in the country has declined since, the programme continues to contribute in significant ways to the Mauritian economy.

When the programme was introduced, the Mauritian Government chose two unusual – particularly at that time – options in order to tailor its SEZ policy to the local context. First, in contrast to many other early SEZ policies around the world, the policy targeted both foreign and domestic investors. This decision was driven by the desire to avoid capital flight from local entrepreneurs and to promote the outward orientation of the domestic economy (Farole, 2011). In fact, though the SEZ programme attracted foreign investors from places such as Hong Kong (China), a significant portion of firms were local, representing up to two thirds of investments (IMF, 1990).

Second, rather than limiting the SEZ status of firms and the associated incentives package to a specific delimited area of the country, the SEZ policy adopted a "free point" system, in which SEZ status could be given to firms independent of their location on the island (IMF, 1990). This approach allowed Mauritius to overcome the island State constraints in terms of land availability for large IPs, a type of SEZ that would have been an almost impossible and very costly undertaking in light of the nearly 900 firms enrolled in the SEZ programme. Indeed, many other small developing island States around the world have adopted this strategy for similar reasons. The free-point system also took into account that Mauritius was already endowed with well-developed industrial and transport infrastructure, across the whole island. Furthermore, distances are short between any place on the island and transport facilities such as ports. Hence, infrastructure was less of a bottleneck for the economy than in other countries. Focusing on it as part of the SEZ policy would have been costly and not necessarily an important enticement for investors. Finally, the free-point approach also allowed local investors to remain in their established locations rather than having to relocate, which could have deterred many from participating, despite the generous incentives (Farole, 2011).

4.3.3 Other SEZ policies tailor-made in Africa

Numerous other examples of SEZ policies across Africa illustrate how specific aspects of SEZ policies and SEZ design can and need to be adapted in order to be effective. For instance, Ethiopia took the opposite approach from Mauritius in terms of infrastructure provision. The IPs programme offers the SEZ incentives package exclusively to firms that set up shop in the newly established parks. The infrastructure provided in these zones is, in fact, one of the core elements of the SEZ policy and contributes in a significant way to its effectiveness. The majority of investors in the Bole Lemi IP confirmed in a recent survey that the provision of infrastructure within the park enabled their investments in Ethiopia and that they would have been reluctant to invest outside the park given the lack of adequate infrastructure to pursue their objectives (LSE, 2018).[3] In this case, the parks addressed a specific bottleneck within the country's business environment, namely the lack of general infrastructure and industrial land. The Ethiopian Government further ensured that the designs of the parks were tailored to the needs of the specific target sectors. Those parks aiming to host garment and textile firms provide standard pre-built factory units rather than industrial land. This enables firms to start operations within a minimum time, in a plug-and-play set-up. This is particularly appropriate for the garments industry as requirements for factory units do not differ significantly between firms. In contrast, in the Kilinto IP, which targets investors from the pharmaceutical industry, pre-built factory units are not offered. Pharmaceutical firms have varying requirements for their production facilities, and it would have been difficult to offer a one-size-fits-all solution that would have been beneficial for different investors (Centre of Government and Delivery, 2020).

The Ethiopian example highlights how the SEZ policy, beyond offering fiscal incentives, provided a solution for a specific bottleneck in the country's investment climate, i.e. the provision of industrial infrastructure, while adapting the offering to the specific target sectors. The infrastructure component of SEZ policies is, indeed, frequently overlooked in the literature on SEZ performance drivers and is an important element for many low-income countries, whereas for higher-income countries with a more developed infrastructure it becomes a less relevant factor.

Another element of SEZ design worth considering is the type of services provided in the zones. A recent survey of investors in seven SEZs around the world revealed that for 31 per cent of firms interviewed the type of services provided was a decisive factor in selecting a specific SEZ.

In the Lekki FZ in Nigeria and the Coega SEZ in South Africa, investors emphasized the additional security services available within the SEZs as an important feature of the SEZ policy. Given the high prevalence of crime and violence in these countries, the provision of a safe environment in which to operate was a crucial draw for investors to locate in an SEZ rather than somewhere else in the country. In a different context with lower crime rates, security services would be regarded as a less needed service in the SEZ, but in these countries it was paramount. Again, the SEZ policy offered a solution to a specific bottleneck that was deterring the attraction of investment.

Another example of tailoring services to investors' needs is the Moroccan SEZ programme. The Moroccan Government opted for a sector-focused approach for its SEZs, i.e. each SEZ is focused on a specific industry. The key rationale behind this choice was to be able to build an ecosystem around each zone tailored to the specific target sector. This included developing and attracting suppliers suitable for the specific industry as well as being able to offer industry-specific skill development programmes. Given that many of the industries targeted have been relatively high-tech ones, such as automotive and pharmaceuticals, the provision of services targeting skills development is an important aspect to ensure that the scarcity of skills in some of these areas is overcome and thus ensure the effectiveness of the SEZ policy (Oxford Business Group, 2020). A similar demand-driven approach – though in another industry – has been adopted by the Santander FZ in Colombia. A Government-led initiative in the zone included the provision of English-language courses to minimize skill shortages for the growing BPO industry (box VIII).

Box VIII. Santander FZ in Colombia – tailoring education to investors' needs

Elsewhere in the world, tailoring the SEZ intervention to the specific investors' needs is a common strategy that helps deliver better results. This is, for example, the case of the Santander FZ in Colombia and its efforts to overcome local skills shortages in order to provide the necessary training for local would-be employees of the firms in the SEZ.

The Santander FZ is a private zone established in 2008 in the outskirts of Bucaramanga, a city of roughly 600,000 inhabitants and the capital of the Department of Santander. It hosts 55 firms, providing about 1,500 jobs, while exporting products worth $92 million in 2018. The zone has often been praised for its strategy and efforts in providing tailored training services to SEZ investors, with the aid of two local universities and the national learning institute, SENA. Training curricula have been purposely tailored to the industries based in the zones, which include BPO, agro-industry and logistics.

Firms in the BPO industry have specific needs in terms of language skills, given that many of their activities are carried out in English. Yet only 2.1 per cent of the population of Santander is fully bilingual, and the region hosts a mere 2.5 per cent of the bilingual workforce in the country. To cover this skills gap, the local government and the zone pursued a number of targeted initiatives. First, the Santander FZ made a call for the presence of education providers inside the zone and organized meetings between universities and firms to understand the firms' needs better. Following this initiative, in 2013 SENA established a facility in the zone. Two other universities, Santo Tomas de Aquino and the Research and Development University, have also established offices in the zone. Second, the academic curricula of the two main universities are now updated every two years, with changes responding frequently to business demands. For instance, a BPO course was incorporated into bachelor's degree programmes and the syllabus. This was the result of constant interaction with firms, through workshops held in the zone.

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Box VIII. Santander FZ in Colombia – tailoring education to investors' needs (Concluded)

Third, to address firms' needs in terms of English proficiency, the local government worked towards strengthening language skills at the school level through an agreement with the British Council. As part of the agreement, 700 students have been offered scholarships to attend English courses, and the British Council has been involved in the training of local English teachers.

In addition, the local government has sought to attract other stakeholders that could provide specialized training in fields where universities do not possess specific expertise. DIAN, the national tax authority, offers courses to firms every time a new regulation is passed. BASC, the Business Alliance for Secure Commerce, provides training in safety culture, client and supplier selection, risk analysis and compliance best practices. All of these courses are highly relevant to the mainly services providers and logistics firms located in the zone.

A survey of firms based in the Santander FZ found that about 74 per cent of firms have benefitted from collaboration with SENA, and 63 per cent have collaborated with local universities, the two that established offices in the zone. According to an SEZ firm, the Santander FZ "is behind the needs for training that may benefit [firms], and they offer [courses]. They anticipate [firms'] needs". Moreover, the "operator offers courses and support, and they expect quality from all firms, which helps change mentality and strive for the best" (LSE, 2018). Overall, firms in the zone singled out the ability of local institutions to offer highly effective customized training programmes as a key success factor of the zone.

The Santander FZ shows that tailoring SEZ policies to local needs can be a game changer and boost the attractiveness of a zone. Over the years, the zone has won several prizes for its educational programmes, which have helped the zone stand out from competing zones in South America.

Source: LSE (2018); Invest in Santander (2021).

4.3.4 Conclusion

Delivering successful SEZ policies – while including similar features across countries – requires adaptation both to the specific local and country context and to the target investor profile. At times, such adaptation may require relatively small adjustments. Ancillary services, such as the provision of enhanced security, can go a long way in countries such as Nigeria and South Africa, where high crime rates are endemic. Similar adjustments can be pursued in those African regions and countries where shortages of basic infrastructure, such as electricity, constitute a critical bottleneck. In this sense, SEZs can offer solutions to challenges that investors face in the national investment climate.

Other adaptations, in contrast, involve a far larger adjustment and development of specific strategies and even conceptual changes, such as the decision to put in place a free-point system in Mauritius. Even constraints that may appear insurmountable, such as geographical constraints, can be overcome by remodelling SEZ programmes, as shown in Mauritius. Worldwide, firms increasingly are demanding specialized workforces; special arrangements require a country to tailor the provision of skills to investors' needs. This has been the case in the Santander FZ in Colombia, where the SEZ authority, in collaboration with local education providers, has worked relentlessly to upgrade the English-language skills of the local workforce. If target industries require skills that are not readily available in a particular location, facilitating the uptake of such skills can prove fruitful in Africa as well.

A deep understanding of the needs of target investors is also crucial to providing soft and hard infrastructure that is valuable in the eyes of investors. In those cases where the lack of industrial land represents a constraint, such as in Ethiopia, SEZs' provision of vast portions of land can generate significant returns. However, the case of Ethiopia shows that quality, in addition to quantity, matters. Undoubtedly, a factor that considerably contributed to the success of the Bole Lemi IP was the type of infrastructure, which was tailored to specific industries' needs. Recognizing the different needs of textile firms and pharmaceutical firms enabled the SEZ authority to equip firms with a variety of ad hoc adjustments pertinent to their industries.

As shown in the case studies, it is important to consider these aspects during the design stage of the SEZ policy, as they can make a significant difference in the attractiveness of the policy as well as ensure cost-effective adoption of targeted measures.

4.4 TAP INTO OUTSIDE EXPERIENCE – INTERNATIONAL PARTNERSHIP AND SEZs

4.4.1 Introduction

In the process of establishing a new SEZ or SEZ programme or modernizing an existing one, policymakers can benefit from a global exchange of experiences and good practices. A particularly intensive and increasingly popular form of leveraging this international experience is an international partnership zone, i.e. a zone developed in collaboration with either another government or a foreign private zone developer.

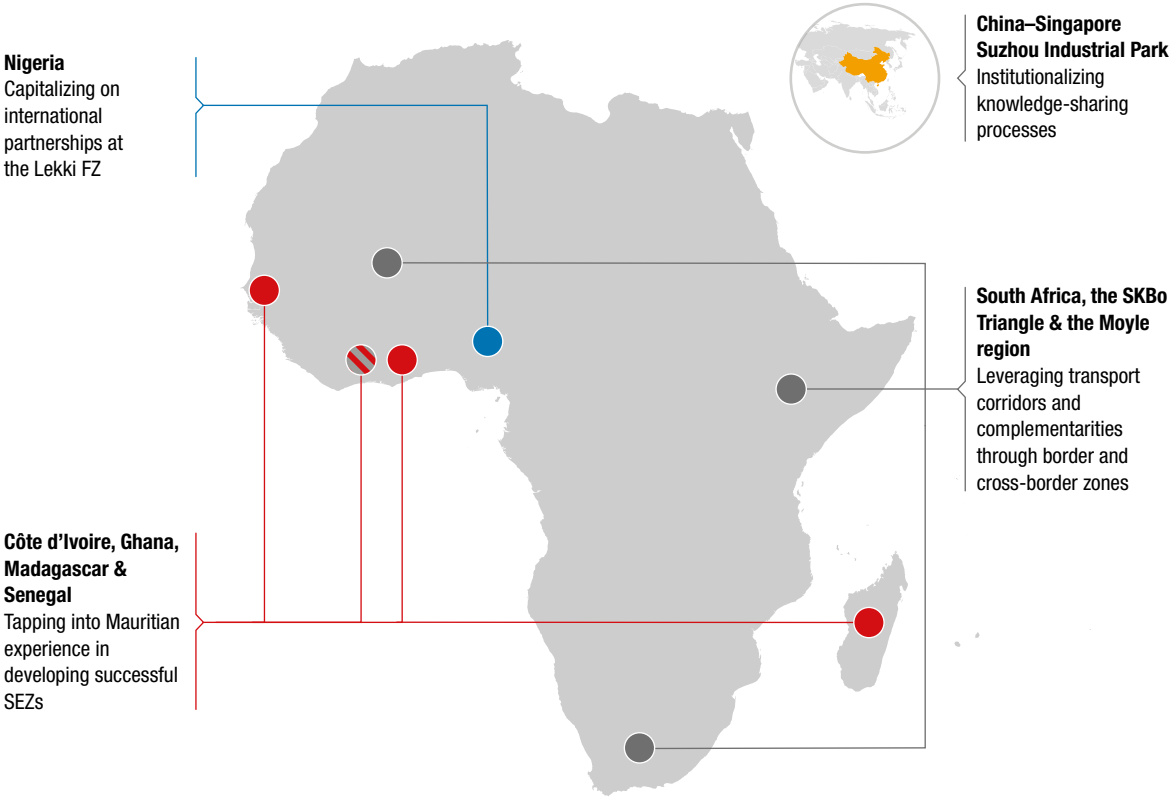
International partnership zones offer both the host country and the foreign developer a variety of potential benefits. Three advantages are typically highlighted for the host economy (UNCTAD, 2019c). First, involving a foreign partner can enable countries to access valuable expertise in the development and running of zones. Foreign partners, whether they are governments or private zone developers, typically come from countries with an established track record of running SEZs. Most of them have a wealth of practical experience in terms of both the implementation of policy and the operating of the zones. This expertise can be particularly relevant for host countries without a long track record of running zone programmes. Second, developing a zone in cooperation with a foreign partner can reduce the development costs, which in some cases can spiral beyond what was predicted in the initial budget. The foreign partner may provide access to sources of finance or to lower costs of borrowing, something that the government of the host economy may be unable to access otherwise. Third, cooperation with a foreign partner can help secure a minimum level of investment in the zone. Many private developers have close ties with large MNEs or are MNEs themselves, and the involvement of a foreign government may induce a certain level of investor confidence for companies from the foreign partner's home country.

Foreign partners typically have a mix of motivations for developing a zone abroad, frequently related to considerations of development assistance, economic cooperation and, importantly, strategy. A foreign government may, for example, aim to open up new markets for its firms, while also sharing its experience in zone development. Alternatively, foreign governments may seek to outsource low value added activities, in places where access to cheaper labour and land is more feasible, while retaining high value added sectors in their home country. Finally, among various strategic objectives, developing a zone abroad provides the opportunity to reduce trade barriers applied on goods coming from the foreign partner.

One of the countries that has been particularly active in international partnership zones abroad is China. China has sought to leverage its long-standing history and frequent success in using SEZs as a development tool. In 2006, the Chinese Government announced the development of 50 overseas economic trade and cooperation zones around the world, seven of which were to be located in Africa. Since then, zones have been built with Chinese involvement and capital in Algeria, Angola, Ethiopia, Kenya, Mauritius, Nigeria, Rwanda and Zambia, among others. A notable case is that of Huajian Group, a Chinese shoemaking company that in 2019 committed more than $100 million to construct production plants – and therefore be in charge of both management and operation – at Ethiopia's Jimma IP (Xinhua, 2019). This type of commitment can have important demonstration effects on other Chinese firms, while also aiding African governments in meeting their industrialization targets. Although China is the most well-known foreign partner involved in the development of SEZs, Turkish and Singaporean firms and public entities have also been active in developing SEZs in Djibouti and Gabon in recent years.

Despite the obvious potential benefits of international partnership, such zones can also be complicated to implement and entail a number of potential pitfalls. The following section describes lessons learned from examples of foreign partnership zones in Africa, including the Lekki FZ in Nigeria and the involvement of Mauritius in the development of SEZs, and discusses what can be learned from these cases in order to maximize the value of the partnerships. Figure 33 locates the cases covered in this section.

Figure 33. Countries of cases covered – "Tap into outside experience"



Source: UNCTAD.

4.4.2 Nigeria – Lekki FZ

Several examples exist of international partnership zones in Nigeria that were developed in collaboration with Chinese public and private investors. The Lekki FZ, close to Lagos, is a prominent one. It is a large, multipurpose SEZ development, covering 165 square kilometres (km^2) by the Lekki Lagoon, situated 50 km east of Lagos. It is divided into four development phases. Phase 1 (the south-west quadrant), covering 3,000 ha, is being developed with the aim to convert the area into a modern satellite city of Lagos State, including comprehensive public facilities, residential areas and recreational areas, and a logistics and distribution cluster, as well as industrial facilities targeting a range of industries (Lekki Free Zone, 2020).

The Lekki FZ Development Company is tasked with the development and operation of the first phase of the zone. The company was established in 2006 as a joint venture between China–Africa Lekki Investment (CALI), the Lagos State Government and Lekki Worldwide Investments. CALI is the majority stakeholder in the consortium with a share of 60 per cent and is itself a joint venture, by China Railway Construction Corporation Ltd, the China-Africa Development Fund, China Civil Engineering Construction Corporation and Nanjing Jiangning Economic and Technological Development Corporation (CALI, 2020). The development of the zone started in 2007.

From the Chinese perspective, the development of the zone is part of that country's broader Going Global strategy, with the goal of encouraging Chinese firms to invest abroad and expand their markets. The Lekki FZ, like other Chinese overseas development zones, was thus developed to provide a cost-effective and stable environment for Chinese companies in overseas markets, while reducing investors' risks. In 2014, the objective was amended to also include the overseas relocation of excessive capacity and equipment in China in the steel, automotive and construction industries, among others (LSE, 2018).

On the Nigerian side, the Lagos State Government pursues broader objectives with the development of the zone: supporting, first, the industrialization of the country in general and second, the urbanization and development of the Lekki area. The Lekki FZ was planned as a multipurpose free zone, including residential areas and public services, rather than a more narrowly focused EPZ. It was hoped that developing it as an international partnership zone with Chinese participation would enable Nigeria to benefit and learn from the experiences of the development of the successful comprehensive SEZs in Tianjin and Shenzhen, China (LSE, 2018).

As of 2018, the Lekki FZ hosted 25 firms in a variety of industries, including furniture, steel pipes and garments. Most companies have been established since 2015, when a number of important infrastructure projects were completed. Nineteen of the firms are from China. Investors were drawn to the zone by the large size of the domestic and regional market as well as the facilities and incentives offered within the zone (World Bank, 2018).

The set-up as an international partnership zone has brought about three benefits (LSE, 2018). Although the Lekki FZ has not yet attracted the level of investments expected, the Chinese involvement in the zone development and operations has facilitated a minimum level of investments and the zone has remained operational. Chinese investors in the zone value the Chinese participation in the management team. According to them, it has facilitated communication with local actors and has increased their confidence to invest (LSE, 2018). It was, furthermore, suggested that the mixed nature of the leadership team of the zone authority eased the transfer of knowledge between the two countries. Nigerian managers also benefitted from the experience of the Chinese developer in the concrete development of

the zones (e.g. the integration of residential areas in the design of the zone) and were able to learn from on-the-ground experience during site visits to Chinese SEZs (LSE, 2018). Finally, the China-Africa Development Fund, which forms part of the Chinese consortium, also supported the financing of the project, providing a stable and reliable financing source. This would have been impossible for a local developer without the Chinese partnership. From this perspective, it can be said that the international collaboration has paid off.

However, despite these positive aspects, significant challenges remain that have hindered more effective development of the zone. Issues that currently deter materialization of more investments relate to the general business environment in Nigeria, which is often perceived to be challenging. A lack of transport infrastructure connecting the zone to the relevant transport hubs, administrative and bureaucratic challenges in general, as well as safety concerns in particular are important issues that remain to be addressed, according to managers of firms in the zone (LSE, 2018). Although the involvement of the foreign zone developer has mitigated some of these challenges, it has not been enough to overcome the strong influence that the business environment in the country as a whole exerts over any SEZ development. In addition, the presence of foreign partners can further increase the complexity of the operations. For example, delays in the initial development phase of the zone were partially caused by internal issues within the Chinese consortium (Bräutigam & Tang, 2012). Challenges arising from frictions between foreign partners can be minimized through the establishment of institutional processes, as illustrated by the case of the China–Singapore Suzhou IP (SIP).

The case of the Lekki FZ shows the potential benefits of the international partnership zones in terms of knowledge sharing and securing a certain level of investor interest, as well as financing. However, it also underscores that international partnership is not a panacea for SEZ development and that the successful implementation of an SEZ is still largely influenced by the country environment.

4.4.3 Mauritius Africa Fund

China is probably the most well-known and active international partner in zones across the world, it is by no means the only one. Among African countries Mauritius is the most active. Mauritius has the oldest and one of the most successful SEZ policies in Africa. It is frequently lauded for its conducive business environment. Following the establishment of a successful EPZ model in the 1970s, in 1992 Mauritius created its Freeport, which now is one of the main trading hubs in East and Southern Africa, offering high-quality infrastructure and a highly qualified labour force. Hence, it is well placed to leverage this experience and pass it on to other African countries.

The Mauritius Africa Fund was established in 2014 as a public company aiming to encourage domestic enterprises to invest across Africa (Mauritius Africa Fund, 2020). An important part of its mandate is to implement a bilateral SEZ programme in several African countries. The fund specifically aims to develop integrated projects, such as SEZs and technology parks (Mauritius Africa Fund, 2020). It forms part of the government's broader Africa Strategy, which aims to position Mauritius as a bridge for investment and trade in Sub-Saharan Africa (World Bank, 2020a).

The Mauritian Government was driven by several motivations in this endeavour. First, as costs of production are increasing in Mauritius, many firms in the more labour-intensive parts of the textiles and garments industry have been actively looking for more cost-efficient places to

locate their production. The Mauritian Government has pledged to support these companies by providing them with stable environments for their investments (World Bank, 2020a). In addition, the Government intends to open up new markets for Mauritian products. Other African countries are regarded as providing growth opportunities and are being targeted for this expansion (EDB, 2021b). Furthermore, the Government seeks to contribute to development in the African continent through knowledge sharing and economic cooperation.

For the host economies, the development of the zones with Mauritian participation provides at least three advantages. First, they gain access to the extensive experience Mauritius has in developing and running its SEZ policy. Second, the set-up facilitates access to finance to develop the zones. In Senegal, for example, the Mauritius Africa Fund holds 51 per cent of the special purpose vehicle tasked with the development of the zone, contributing $8.7 million to its capital (Platform Africa, 2017). And third, it is hoped that the joint developments, while open to all investors, will attract a significant number of Mauritian entrepreneurs willing to access the broader African market.

To date, the fund has been involved in the development of SEZs in Côte d'Ivoire, Ghana, Madagascar and Senegal, each at different degrees of implementation. Table 12 provides an overview of the status of each of the zones.

Table 12. Status of Mauritian bilateral SEZ development in African countries

Country	SEZ	Development status
Côte d'Ivoire	Technology park	Agreement signed for development of a biotechnology and ICT FZ in Grand Bassam
Ghana	Technology park	Land earmarked for construction of a technology park in Kumasi in the Ashanti region and construction of a cyber tower in Dawa
Madagascar	Moramanga Textile City/Zone	SEZ law under court review
Senegal	Cargo Village	13 ha developed and operational, additional 40 ha to be developed

Source: Mauritius Africa Fund (2020).

According to the development plan, the Moramanga Textile Zone in Madagascar will cover 80 ha destined for Mauritius investors within the broader IP in Moramanga, east of the capital, Antananarivo. The zone is strategically located near the port of Toamasina, which will assist in getting easy access to international supply chains. Some of the partnership objectives include (i) sharing economic development models, (ii) facilitating access to investment and finance, (iii) tapping into established and emerging knowledge sectors, (iv) overcoming geographical challenges to integration and cross-border trade and (v) leveraging the digital economy (World Bank, 2020a). The Textile Zone is poised to harness Madagascar's comparative advantages in textile production. Cheaper labour is one of those, with an average salary of $100 per month less than the international rate in emerging-country competitors, which ranges between $150 and $500. Textile goods from Madagascar also enjoy duty-free access to the SADC and COMESA, in addition to the EU, under the EBA Agreement, and to the United States, under the AGOA. Madagascar, on its side, is intent on acquiring best practices from Mauritius, leading to productivity improvement, quality enhancement and the uptake of new technologies (Anganan, 2019).

In Senegal, a government-to-government agreement was signed in 2015 with Mauritius for the development of a "cargo village" located between Dakar and the Blaise Diagne International Airport. The Société des Infrastructures d'Affaires Atlantic was set up, having

as shareholders the Mauritius Africa Fund and the Fonds Souverain d'Investissements Stratégiques, representing the Government of Senegal. While the Cargo Village offers Senegal the opportunity to tap into Mauritian experience in developing successful SEZs, Mauritian investors enjoy access to the West African market through the ECOWAS trade area.

In Ghana, Mauritius is expected to invest $75 million towards the development of technology parks in the Dawa FZ and the Tema FZ (Dwamena, 2018). The initial investment will then be scaled up to $250 million, and it is projected that 5,000 jobs will be created upon completion of the park. The Government of Ghana's objective is to benefit from technological upgrading in ICT. The technology park developed in Côte d'Ivoire is set to boost similar capabilities in ICT and technology, while benefitting from the technical assistance of Mauritius in creating a conducive business environment.

Following Mauritius' success in creating fruitful SEZs, foreign partnerships of this kind can facilitate good practices reaching less experienced countries. Although the programme is still at a relatively early stage of development and the outcomes remain to be seen, the example showcases the opportunities these partnerships present to both the host economy and the cooperating country.

4.4.4 International partnerships through border and cross-border SEZs

In addition to international partnerships of the type used in the Lekki FZ and the Mauritius Africa Fund, some African countries have sought to establish SEZs near border areas – at times as part of common regional industrial strategies – to facilitate the movement of goods and people, as well as leverage RVCs and trade complementarities with neighbouring countries. Although this sort of SEZ has been popular in East Asia and South-East Asia since the 1990s, with the establishment of the so-called growth triangle concept, the phenomenon has only recently been embraced in the African context. Given the novelty of such an approach to SEZ development, the cases provided here can illustrate the sort of opportunities and challenges underlying the set-up of border and cross-border zones.

In 2017, the Government of South Africa earmarked more than 7,000 ha for the designation of the Musina–Makhado SEZ, located 40 km south of Musina, a border town in Limpopo Province. The SEZ is close to the Beitbridge Border Post, the main crossing between South Africa and Zimbabwe, which is infamous for its delays. The zone will be the first in South Africa to be operated by a foreign company, Shenzhen Hoi Mor of China, which has committed more than $3.8 billion towards its development. Once it is fully operational, the zone is expected to create 37,000 jobs, and the Government is planning programmes to train the local labour force in the skills that will be required for the success of the zone, with an emphasis on engineering and other technical professions (ACCEDE, 2020).

The competitive advantage of the Musina–Makhado SEZ is entrenched in two underlying rationales, which can aid its successful implementation. First, the proximity to the Beitbridge Border Post, the second biggest port of entry in South Africa, allows firms located in the zone to have easy access not only to neighbouring Zimbabwe, but also to the broader SADC market. This opportunity has been consistently reiterated by the supporters of the zone: in March 2020 Rob Tooley, chairperson of the Musina–Makhado SEZ board, identified the appeal of the zone as "the underdevelopment of Africa", and noted that as a logistical hub with Fourth Industrial Revolution features, the zone will be "a conduit to development in SADC" (ACCEDE, 2020). In addition, the Musina–Makhado SEZ is strategically located on the N1

North–South Economic Corridor, which enables market access to Gauteng Province – home to a quarter of the South African population – and to the rest of South Africa (LEDA, 2020). The Musina–Makhado SEZ also enjoys a direct railway link with the Johannesburg–Beitbridge line. This makes raw materials cheaper to source and gives SEZ products a competitive pricing advantage. Such a location on economic and transport corridors can indeed reinforce an SEZ's value proposition and potentially facilitate its establishment as a key logistics hub for the broader SADC region (LEDA, 2020). Second, the SEZ is strategically located in Limpopo, a province endowed with significant reserves of mineral resources, such as diamond and coking coal. The SEZ's target sectors include energy, metallurgy and agroprocessing. The SEZ is, therefore, set to leverage the competitive pricing advantage deriving from the availability of production inputs in such close proximity (LEDA, 2020).

Despite the opportunities catalysed by such a zone, a number of challenges – peculiar to the Musina–Makhado SEZ but transferable to other contexts – remain. The nature of the zone, with its heavy emphasis on metallurgy, has been met with less than enthusiastic support by local communities. Local stakeholders, including environmental non-governmental organizations and members of local institutions, have opposed the SEZ on the grounds of environmental degradation of the ecologically sensitive Vhembe District (Mbangula et al., 2020). The latest environmental impact assessment reported that although the SEZ is set to have beneficial effects on socioeconomic conditions in the province by creating additional jobs, that is likely to come with an environmental cost that will affect water sources, air quality and health outcomes, even after accounting for mitigation measures (LEDA, 2020). Moreover, the success of the zone will also hinge on trade facilitation efforts at the Beitbridge Border Post: the lack of business-friendly infrastructure outside the border gates could cause trade costs to spike, which, in turn, could encumber a zone that intends to leverage a transport corridor as a launchpad to the rest of Southern Africa.

The zone is still at an early stage of development. An environmental impact assessment has already been carried out, but additional measures are likely to be needed to ensure that local stakeholders are on board and that the specific environmental challenges presented by the metallurgic cluster that dominates the zone are overcome. That said, the case of the Musina–Makhado SEZ showcases the potential gains deriving from a strategic location at border zones and on transport corridors, further reinforced by the opportunities arising from deeper regional integration brought about by the SADC and the AfCFTA.

In addition to border zones, cross-border zones – that is, zones that expand over borders under joint ownership by neighbouring countries – can also offer enhanced economic benefits by capitalizing on existing and emerging trade corridors and reciprocal complementarities among regional partners. In Africa, two cross-border zones have so far been announced. The first was launched in 2018 in West Africa in what has been called the SKBo Triangle, comprising the regions of Sikasso (Mali), Korhogo (Côte d'Ivoire) and Bobo Dioulasso (Burkina Faso). As the SKBo SEZ will be the first economic zone across borders in West Africa, its development goes along with previous initiatives aimed at increasing cooperation at intra-community borders, such as the 2005 Cross-border Initiatives Programme promoted by ECOWAS. The zone is set to attract private investment in agro-industry and the mineral industry, taking advantage of the more than 6 million ha of land suitable for agriculture in the region (West Africa Brief, 2018). Indeed, the SKBo triangle has been recognized as a border area with high potential for cross-border cooperation, given the synergies deriving from its population, languages, and agricultural and water resources, as well as the status of

its borders (OECD, 2017). Nevertheless, the proposed zone is not immune to the common pitfalls stemming from the multi-agent nature of cross-border zones and cooperation. In particular, the lack of institutional coordination mechanisms remains a major challenge that could undermine the successful implementation of the zone in the years to come. Without efficient and effective institutional coordination mechanisms, the reconciliation of development plans and overall objectives in and for the zone becomes difficult (African Union, 2020). In this respect, the SIP in China can provide relevant insights on the types of measures that are more conducive to a well-functioning coordination framework (box IX).

On the other tip of Africa, Ethiopia and Kenya have recently launched a cross-border SEZ, intended to transform the Moyle border region into an FTZ administered by the two countries (UNCTAD, 2019c). Moyale, a town straddling the border, lies roughly halfway between the Ethiopian and Kenyan capital cities. The SEZ would be located along the Lamu transport corridor, a $30 billion infrastructure project comprising airports, highways, railway lines and additional auxiliary facilities, connecting the port of Lamu (Kenya) with Juba (South Sudan) through Ethiopia (LAPSSET, 2021). As part of the efforts to ease the movement of people and goods within the Moyle region, a one-stop border post was set up to streamline customs formalities between the two countries. Despite the potential benefits deriving from greater cross-border trade, specific challenges exist – illicit trade flows and the persistence of political instability in the region being the most prominent ones. Moreover, a 2015 report by Kenya's National Crime Research Centre identified the Moyle region as an epicentre for human trafficking, facilitated by the porous border. Attempts to curb illegal flows of people and goods have resulted in border violence by criminal networks in retaliation against Kenyan authorities (Gumba & Turi, 2020). All these factors can substantially hinder the successful implementation of the cross-border zone.

The establishment of border and cross-border zones is still in its early stages in the African context. Poor infrastructure links and high trade costs – including tariffs – have historically been an impediment to using SEZs as launching pads for cross-border trade. However, the examples of the SKBo triangle in West Africa and the Moyle region between Ethiopia and Kenya point to the potential for integrated interventions, combining the development of SEZs in border areas with the upgrading of transport corridors that can facilitate the mobility of goods and lower the costs of trade. These opportunities could be amplified by the introduction of the AfCFTA and other initiatives to foster intra-African trade, as outlined in greater detail in chapter 3, along with a case study from the GMS in South-East Asia. Nevertheless, the evidence coming from Africa highlights that there may be non-negligible conditions necessary for the successful implementation of SEZs along transport corridors and near border areas. Indeed, the surrounding infrastructure endowments can make or break zones that rely on transport corridors – and therefore also on the efficiency of border posts – as the source of their competitive advantage. As a consequence, the establishment of border and cross-border SEZs is unlikely to bear fruit, if conceived as stand-alone policy interventions. Instead trade facilitation initiatives in the surrounding region, such as creating one-stop border posts like the one planned at Moyale, can go a long way towards boosting SEZs' operations.

Box IX. China–Singapore Suzhou IP – international cooperation through SEZs

Tapping into outside experience by developing international partnerships in the creation of SEZs is not a new phenomenon. In Asia, such partnerships have been running for the best of four decades, achieving, in some cases, considerable success.

One of the most known and successful examples is that of the SIP in China. In the 1990s, China turned to foreign partnerships to gain experience in the planning, development and management of large economic zone projects. The Chinese Government was determined to acquire knowledge of best practices from those who had mastered the development of SEZs. By that time, Singapore had had a very successful experience in developing zones, following the city-State's economic miracle. In 1994 China established a large industrial city located in East Suzhou. One fourth of the total land area was dedicated to a China–Singapore cooperative zone, in an explicit effort by Chinese authorities to create synergies between the two countries.

Matching interests by both parties ensured high-level government commitment to the project. Economically, Singapore was keen on finding land for new local industries in neighbouring countries and breaking the constraints set by its small geographical size and market. With this aim, Singapore launched the Regional Industrial Parks Initiative. Politically, the SIP was an opportunity to deepen the relationship with China, a major player in the Asian market. Both China and Singapore acted proactively to ensure the realization of a knowledge-sharing process between the two. In the first phase of zone development, Singapore provided investment capital, risk sharing and investment promotion. China was able to work closely with and learn from one of the most effective IPAs in the world at that time, the Singapore Economic Development Board (EDB), the country's foreign investment agency. The EDB was constantly engaged in the development of the zone and shared knowledge with SIP officials on best practices in investment promotion.

A formal knowledge-transfer mechanism was established, and an institutional structure was built into the partnership agreement. Both parties set up counterpart offices to plan and oversee the knowledge exchange process. Formal training was integrated at the SIP with a programme of staff exchanges between the two countries. These exchanges significantly increased the public management capacity of Suzhou Municipality and the skills of Chinese officials. Moreover, training curricula were constantly updated with the changing focus of the park. Over time, officials started receiving training on new aspects of zone development, such as environmental resource management.

Since its establishment, the SIP has attracted more than $17 billion in FDI and created more than 500,000 jobs, paving the way for China's successful development of other SEZs. Indeed, the SIP has become a laboratory for many IPs in China, with more than 100 regulations enacted by adapting Singaporean practices to local Chinese conditions.

Source: Farole & Akinci (2011).

4.4.5 Conclusion

The examples of international partnership zones developed in African countries as well as internationally show the potential benefits zones can bring to host economies, in particular those countries that have relatively little experience with SEZ development. Arguably, West Africa, where SEZ programmes are mostly still in their infancy, can enjoy considerable returns from this kind of partnership. All countries represented in our sample can use international collaboration to acquire knowledge of good practices from those countries that already possess mature SEZ policies.

Furthermore, international best practices offer valuable lessons on the ways through which knowledge transfers can take place in the context of international partnerships. In the SIP, knowledge transfers were operationalized through formal training programmes intended to improve the institutional capacity of the country with less experience – in this case, China. Embedding formal transfer mechanisms in the governance model is a feature that can be pursued by current and future partnerships taking place on the African continent.

However, as seen in the example of the Lekki FZ in Nigeria, these collaborations are not always straightforward. The success of international partnerships, just like that of any SEZ, is strictly intertwined with the broader business environment. Hence, international collaboration provides no escape path to governments from addressing the deficits of the broader investment climate. In addition, it is frequently the case that challenges of all sorts arise in the process of international partnerships: from cultural misunderstandings to differences in practices and regulations, and conflicting interests, all of which need to be smoothed out in order to make international partnerships in SEZs not just successful, but even viable. In this regard, Mauritius and other African countries with mature SEZ programmes can be valuable partners for fellow African countries that look to implement SEZ policies. Given both the geographical and the cultural proximity that can be achieved vis-à-vis non-African partners, the risk of cultural misunderstandings, language barriers and incompatible leadership models can be narrowed, at least to a certain extent.

In the context of international partnerships, an additional tool that countries can use to achieve greater economic development are border and cross-border SEZs. The multi-country case study, representing Burkina Faso, Côte d'Ivoire, Ethiopia, Kenya, Mali and South Africa, offers illustrative evidence of the potential gains deriving from positioning SEZs along transport corridors and near borders. That said, border and cross-border zones are exposed to the same risks experienced by other SEZs, e.g. the Lekki FZ, in terms of coordination and conflicting interests. Moreover, extra care is required to endow an SEZ with an enabling investment environment along transport and economic corridors, to remove bottlenecks stemming from trade barriers at border posts and along transport routes.

In the end, although international partnerships offer a valuable avenue worth exploring – as they can help address and solve many of the problems faced by local and national authorities and firms with limited experience in the development of SEZs – they are by no means a simple solution for all issues that frequently surround the establishment of SEZs.

4.5 GO GREEN AND SOCIAL – ESG STANDARDS TO INCREASE SOCIAL IMPACT AND AS A COMPETITIVENESS FACTOR

4.5.1 Introduction

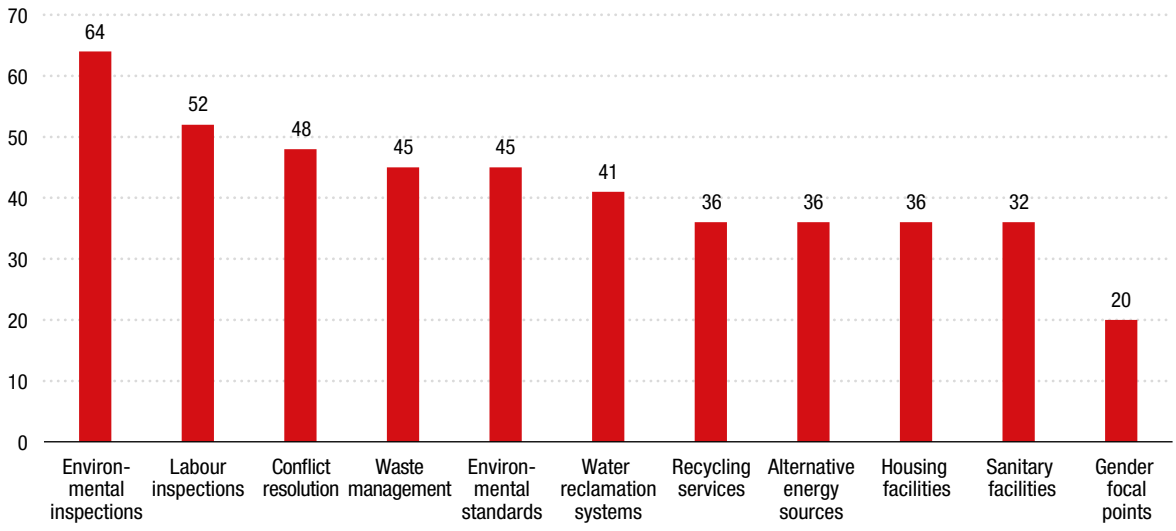
For almost as long as SEZs have been regarded as an instrument to stimulate economic dynamism, human rights groups, environmental activists, academics and others have criticized them for their potentially negative environmental and social impacts. Some aspects, such as the lowering of labour standards – especially the suspension of national minimum wages or the prohibition of workers' unions, the lax application of environmental standards and overall poor working conditions – have been particularly in the spotlight. The deadly tragedy of the 2013 Rana Plaza collapse in Dhaka, though not within an SEZ, further heightened the scrutiny on

international supply chains in industries such as garments, which frequently are found within SEZs. Issues related to land expropriation for SEZ development without due consultation and compensation of the population affected have also contributed to the bad reputation of SEZs in terms of their social impact.

Although many of these issues reflect the general business environment and conditions of the emerging countries in which the SEZs are located rather than a specific feature of the SEZs, the competitive pressure between countries to provide particularly attractive SEZ regulations has certainly contributed to a relaxation and lack of enforcement of certain rules. Against the backdrop of increasing awareness of these issues as well as mounting consumer pressure, modern SEZs can nevertheless also be an effective tool to address these challenges. Controls and enforcement, as well as support services (e.g. inspectors, health services, waste management and renewable energy installations), can be provided more easily and cheaply in restricted areas. In fact, environmental and social standard practices are more and more often an important competitive factor for SEZ development rather than a deterrent. Many global industries are facing increased pressure to comply with ESG standards. SEZs can provide the necessary infrastructure and services, helping companies to comply with these requirements. These may include modern waste and wastewater management facilities, workers' housing and skills training. SEZs can thus position themselves favourably in comparison with their competitors by being particularly ESG compliant.

A recent survey[4] of 39 zones across Africa shows that many zones have started incorporating some of these principles (figure 34). With regard to environmental services, 64 per cent of zones reported conducting environmental inspections, and 45 per cent provide dedicated facilities for waste management and assist companies in incorporating environmental rules and regulations into their zone operations. Recycling services and alternative energy sources are offered by more than a third of zones. With regard to social services, about half of the zones run labour inspections and conflict resolution schemes. Housing, health and sanitary facilities are, however, provided by only about a third of the African zones evaluated.

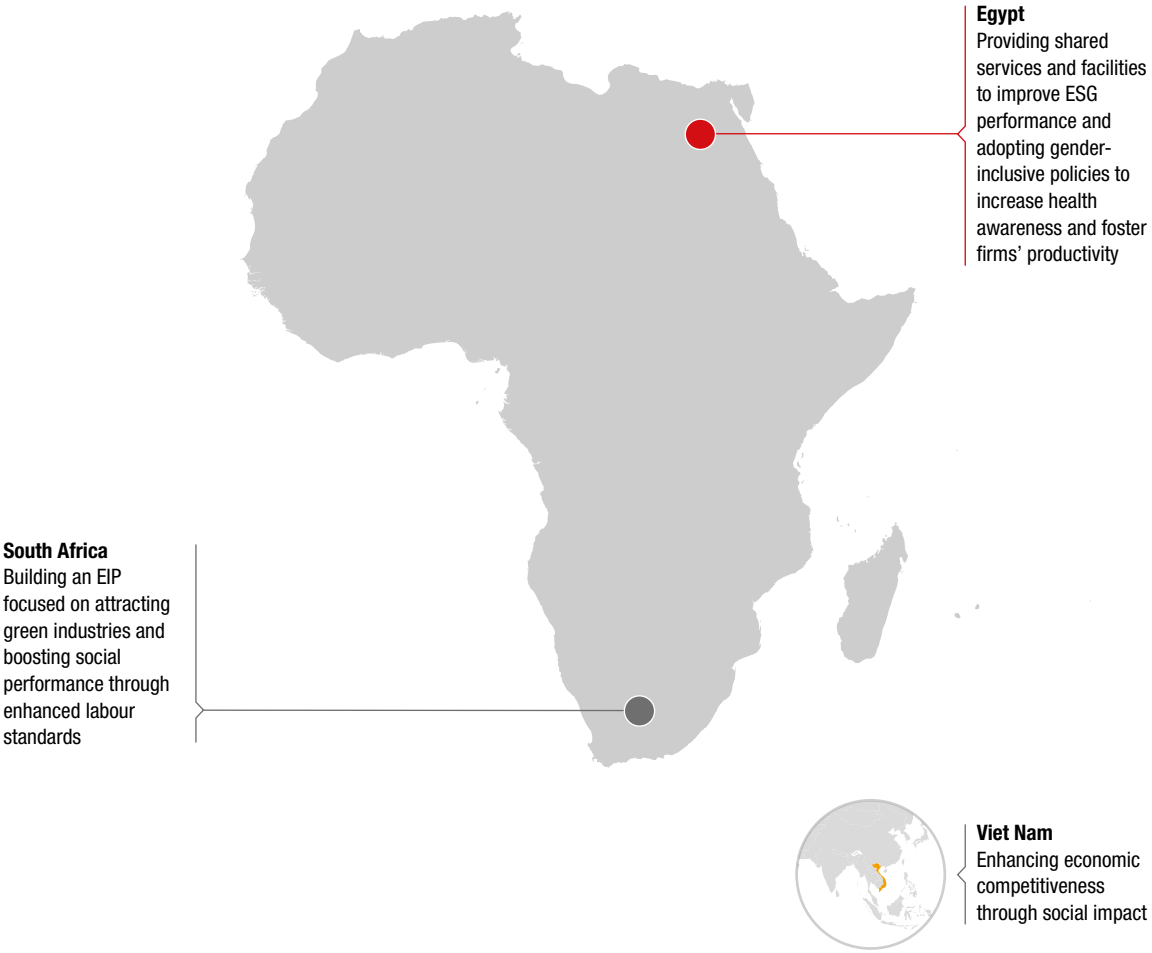
Figure 34. Share of SEZs that provide specific social and environmental services (Per cent)



Source: UNCTAD & AEZO (2020).

These figures show that although some SEZs have made the transition towards more sustainable zone models, there remains considerable room for improvement and for incorporating further some of the ESG standards, both in order to maximize the social benefits of the zones and reduce environmental damage, and in order to establish a competitive edge over competing zones. The following section describes a few examples of zones in Africa and in other continents that have successfully incorporated ESG standards into their development strategies and discusses lessons learned from them. Figure 35 shows the location of the cases covered in this section.

Figure 35. Countries of cases covered – "Go green and social"



Source: UNCTAD.

4.5.2 South Africa – Atlantis SEZ

The Atlantis SEZ (ASEZ) in South Africa is the first EIP in Africa fully focused on the attraction of green industries. It is considered green-tech both from a sector perspective and for the way it is designed and operated. Although it was only officially designated in 2018 and is still under development, the concept behind the park took form in 2011. Given its relatively distinct nature in the African context, some lessons can be gauged from this initial phase for other zones considering a similar approach.

The ASEZ is located about 40 km north-west from the Cape Town central business district, in the community of Atlantis. Atlantis is a town with about 70,000 inhabitants, originally envisioned as an industrial growth point under the apartheid regime. Although the area attracted investments facilitated by comprehensive government incentives provided in the 1970s and early 1980s, the local economy hit a rocky period coinciding with the removal of incentives and the end of defence contracts in the mid-1980s. This resulted in a considerable number of firms having to shut down operations (Grant et al., (2020).

Against this backdrop, different ideas for revitalization of the area have been considered in recent years. In 2011, the City of Cape Town launched the initial concept of a green-tech hub in Atlantis, a concept that was further developed over the years in collaboration with different partners, including the Department of Trade and Industry; GreenCape, a non-profit organization promoting the adoption of green economy solutions in the Western Cape region; and the Western Cape Provincial Government (Atlantis Special Economic Zone, 2019). South Africa, in general, and the Western Cape Province, more specifically, have actively sought to harness the opportunities provided by the green economy for the past decade, as shown for example by the Green Economy Accord from 2011. An analysis of the industrial ecosystem and skills of Atlantis suggested that it might be a viable site for the attraction of firms in the wind and solar sectors. The zone was designated in November 2018.

The zone's objectives are ambitious and are inspired by UNIDO's definition of EIPs, which suggests that EIPs are zones "in which companies cooperate with each other and with the local community trying to reduce waste and pollution, efficiently share resources and help to achieve sustainable development, with the intention to augment economic gains and improve environmental quality" (UNIDO, 2016). The ASEZ in particular focuses on the attraction of low-carbon, resource-efficient and socially inclusive investments. Target sectors include renewable energy generation, such as wind and solar, as well as e-mobility, recycling and waste management, among others (Deloitte, 2014).

In addition to its sectoral focus on the green economy, the ASEZ also aims to be sustainable from an environmental and social perspective in how it is developed and operated. The goal is to contribute to broader community development by building skills and enterprises in and around Atlantis for the green economy. Some of these involve supplying its own renewable energy, being a net-zero water user, having little to no waste to landfill, and working in harmony with nature and the environment (Cullinan & Wellman, 2020). Particular emphasis has been placed on skills development for the ASEZ and the broader regional economy, the development of linkages with local entrepreneurs and community involvement. In the words of the 2018/19 annual report, "The ASEZ will succeed and be relevant to its context if it goes beyond being a siloed enclave and embeds itself into the physical, social and economic context of Atlantis" (Atlantis Special Economic Zone, 2019).

Skills development efforts have already been ongoing for a few years. Predating the designation of the SEZ in 2018, an audit was conducted in 2015 in order to assess the skills available locally and understand the gaps that needed to be addressed. On the basis of this assessment and further updates in the following years, different initiatives have been implemented since 2016 with the specific objective of strengthening the skill base, including early childhood programmes and training for children and teenagers. Courses for specific skills, such as welding and solar photovoltaic panel installation, have been offered as well as internship programmes for women.

Furthermore, the ASEZ has sought to support local micro-, small and medium-sized enterprises (MSMEs) to allow them to benefit from opportunities arising through the development of the ASEZ. The ASEZ-based South African Renewable Energy Incubator, for example, has supported more than 180 local entrepreneurs since 2015 (Grant et al., 2020).

Finally, an important aspect of the ASEZ's development strategy is community involvement. Given the failure of the apartheid government regime to establish a growth point in Atlantis, there is deep mistrust within the community for government-led efforts, such as the ASEZ. Ensuring the acceptance and support of the local community has therefore been high on the priority list, with the aim of making sure that the project is truly beneficial for the community. On top of the different initiatives described earlier, an important step in this direction has been the establishment of the ASEZ Stakeholder Community Network in 2019. The network is composed of 15 representatives from the Atlantis community, such as labour unions, youth organizations, cultural groups and the informal economy. Its mandate is to act as a facilitator of communication between the community and ASEZ management in order to ensure that the zone development will truly benefit the communities surrounding it (Atlantis Special Economic Zone, 2019; Grant et al., 2020). Michael Marote, a member of the network, pointed out: "This is the first time in my history that I can sit around the table in the planning of such a project. This is historical" (Atlantis Special Economic Zone, 2019).

Although initially the attraction of investments was slower than expected, investors' interest picked up significantly with the official designation of the ASEZ in 2018. As of 2019, different firms had invested R 700 million (approximately $50 million) in the zone by different firms (Atlantis Special Economic Zone, 2019). It is expected that the zone will be fully operational by 2022, with a total investment volume of approximately $130 million (Grant et al., 2020). Even though still in its early stages, the ASEZ has thus shown how an SEZ can be integrated within a community and benefit its surrounding areas, while being an attractive place for investors.

4.5.3 Egypt – Robbiki Eco-Leather Park

Other countries in Africa have also taken steps to support the development of EIPs. Although Egypt has no operational EIPs yet, the country has espoused the overall idea of improving the environmental and social performance of its SEZs, while optimizing economic performance through technological enhancements. As part of Egypt Vision 2030, launched in 2017, the Government developed a number of policy initiatives to adapt the country's SEZs to important environmental challenges specific to Egypt, including water scarcity and waste management.

To date, the Egyptian Ministry of Industry, in collaboration with UNIDO, has made three key attempts to establish EIPs: Robbiki Eco-Leather Park (RELP), Polaris International Al Zamil IP and the SIDC IP at the Suez Canal SEZ (GEIPP, 2020). All of these projects are part of an ambitious plan by the Government to reduce the environmental impact of highly polluting, yet strategic, industries located in zones. The RELP targets a key sector of the Egyptian economy, the leather industry, which employs about 250,000 workers (MTI, 2018). The leather industry has traditionally been highly geographically concentrated, and it is estimated that about 95 per cent of tanneries in Egypt were located in Old Cairo before the establishment of the RELP (MTI, 2018). However, environmental conditions linked to the presence of the tanneries in the heart of the capital had reached a critical point, given the lack of adequate wastewater treatment in the urban setting (UNIDO, 2017b).

The establishment of the RELP is part of a relocation plan that foresees the transfer of tanneries from Old Cairo to Badr City, located 45 km from the capital. Designed to tackle the unsustainable business practices in Old Cairo, the RELP developed in three phases, of which two have been completed and the third is in progress. Whereas the first two phases aimed to attract local firms, the third phase aims to attract foreign firms, in order to boost exports from the current $200 million per year to $800 million per year (MTI, 2018). The zone also plans to expand into the processing of by-products and related industrial activities, such as glue and gelatine. In 2019 the zone covered 660 ha and included 154 tanneries (Cairo for Investment and Development, 2019). To improve environmental performance, three waste treatment plants have been built: a wastewater treatment plant, a sewage treatment plant and a chrome recycling plant. The treated water is used to irrigate trees in a nearby green area of 320 ha.

Three specific aspects of the RELP can be singled out as good practices. First, it supports the creation of technical partnerships with international leaders in the leather industry, with the aim of developing cleaner production systems. International partners, such as the Italian Leather Association, are an importance source of knowledge on developing cleaner technologies and reducing the overall environmental impact of firms. Local stakeholders are key to adapting those practices to the local context. For this purpose, RELP facilities include the Leather Technology Transfer Centre, a laboratory shared between local and foreign firms that promotes the adoption and upgrading of green technologies by local factories. The laboratory also provides testing and evaluation of the environmental compliance of firms in the zone.

Second, the RELP has been designed to respond to highly country-specific environmental challenges. In addition to tackling the critical environmental situation of tanneries in Old Cairo, it has been set up to address other environmental challenges, namely water scarcity and waste management, challenges that make Egypt one of the region's countries most vulnerable to climate change. With the country's water shortage standing at 13.5 billion cubic metres per year and growing, the adoption of efficient wastewater treatment plants in the RELP is crucial to optimize the use of water resources. Overall, when compared with other African SEZs, the RELP is performing well in terms of environmental standards. It has an overall compliance of 56 per cent against all prerequisites and performance indicators outlined in the EIP Assessment Tool, which include measures on water extraction and management, waste disposal techniques and protection of the natural environment (GEIPP, 2020). At least 20 per cent of industrial solid waste is reused by other firms, and less than 50 per cent of waste generated in the zone goes to landfills (GEIPP, 2020).

Third, the RELP has been designed not only to improve environmental performance, but also to foster economic gains in the zone through the creation of new business opportunities. Indeed, the disposal of organic and chemical waste in an environmentally friendly way allows firms to pollute less and also creates business opportunities for re-selling some of the treated waste as input materials in other production processes, such as glue and gelatine. The practice of combining environmental performance with economic benefits has been a common feature in EIPs worldwide, such as in Viet Nam (box X) and offers the opportunity to make the zone more attractive in the eyes of firms that may be keener on reaping economic gains than achieving the Government's specific environmental targets. Attesting to the success of such a strategy, in January 2020 Germany's market leader in gelatine production, Gelita AG, signed a contract – with committed capital of $60 million – to set up Egypt's first gelatine factory in the RELP. The factory will manufacture gelatine as both a food additive and a medical product, by extracting it from leather-tanning waste (Entreprise, 2020).

Box X. Hoa Khanh IZ in Viet Nam – economic competitiveness through social impact

Improving environmental and social standards is becoming a fundamental concern across many SEZs in other parts of the emerging world. These factors are taking centre stage in the development and transformation of many of the zones in Viet Nam, one of the countries with a more active zone programme.

One such case is the Hao Khanh IZ in Da Nang, a city of close to 1.2 million inhabitants in central Viet Nam. Established in 1996, the zone focuses its activities on mechanics, food processing, construction materials and electronics, among others. It covers 396 ha. Despite lacking typically "green" industries, the zone committed to reduce the environmental impact of its firms as part of the 2014 project "Implementation of Eco-Industrial Parks (EIP) for sustainable industrial zones in Viet Nam", led by UNIDO and the Vietnamese Ministry of Planning and Investment. The zone has worked to improve its environmental performance and resource efficiency by adopting environmentally friendly practices. The Viet Nam National Cleaner Production Centre (VNCPC) conducts regular assessments on resource efficiency and cleaner production (RECP). The solutions proposed by the VNCPC aim to increase the transfer, deployment and diffusion of clean and low-carbon technologies, to minimize greenhouse gas emissions, as well as to improve water efficiency and sound management of chemicals.

Over the period 2014–2017, across the 20 companies assessed, annual savings achieved thanks to the RECP options reached about $500,000. Daiwa Viet Nam, a company producing fishing rods and reels, implemented 26 RECP interventions and achieved savings totalling $340,000 per year for the period 2016–2018. The RECP assessments not only helped to increase savings related to production activities, but also helped reduce companies' environmental impact. It is estimated that RECP assessments saved 2,571 tons of solid waste, more than 1 million kWh of electricity and 6,000 kilolitres of water per year. The zone also took action to reduce the environmental impact of its wastewater treatment, which usually represents a leading cause of environmental pollution in industrial zones. The chemical-biological technology used to treat wastewater has been assessed by the VNCPC to be relatively efficient, hence resulting in a reduced rate of chemical consumption and chemical sludge generation. The zone now provides guidelines to firms on how to access green financing and how to respond to environmental accidents.

Moreover, the model of EIPs and sustainable practices in SEZs was embedded in Viet Nam's institutional framework. The Minister of Planning and Investment, Tran Duy Dong, stated that "Implementation of the EIP Initiative led to the issuance of … Decree 82 … of the Government of Vietnam to regulate the management of industrial zones … and economic zones … in Viet Nam. The Decree took effect since July 2018 [and provides] national EIP guidelines to operationalize the development of EIPs in Viet Nam and its institutional framework in more than 300 industrial zones across the country."

The practices adopted by the Hoa Khanh IZ in Viet Nam show that SEZs that do not have a core focus on green industries can nevertheless work towards reducing their impact on the environment, while leveraging production savings. The institutional embedding of sustainable practices is also key to ensure that the benefits are not a one-off occurrence, but instead part of a continued effort towards reducing environmental impact.

Source: UNIDO (2017); UNIDO (2019).

Although the project has been praised for incorporating some key principles of EIPs, its development remains at an early stage and some barriers remain to its implementation. Several factors, including the lack of an effective master plan, adequate common utilities and services, and lack of financial resources, determine the slow progress. Moreover, specific

policy measures to improve the social performance of the park should also be incorporated in the development plan. That said, gaining technical knowledge from international partners, targeting environmental interventions to country-specific challenges and boosting economic gains through industrial symbiosis are three good practices from the RELP that could serve as references for other African countries.

4.5.4 Other SEZs creating social impact for workers and communities

A number of zones across Africa have sought to provide enhanced social benefits to workers, both in the zones and in external communities. Although the adoption of good social practices is far from being the norm, countries such as South Africa and Egypt have used the economic arena of zones to create social impact. The inclusion of good social practices can deliver substantial economic returns, from the perspectives of both the SEZ authority and individual businesses operating in the zone. For instance, business benefits to zones can include enhanced legal protection and investor compliance through fair employment, enhanced reputation among investors and attraction of investors by a skilled labour force. Economic returns for investors entail reduced absenteeism and turnover, legal compliance and risk mitigation, and improved worker satisfaction (World Bank, 2011).

In the East London Industrial Development Zone (ELIDZ), one of South Africa's first industrial zones, good social practices have been a focus. It is located close to East London, a city of 260,000 people in Eastern Cape Province, South Africa's poorest region, with an adult poverty rate of 67.3 per cent (Stats SA, 2019). Its diversified investment portfolio includes agroprocessing, renewable energy, aquaculture and general manufacturing. Since its inception, the ELIDZ has attracted more than R 4.4 billion worth of investment – approximately $300 million – and created about 3,000 direct manufacturing jobs and more than 20,000 construction jobs. Notably, more than R 480 million worth of contracts – $31 million – were awarded to local SMEs (ELIDZ, 2020).

The ELIDZ has adopted a number of measures to make sure that the zone has a positive social impact on the community where it operates. Its Human Capital Strategy aims to guarantee the diversity and wellness of its employees. It also safeguards compliance with best practices with regard to labour standards. As part of the strategy, the ELIDZ adopted an Employment Equity Plan, effective from 2016, that targets fair remuneration and employee wellness, development and satisfaction. Every year the zone undertakes the UN Global Compact Assessment as part of its internal Ethics Review Gap Analysis. The aim of this exercise is to benchmark its management practices against indicators on human rights, labour standards and environmental best practices (ELIDZ, 2020).

Moreover, the zone's corporate social investment (CSI) programme seeks to make a meaningful contribution to the promotion of societal transformation and development, first, in its immediate community and, second, in the greater Eastern Cape. The CSI policy has four focus areas: (i) education – providing support to schools through educational infrastructure and equipment, teacher support and bursary provision at tertiary level; (ii) social and community development – which focuses on improving community-based infrastructure and youth development, enhancing social cohesion and projects directed at food security and poverty alleviation; (iii) enterprise development – providing MSMEs with business support such as coaching and mentoring; (iv) youth and sport development, offering skills-enhancing programmes to the young and organizing sports tournaments for youth cohesion. Forty per cent of the CSI expenditure is prioritized for the townships' surrounding communities,

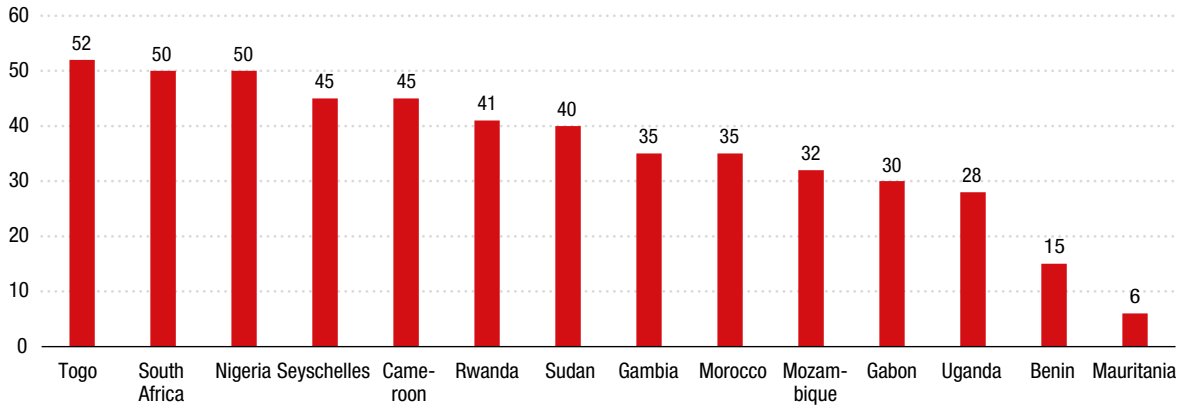
35 per cent is destined to the greater Buffalo City region where the zone is located and the remaining 25 per cent is earmarked for the eastern rural part of Eastern Cape Province (ELIDZ, 2021).

To date, the zone has accomplished important results in terms of improving labour standards. Within the zone, the ELIDZ has consistently achieved the targets that are part of its Human Capital Strategy. In 2019 more than 6 per cent of employment-related expenditure (about $300,000) was spent on targeted training initiatives, while the zone reached 72 per cent employee satisfaction. Staff turnover has been low, decreasing to a mere 4 per cent in 2019 from 13 per cent in 2013. Low and lowering staff turnover is behind rises in firm productivity and overall performance (ELIDZ, 2020).

Over 2019 and 2020, external initiatives were also developed. These included the award of 11 bursaries for tertiary schools in neighbouring communities as well as the implementation of 15 CSI initiatives. These initiatives have involved educational programmes, such as the Rally to Read scheme, which aims to promote literacy at the grassroots level in remote rural schools across South Africa. The ELIDZ also offered 32 internships to women and young people from the surrounding Buffalo City area (ELIDZ, 2020). In past years the ELIDZ has also sponsored mobile libraries and schools, donated office space to serve as crime reporting centres and supported sport development in Eastern Cape local communities (ELIDZ, 2014).

Gender-inclusive policies have been incorporated in a few SEZs across Africa. SEZs typically employ a higher share of women than the national average, even where national levels of female labour participation are relatively low. A survey conducted across SEZs in 30 African countries reported that on average 35 per cent of the labour force at zones is female. SEZs in Togo, Nigeria and South Africa display the highest rates of female participation (figure 36). Nevertheless, women in Africa endure a considerable number of challenges, including lack of health awareness and low educational levels, that can affect firms' productivity in SEZs by hindering women's ability to excel and advance in the workplace (World Bank, 2011).

Figure 36. Share of women in SEZ labour force, selected African countries (Per cent)



Source: UNCTAD & AEZO (2020).

In Egypt SEZs have worked to remedy some of the greatest obstacles women face. In many of the country's zones, such as the Port Said FZ, the Nasr City FZ and the Ismailia FZ, more than 50 per cent of the labour force is female (World Bank, 2011). Yet cultural and social norms,

together with income levels, preordain low levels of health-care awareness and access among women. To overcome these barriers, in 2009 the HERproject was launched in some factories in the Ismailia FZ, established in 1995. Today, 90 firms in the zone provide about 17,000 jobs, mainly in ready-made garments, electronics and petroleum services. Factories in the zones provide a critical opportunity to offer peer-based learning, given that women are away from home and together in large groups. The HERproject identified peer educators in each factory, delivered monthly training sessions to the peer educators on women's health topics and then encouraged the peer educators to spread their learning to fellow female workers. At completion, both women and firms reported benefits: women claimed to have improved their knowledge on key topics such as family planning, menstrual hygiene, pre- and postnatal care, and sexually transmitted infections. Firms reported a reduction of health-related absenteeism of between 10 and 15 per cent, as well as reductions of requests for early leave and improvements both in employee loyalty (lower turnover) and in productivity and worker–management relations (World Bank, 2011). A peer educator in the Ismailia FZ commented, "We felt that the factory management cares about us and our health, this means I must put more care and effort into my work" (BSR, 2011). Similar programmes have been implemented in SEZs in Bangladesh, China, India, Pakistan and Viet Nam, attaining results comparable with those in Egypt.

The examples from the ELIDZ in South Africa and the Ismailia FZ in Egypt highlight the weighty contributions that SEZs can have in terms of social performance. Upholding improved labour standards and gender-inclusive policies can generate tangible economic returns to SEZs and firms. The case of the ELIDZ also shows that zones located in rural regions can extend the geographical extent of their social impact beyond the zone's boundaries, by offering enhanced education and opportunities for youth development to the surrounding communities.

4.5.5 Conclusion

SEZ policies have come a long way since their first establishment, which frequently went hand in hand with neglect of social and environmental standards. This was a standard practice considered to make the zones more attractive for foreign investors than the rest of the country. However, it is increasingly the case that investors are less and less willing to do away with environmental and social standards and often actively demand that these standards are upheld or even enhanced within zones.

The case studies presented in this section call attention to the different ways in which African SEZs can and have incorporated ESG standards in their development and operations. The case of the ASEZ in South Africa displays the potential benefits related to becoming environmentally friendly, both in sectoral focus and through external activities in the surrounding communities, while contributing to the structural transformation of the regional economy towards green industrial activities. A focus on enhanced labour standards and gender-inclusive policies can have a wide range of advantages for the actors in SEZs, as demonstrated in the ELIDZ in South Africa and the Ismailia FZ in Egypt: workers experience important socioeconomic benefits, and firms see their productivity rise.

These practices are far from universal, but there are encouraging signs. The rate of adoption of more environmentally and socially friendly regulations has increased and can further boost the social impact that SEZs have in the communities where they are located. Such practices can also help enhance the competitiveness of the firms settled in the zone and of the SEZs as a whole. Indeed, the RELP in Egypt proves that environmental sustainability does not have to come at the expense of economic performance. Instead, it is possible to design environmentally friendly interventions that boost economic gains through the creation of new

business opportunities, such as those stemming from functioning waste treatment. The case in Viet Nam reflects a similar scenario, where productivity returns and reduced environmental impact go hand in hand. Nevertheless, the incorporation of environmental and social principles remains incipient in many parts of Africa, whereas in others the actors involved pay lip service to them but improvement in standards is not adequately monitored. As a consequence, significant room for manoeuvre remains in upgrading existing and planned zones to more environmentally and socially friendly business practices.

4.6 GET THE FULL BENEFITS – REAPING DYNAMIC GAINS OF SEZs

4.6.1 Introduction

SEZs are thought to generate a wide range of economic benefits for the host countries. These benefits can be divided into direct and indirect benefits. Direct benefits are those that accrue directly inside the zone and include the attraction of investment, the generation of jobs through SEZ firms, and growth in both exports and foreign exchange earnings. These are often considered the primary objective of SEZ development. In contrast, indirect benefits are generated outside of the zones and arise through the interaction of SEZ firms and other actors in the local economy, such as employees, suppliers and competitor firms. The underlying premise is that (foreign) SEZ firms tend to be more productive and have higher technological capabilities than domestic firms. This technological advantage can spill over to the surrounding areas, promoting structural change and enhancing local competitiveness. These spillovers are frequently considered more important for the mid- to long-term transformation of the host economies than the direct benefits.

The indirect benefits of the SEZs can be generated through a variety of channels. They include (i) labour mobility between SEZ and non-SEZ firms, i.e. when someone working within an SEZ firm acquires new skills through their work and then moves to a local firm and applies those skills there; (ii) a more general upgrading of the skills of the local workforce, e.g. when workers enrol in new training schemes aimed at providing the skills required for work in SEZ firms, but also use them more broadly during employment outside the SEZ; (iii) the imitation of SEZ-firm technology and processes by domestic firms; and (iv) sourcing linkages with domestic firms. These interactions can lead to improved productivity and innovation within the local economy, contributing to a transformation of the economic landscape in general rather than just within the SEZs.

The creation of sourcing linkages between SEZ firms and local suppliers is often thought to be one of the most important and effective ways in which indirect effects can be realized. The linkages produce economic benefits for the local economy by creating more activity and jobs within local supplier firms. In addition, they can entice local firms to upgrade their production processes and management practices in order to meet the quality requirements of SEZ firms, which are frequently higher than those of local firms. Furthermore, SEZ firms are thought to have an incentive to support local suppliers in upgrading their processes to be able to source locally, thereby reducing costs and lead times. These mechanisms can result in increased economic dynamism of the local supplier as well as in overall productivity improvements.

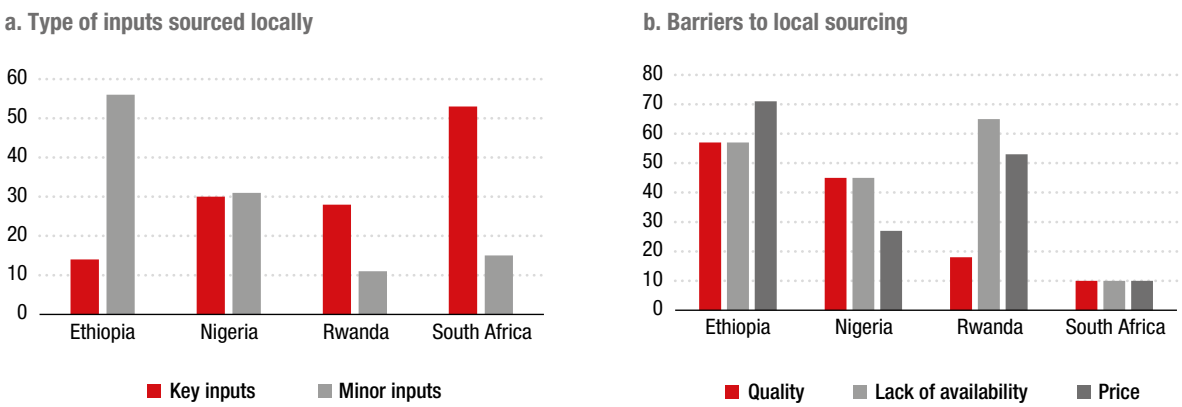
Linkages between SEZ firms and local suppliers take place through several channels. In particular, there is an important contrast between cases in which local suppliers are encouraged to set up shop within zone boundaries, through the provision of purpose-built

facilities – e.g. as in the case of Kenya – and those in which they proliferate in the immediate periphery of the zone's boundaries. Often, local providers of services and suppliers are micro-enterprises operating in the informal sector. In such cases, it becomes essential to set up plans to address informality through programmes that incentivize local MSMEs to formalize. Such plans are frequently the result of collaboration between the SEZ administrators and other institutions in charge of enterprise development agencies and IPAs.

The indirect benefits are often considered as even more important than the direct benefits, yet they are by no means automatic, nor guaranteed to occur. In fact, many SEZs around the world have remained enclaves of economic activity without establishing any meaningful interactions with the local economy, besides the hiring of local workers. A large number of recent academic studies confirm the differing degree to which these spillovers occur for FDI in general (e.g. Aggarwal, 2019; Frick & Rodríguez-Pose, 2019; Kuznetsov & Kuznetsova, 2019; Narula & Zhan, 2019). A variety of factors influences whether sourcing linkages are being established. The pre-existing capabilities of local supplier firms, corporate strategy of the SEZ parent firm – including whether the investment is market or efficiency seeking – and characteristics of the SEZ firm, such as ownership all play a non-negligible role in this. Furthermore, the establishment of linkages takes time to develop and may materialize only a few years after the start of the SEZ.

A recent survey of five SEZs in four African countries – Ethiopia, Nigeria, Rwanda and South Africa – further confirms the challenges to building this sort of linkage (figure 37). The majority of firms, though they purchased some services or minor inputs from either other firms within the SEZ or domestic suppliers outside the SEZ, stated that they were not able to source a meaningful part of their required inputs from the local economy (World Bank, 2018). Only 8 per cent bought any key inputs within the SEZ and 35 per cent bought from domestic suppliers outside the zones. The highest percentage of local purchasing of key inputs among the firms interviewed (53 per cent) was found in the Coega SEZ in South Africa, where many local firms relocated to the zone and hence had previously established supplier linkages. However, even those SEZ firms that purchased some of their key inputs from local suppliers emphasized that it was only a minor fraction of what they needed and that they relied mainly on imported inputs. The main reasons described for not sourcing inputs in the local economy were the unavailability of the inputs, and issues with the quality and/or prices (Frick & Rodríguez-Pose, 2021).

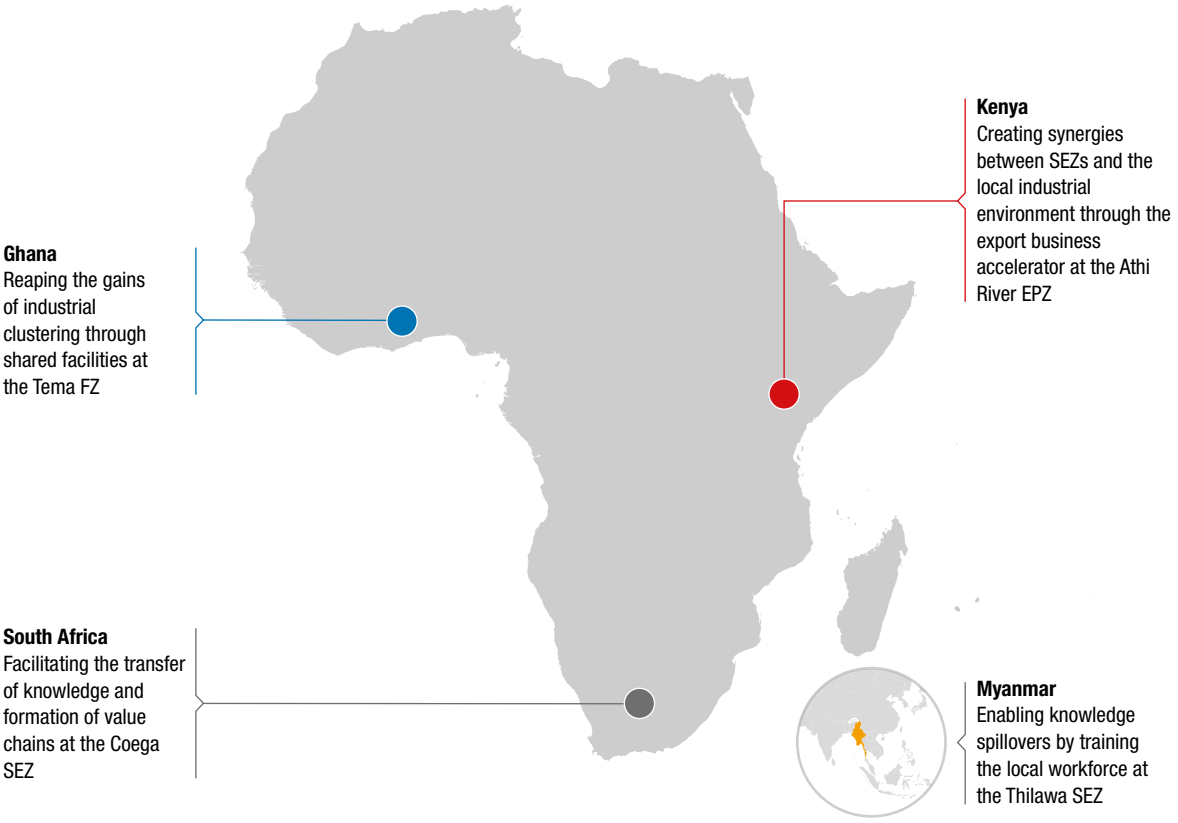
Figure 37. Local sourcing in SEZs: types of production inputs and barriers, selected countries (Per cent)



Source: Frick & Rodríguez-Pose (2021).

In light of the importance of this topic as well as the challenges faced by SEZ firms in this regard, the following section describes the initiatives and experience of a number of African SEZs in the generation of indirect benefits, with a focus on supplier linkages, and highlights lessons learned. An international case is presented in order to complement the picture. Figure 38 describes the cases covered in this section.

Figure 38. Countries of cases covered – "Get the full benefits"



Source: UNCTAD.

4.6.2 South Africa – MSME development in the Coega SEZ

The Coega SEZ was established in 2001 as part of the South African Government's efforts to promote economic development and opportunities in areas of the countries that had unrealized economic potential. The Coega SEZ was the first zone established in South Africa and, with 9,000 ha of developable land, is the largest in terms of area. It is located near Port Elizabeth, the fifth largest city in the country, in the Nelson Mandela Bay Municipality. The Port of Ngqura, a modern, multi-user, deep-water harbour developed by the National Ports Authority as a gateway to global markets, is directly next to it (Coega Development Corporation, 2021).

The Coega Development Corporation (CDC) is fully owned by the Eastern Cape Provincial Government and was specifically established as a developer and operator for the zone in 1999. The zone provides enabling infrastructure suitable for various tenant activities, high-quality roads, electricity, and portable and industrial water access. It has a multisectoral focus. Target industries include metals, automotive, chemicals and agroprocessing.

Although the entire area has not yet been developed, the Coega SEZ has been able to secure a significant number of investments. By 2019, a total of 45 investors had established themselves within the zone, with a combined investment value of R 11.63 billion (approximately $800 million), including 12 new investors in the fiscal year 2019/20 (Coega Development Corporation, 2020b).

As part of the MSME (called SMMEs in zone documents) development strategy of the city of Port Elizabeth, the Coega SEZ was identified as a potential partner for promoting MSME development within and around the zone. The zone has implemented several initiatives for this purpose, including an ambitious corporate target of 40 per cent of procurement spent on MSMEs. In order to achieve this aim and to create an enabling environment for MSMEs to participate in and benefit from the development of the zone, an MSME Development Unit was set up within the Coega Development Cooperation. The Unit is in charge of the MSME Development Programme, which aims to stimulate the formation and viability of small business within the region through a holistic approach (Coega Development Corporation, 2020c). The programme is based on six strategic pillars, among them the creation of an MSME supplier database; a training and development programme that specifically assesses each MSME and its needs in this regard; and technical mentoring and support to MSMEs to upgrade their ratings by sectoral bodies, which would allow them to bid for higher value added tenders. In its initial phase, MSMEs were primarily from the construction industry; MSMEs that provide day-to-day cleaning, equipment and stationary type of services; and security services to the zone.

Subsequent initiatives include the Broad-Based Black Economic Empowerment Programme and the organization of supplier development days, which gather MSMEs, local and national governments, and other entities involved in supporting MSMEs to learn about the opportunities available within the zone. In addition, the Coega SEZ offers a financing support scheme to those MSMEs that were awarded a contract for a project within the zone. The scheme, run by the Small Business Finance and Support unit within the CDC, aims to ensure the successful implementation of the projects by the MSMEs. This unit also provides strategic advice and mentoring to the involved MSMEs, such as weekly site visits. It specifically offers a number of types of loans, which are crucial for many small and emerging businesses to be able to deliver on their projects. The types of loans are (i) bridging finance loans (for the primary material needed for construction-related projects); (ii) order finance loans (for MSMEs providing non-construction services to the CDC); and (iii) revolving facility loans (for MSMEs delivering ongoing services to the CDC). Another instrument is land. The Coega SEZ not only offers large plots for large (international) tenants, but also a multi-user facility, which provides smaller industrial spaces inside the zone for small and medium-sized companies wishing to grow their businesses. This physical proximity between the large international firms and the mostly local MSMEs should facilitate the transfer of knowledge, interaction, networking and the formation of value chains.

In terms of outcomes, the CDC reached an MSME procurement rate of 35 per cent over the period of 2015–2020, close to its ambitious corporate target of 40 per cent. Given the size of the procurement undertaken by the CDC, this is a significant achievement; it amounts to R 609 million or approximately $40 million in fiscal year 2019/20 alone. With regard to the individual programme components to support MSMEs, almost 400 MSMEs benefited from training programmes, including the 191 that received training accredited by the Construction Education and Training Authority. Furthermore, 80 per cent of the MSMEs awarded contracts by the CDC successfully completed the mentorship programme and 72 firms successfully upgraded their ratings by the respective sectoral bodies (Coega Development Corporation, 2020a). Finally, by 2018, the Small Business Finance and Support Unit had

funded 76 subcontractors, 39 per cent of which were female entrepreneurs and 22 per cent youth. Overall, these outcomes indicate that the efforts by the CDC to promote local MSMEs have yielded significant results. MSMEs involved in the programmes have strongly lauded these efforts and emphasize their utility.

A few important lessons can be drawn from this experience. First, the Coega SEZ's focus on developing and supporting MSMEs illustrates the role that SEZs can play in creating linkages with the local economy by extending market opportunities, providing training, supporting access to finance and mentoring. Second, it highlights that these linkages do not occur automatically, but rather require a concerted effort by the partners involved. As one of the participating MSMEs stated: "as a new [MSME] you would not be trusted or granted the opportunity normally. This policy and Coega brings the opportunities to us" (LSE, 2018). Third, it also shows the importance of addressing the multiple levels of constraints that MSMEs typically face, comprising the technical and managerial skills side as well as the financing side. Without such an integrated approach, many firms would not have been able to successfully participate in the programmes. Finally, these initiatives also show that it remains a challenge to involve local businesses, in particular MSMEs, beyond the provision of services such as construction and maintenance. The Coega SEZ is still in a phase of development where much of the sourcing is related to these activities. It remains to be seen how well the programmes that are implemented will be able to establish sourcing linkages with the main SEZ tenant firms.

4.6.3 Ghana – Tema FZ, from enclave to multipurpose zone

Ghana's economy has been characterized by high levels of growth recently. Since 2017 it has been among Africa's top 10 fastest-growing economies. Ghana has also been West Africa's top FDI recipient, receiving more than a third of the region's FDI inflows in 2018 (AfDB, 2021). The country is often praised for its relatively developed infrastructure, political stability, skilled and trainable labour, and sizable consumer base. It is also increasingly seen as a hub for opportunities in other West African countries and in the broader ECOWAS area.

Although Ghana has only four SEZs, they account for a considerable share of exports. In 2019, they attracted FDI worth $90 million, and the 144 companies in the zones were responsible for $1.94 billion of exports, representing 12 per cent of total exports from the country (UNCTAD, 2019c). Adopting a relatively unusual approach among African countries, Ghana's SEZ regime has specific provisions intended to reduce the barriers to backward integration – that is, domestic firms supplying companies based in zones. For instance, in Ghana the sale of goods by a domestic firm to an enterprise in an SEZ is deemed an export, which gives local suppliers benefits as indirect exporters. Domestic firms can benefit from export incentives available to national exporters if they sell to SEZ-based firms (Wolfowitz, 2005). Besides these supply relationships, local labour integration is relatively high. In 2010, some 98 per cent of zone employment was sourced locally (Angko, 2014). That said, the creation of these linkages does not come about automatically. Instead, they are the result of a proactive government initiative that led to the transformation of the country's SEZ programme.

With the Free Zone Act of 1995, Ghana established its first SEZ, the Tema FZ, under the traditional EPZ model. The zone is located close to Accra and about 24 km from the international airport. It covers 480 ha. The Tema FZ has a relatively troubled history with a track record of both failures and successes. Ten years after its establishment, the zone was

performing well below expectations, and disagreements between the Government and the foreign developer left large portions of the zone unutilized. In 2003 only one tenant was based in the zone, and in 2005 firms based in the zone accounted for only $105 million worth of exports, while importing $46 million worth of goods (Angko, 2014).

After years of poor performance, in 2005 the Tema FZ was largely reformed by the Ghanaian Government with the help of the World Bank. The stakeholders involved in the reform process concluded that creating linkages between local firms and SEZ firms was a priority to promote overall growth in the country (Wolfowitz, 2005). With this aim, the Government of Ghana agreed to shift from the concept of a traditional EPZ to a multipurpose industrial park (MPIP). As part of the new concept, common service centres (CSCs) were created for the development of business support clusters open to MSMEs. Although not all firms within the MPIP have access to a special fiscal regime, CSCs welcome all domestic and foreign enterprises, regardless of whether they export or not. The economic rationale for the creation of the CSCs acknowledged the inability of local small firms to access high-cost facilities such as equipment, machinery, storage and acquisition of new technologies. At the same time, CSCs aimed to promote the creation of industrial clusters and vertical enterprise linkages through geographical agglomeration (OECD, 2010).

Among the CSCs, Furniture City, the ICT Park and a textile development centre were the first to be proposed. Given the importance of wood products in the Ghanaian economy – accounting for 6 per cent of GDP and 11 per cent of total exports – Furniture City aims to create linkages between local small-scale furniture producers and major exporters by building common facilities. The proposed CSC includes 300 workshop units for small-scale carpenters, a common showroom and the Wood Technology and Design Centre (Wolfowitz, 2005), among other facilities. The CSCs are set to facilitate the materialization of dynamic gains in a number of ways. First, the geographical agglomeration of both local firms and SEZ firms is conducive to the formation of knowledge spillovers, through both suppliers' relations and labour mobility. Second, the multi-user set-up can be a powerful platform for knowledge transfers between local firms. By being located in a collective space, small-scale local firms can share best practices and create networks. Third, by interacting with SEZ-based exporters, domestic suppliers can better understand the business needs and regulatory procedures of SEZs.

In 2010 companies in the zone generated $281 million in exports – up from $105 million in 2005 – and 2,085 jobs (Farole, 2010). Since then, the performance of the zone has steadily recovered in terms of exports and employment generation, reaching $688 million in exports and 8,000 direct jobs, created by 60 companies.[5] Although the MPIP is still in development and only a portion of its 480 ha is currently occupied, the Tema FZ is well positioned to generate indirect benefits for the local economy. This case displays the opportunities that come with a multi-user approach to zone development, especially with the aim of establishing linkages between local and SEZ-based companies.

4.6.4 Kenya – Export Business Accelerator at the Athi River EPZ

Enabling indirect economic benefits has been high on the agenda not only of West and Southern African countries, as shown in previous examples, but also of many East African countries as well. In recent years East Africa has several times attempted to revamp and refocus its economic zones to create linkages with local economies. Increasingly, East African countries seek to create synergies between their SEZ programmes and the local productive

context, to maximize the returns of their zones by generating indirect jobs and knowledge spillovers. Kenya has recently espoused such an approach to zone development and has worked to incorporate that approach in its long-term economic development strategy.

Kenya inaugurated its EPZ programme in 1990, inspired by the success achieved by Asian countries in the preceding decades. Kenya actively targeted its zone strategy towards the opportunities provided by trade preferences under the AGOA. As of 2020, Kenya had developed 61 EPZs, which make it the African country with the highest number of SEZs. Overall, about 100 EPZ-based firms provide 57,000 jobs and annual sales turnover of about $650 million (EPZA, 2018). To exploit the business opportunities generated by the AGOA, Kenyan EPZs have traditionally embraced the apparel industry. In 2017 firms in EPZs accounted for 94 per cent of the $340 million in apparel exports from Kenya to the United States (UNCTAD, 2019c).

Nevertheless, roughly 80 per cent of firms located in EPZs in 2014 were fully foreign-owned, displaying a minimal contribution of local firms towards Kenyan apparel exports (EPZA, 2018). To address the marginal involvement of local SMEs in EPZ-based industrial activities, Kenya's Export Processing Zones Authority (EPZA), in collaboration with Kenya Industrial Estates and the Kenya Export Promotion Council, designed the Export Business Accelerator (EBA) to speed up the growth of operational SME exporters that are willing to set up under the EPZ programme (Farole, 2011). An incubator was also established, in order to fast track small-scale local firms towards the EBA and help local entrepreneurs set up a new business. The EBA is instrumental to the country's efforts to shift away from its EPZ model of isolated enclaves, while developing SEZs embedded in local and regional value chains.

The first phase of the EBA was launched in 2013 in the Athi River EPZ, the country's oldest and largest EPZ. Set up in 1990, the zone hosts 70 firms, covering 339 ha close to Athi River, a town of approximately 80,000 people. It offers strategic access to two major highways (Nairobi–Mombasa and Nairobi–Namanga), the Jomo Kenyatta International Airport and the Nairobi–Mombasa railway line. Established with a focus on the garments industry, the zone progressively expanded to include activities in other industries, such as pharmaceuticals, agroprocessing and electronics (EPZA, 2009).

The EBA provides support to SMEs that intend to establish their activities in the Athi River EPZ. It specifically targets three main constraints endured by SMEs: (i) lack of export market information, (ii) lack of suitable business premises and (iii) high rental costs (Anchor, 2012). To remove these impediments, the EBA made available a built-up space of 7,300 square metres in its first two phases, with an additional industrial space of 6,000 square metres completed in 2019 (EPZA, 2019). These purpose-built facilities, together with targeted business support services, are offered to SMEs at subsidized rates (Farole, 2011). Privileged access to facilities, coupled with generous incentives already available under the EPZ regime as well as networking opportunities, endow the Athi River EPZ with an advantaged proposition in the eyes of local SMEs. Furthermore, differential treatment is granted to local SMEs when it comes to export restrictions. Firms in the EBA programme are allowed to sell 80 per cent of their production to the local market in the first year, decreasing to 40 per cent by the fourth year (Farole, 2011). This type of special provision helps SMEs create forward linkages with other players in the local economy and achieve greater integration in local and regional value chains.

To some extent, the EBA programme is already bearing fruit and greater involvement of local SMEs in the country's EPZs is starting to be detected. The number of firms in the Athi River EPZ with local ownership rose from 25 per cent in 2012 to 38 per cent in 2018, signalling

that the EBA has encouraged indigenous SMEs to venture into the EPZ programme (EPZA, 2019). Moreover, in 2016 the industrial space available to SMEs under phases one and two of the EBA reached an occupancy rate of 84 per cent, attesting to the overall high interest by local firms in locating in EPZs and developing linkages with foreign and larger firms. Finally, the impact of the EBA is set to grow significantly thanks to a reported $180 million investment by two Chinese firms, made with the goal of creating a Sino-African incubator inside the Athi River premises. According to the development plan, the facility will include a dedicated hub to support the adoption of more efficient production systems by Kenyan SMEs and the promotion of their products in global markets (World Bank, 2017a).

Far from being an isolated policy initiative, the EBA is well aligned with the objectives underlying the Government's "Big Four" agenda. Launched in 2017, the Big Four agenda is a country-wide development programme that, among other goals, aims to boost the manufacturing share of GDP from 7.5 per cent in 2019 to 15 per cent by 2022 (The Big Four, 2020). Part of this target can be attained by capitalizing on existing and new SEZs for the creation of an additional 1,000 SMEs in manufacturing (Krishnan et al., 2019). Indeed, the EBA programme at the Athi River EPZ can provide assistance to SMEs that seek to expand their businesses and start exporting to regional and international markets, and the SME incubator can be a launching pad for new SMEs that are striving to set up a business in the manufacturing industries active in the Athi River EPZ.

In addition to Kenya, other Sub-Saharan African countries have adopted EPZs with the explicit objective of serving foreign investors in the apparel industry that seek to export to the United States under the AGOA. However, this strategy could at best help countries to meet national export targets and achieve direct economic gains, such as employment in the zone, while leaving little scope for the materialization of indirect economic benefits beyond the zone's boundaries. The EBA programme introduced in the Athi River EPZ is an example of the variety of government interventions that can be implemented in SEZs to leverage opportunities for local firms' upskilling and integration in value chains. A similar dynamic to upskilling the local industrial ecosystem can potentially be ignited by the Thilawa SEZ in Myanmar, where a zone located in a rural area is set to provide vital new skills to the local workforce of farmers (box XI).

Box XI. Myanmar, Thilawa SEZ – building linkages with the local economy

The capacity to build linkages with local firms and to benefit the population beyond the borders of the zone very often depends on the skills available and on their capacity to train local workers and firms to engage with firms in the SEZs. One such international example where difficulties in creating those linkages are being slowly overcome is the Thilawa SEZ in Myanmar.

Located 25 km from the capital Yangon, the Thilawa SEZ was set up in 2012 as part of the Myanmar Government's attempt to revitalize the country's economy following decades of economic stagnation. It was established as a joint-investment zone, wherein 51 per cent of investment came from Myanmar and the remaining 49 per cent from Japan. To date, 38 companies have created about 5,000 jobs inside the zone, most of them large-scale electronics and garment manufacturers. Notably, the zone has a demonstrated history of providing indirect benefits to the local labour market and to local firms.

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Box XI. Myanmar, Thilawa SEZ – building linkages with the local economy (Concluded)

The Thilawa SEZ is located in an agricultural area, where, before its establishment, a large portion of the workforce was employed in farming. With the aim of increasing both the supply and the quality of the local workforce, firms at the Thilawa SEZ effectively contributed to adding new skills in the local labour market. According to a 2017 survey conducted with 19 firms in the zone, the majority have been offering in-house training to their employees, including on-the-job training, dispatching employees to overseas factories and inviting local staff to external training seminars.

Firms have brought experts and managers from their overseas subsidiaries to upskill the local workforce, contributing to knowledge and technology transfers. Consequently, the training offered to both high- and low-skilled workers facilitated the upgrading of skills of the local labour force. In 2018, more than 60 per cent of surveyed workers claimed that learning new skills is the number one benefit provided by the SEZ. Also, 62 per cent of the managerial workforce responded that human resource management skills are the most important set of skills learned inside the zone. This is especially important considering that many managers in the zone expect labour mobility between SEZ and non-SEZ companies to increase in the coming years.

Moreover, according to a 2018 survey, several logistics firms in the Thilawa SEZ have established relations with local suppliers. During a first phase, SEZ firms closely monitored the suppliers' work and offered instructions on how to improve overall operational quality. Local suppliers were also offered advice on modern logistics systems in order to achieve higher quality standards and technical skills. As a result, the management capabilities of local suppliers improved considerably, giving rise to a more efficient local sector. That said, linkages between SEZ and non-SEZ firms through the selling and buying of intermediate inputs remains highly dependent on sector. Whereas in the food-processing industry domestic input sourcing accounted for 50 per cent of total input materials, the average across the SEZ stands at 20 per cent.

The Thilawa SEZ in Myanmar illustrates the potential dynamic gains of SEZs, especially in lagging or rural areas, where SEZs can significantly contribute to general upgrading of the skills of the local workforce. The benefits can be reciprocal: SEZ firms have access to a higher-quality labour force, and local firms, improve their productive capabilities.

Source: Khandelwal et al. (2018); LSE (2017).

4.6.5 Conclusion

SEZs have the potential to create an economic impact beyond their borders, which is often deemed even more relevant for the development of the region and for the well-being of its inhabitants than the impact within the zone. The main mechanisms through which these impacts are established include labour circulation, imitation of SEZ firm technologies and, in particular, establishment of sourcing linkages between SEZ firms and local suppliers. The case of the Thilawa SEZ in Myanmar provides a clear picture of the mutually beneficial nature of foreign-local linkages, with the agricultural productive landscape becoming gradually upgraded toward higher value added activities. The creation of these so-called dynamic gains is by no means automatic, and many SEZs around the world have remained enclaves of economic activity without any meaningful links to the local economy.

The cases presented in this section put the spotlight on the ways in which zones in Africa and elsewhere have managed to overcome this isolation and thereby reap more of their potential benefits. In Kenya, the Government sought to attract local suppliers directly into SEZs, luring local entrepreneurs with the incentives available under the SEZ regime while granting them

differential treatment in policy areas such as export restrictions. Ghana, by contrast, opted for multi-user facilities that eased the traditional constraints of local suppliers, namely access to costly equipment, while also creating a collective space within the zone for foreign and local firms to engage with each other. South Africa addressed a key barrier that is common to many African SMEs, access to finance, by providing different types of loans tailored to the needs of SMEs, in addition to mentoring and training opportunities for local firms.

The cases also show that achieving economic impact beyond zone boundaries remains a challenge and that concerted efforts must be undertaken to establish the links. When it comes to indirect economic benefits, an integrated approach addressing the multitude of factors that deter linkages – ranging from the managerial to the technical and financing constraints of local firms – is fundamental, if the economic impact of SEZs is to be felt beyond the zone's confines. Coordination between SEZs and government institutions responsible for entrepreneurship and SME development – including IPAs – should also be considered a priority. For this reason, breaking down the impediments to dynamic gains is unlikely to happen overnight. Notwithstanding this, investing resources to facilitate linkages between SEZs and the local context can be a game changer in upgrading the socioeconomic environment of surrounding regions.

4.7 LESSONS LEARNED FROM AFRICAN SEZ PRACTICES

This section summarizes the key lessons emerging from the examples of African and international SEZs examined. The evidence stemming from the illustrative examples exposes the potential advantages that SEZs can bring to economic development in African regions and countries, while also singling out some of the deficits that can deter the materialization of such advantages.

The benefits accrued thanks to SEZs can come in a variety of forms and to different extents. Direct economic contributions can be identified in most of the country cases presented here. Even in countries where SEZ programmes are still relatively young, such as in Côte d'Ivoire and Rwanda, SEZs have contributed to attract FDI, create employment and increase exports. In countries where long-standing SEZ programmes are now well articulated and carefully designed, the potential gains go beyond SEZs' boundaries and sometimes extend to the broader national and regional economies. In Mauritius, Morocco and South Africa, SEZs have achieved – at least to some extent – economic spillovers into the broader economy. SEZs have contributed to the economic development of large portions of Northern Morocco. They have played a part in shrinking South Africa's large unemployment and poverty pockets, particularly in the provinces of KwaZulu-Natal and Eastern Cape. In Mauritius they have also helped foster industrialization and upgrade local productive capabilities. Some other countries, notably Ghana, Kenya and Senegal, are now transforming their SEZs from enclaves with few links to local suppliers and few spillovers into economic and production hubs for industrial development and progress. The potential outcomes have yet to be fully realized, but the adoption of an integrated approach to SEZ development is expected to bring about positive externalities affecting regions' and countries' industrial production patterns.

Yet the materialization of economic gains through SEZs does not come without having to overcome obstacles, nor can it be taken for granted when setting up a zone. The fortunes of African SEZs depend strictly on a number of factors that can determine the success or failure of a zone. For each of the six themes developed in chapter 4, specific barriers

can impede the successful implementation of SEZs and hence the realization of economic benefits. For instance, lack of institutional capacity can hinder strategic alignment and coordination between the different governance layers that are usually involved in developing SEZs. A dearth of adequate labour skills can thwart the creation of labour linkages, while uncompetitive local firms may be an obstacle to the formation of supply linkages. Likewise, the absence of functioning infrastructure may deter international partnerships. Hence, it is evident how the opportunities underlying each of the six themes presented here can quickly vanish when the broader national investment climate is burdened with important deficits.

What can be singled out as distinctive to the most successful African cases is a proactive stance by government and local actors aimed at tackling the key impediments that deter the success of SEZs. Whether addressing the lack of endogenous skills in Kenya or institutional bottlenecks in Ethiopia, proactive and targeted interventions are crucial to ensure that the latent benefits generally associated with SEZs materialize. Nevertheless, these types of interventions should remain highly context-specific: they should be designed to confront and overcome the specific difficulties endured by each SEZ. A one-size-fits-all approach to cope with such difficulties is unlikely to deliver. For instance, different pathways to integrating local SMEs into value chains in SEZs can be equally fruitful, depending on the context. Whereas in Kenya local firms' involvement has been operationalized through a model of direct integration with SMEs located within the zone and benefitting from SEZ incentives, in Ghana the Tema FZ shows that indirect integration through the provision of common facilities can also be a viable option if the activities of SMEs are already highly clustered. Ultimately, the success of SEZs also hinges on the ability of policymakers to detect major impediments, whether they be institutional capacity, labour skills, infrastructure accessibility or environmental sustainability, and design efficient and place-tailored solutions capable of unlocking unrealized potential.

The design and implementation of such interventions remains an arduous undertaking. Keeping this in mind, the case studies from non-African emerging countries included in this section offer insights on the range of interventions that can be put in place for attaining the so yearned-for dynamic benefits of SEZs, while overcoming institutional, skills and competitiveness constraints. From providing educational training as in Colombia to tilting the playing field towards environmental sustainability as in Viet Nam, African policymakers can draw from a vast array of international experiences. In this case – as in many others – being late adopters comes with the unique opportunity of learning from the successes and mistakes of those who came before.

In those areas of Africa where key stakeholders endorse a proactive stance followed by effective interventions, the chances of SEZs becoming crucial catalysts for economic dynamism increases significantly. In these circumstances, SEZs can plant the seeds for not just the generation of significant direct employment, but also the transfer of knowledge and skills that can ignite enhanced innovation, productivity and economic growth. Considering the prevalence across Africa of low-income countries characterized by multiple economic and institutional constraints, the potential returns of such growth-fuelling dynamics can arguably be greater in the African continent than anywhere else.

NOTES

[1] When cited, World Bank (2018) refers to a series of surveys conducted in seven emerging-country SEZs – in Colombia, Ethiopia, Malaysia, Nigeria, Rwanda, South Africa and Viet Nam. The sample includes 103 firms, of which 59 were foreign, 37 were domestic and 7 involved mixed national and foreign capital.

[2] UNCTAD & AEZO (2020).

[3] LSE (2018) refers to a number of internal background documents produced by the London School of Economics and its staff.

[4] UNCTAD & AEZO (2020).

[5] Data provided by representatives from the Ghana Free Zone Authority.

CHAPTER 5
GUIDELINES AND POLICY RECOMMENDATIONS

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The widespread underperformance of African SEZs calls for evidence-based policy guidelines stemming from the latest research and international best practice. This chapter highlights four crucial steps in SEZ design and development: (1) the strategic country assessment, (2) SEZ policy design, (3) the specific zone design and (4) cross-cutting institutional considerations. For each stage, a variety of factors should be taken into consideration, ranging from analysis of the country's sources of comparative advantage to identification of the most suitable governance model. Furthermore, the set of actionable lessons singled out in this chapter provides solid guidelines for policymakers who intend to set up new zones or SEZ programmes or revitalize existing yet underperforming ones. Relying on strategies transferred from cases of successful SEZ programmes developed elsewhere may carry significant risk. In contrast, developing place-sensitive interventions that reflect the underlying local context can lead to greater economic and social gains for the territories in which zones are located.

5.1 INTRODUCTION

The following section presents some potential guidelines and policy recommendations for the development and operations of SEZs in the African context and, more broadly, to developing and emerging countries. These guidelines are based on experience both from African countries and from other developing and emerging countries around the world, and are further substantiated by the latest research on the topic.

The guidelines and policy recommendations presented in this chapter are of relevance for African SEZ practitioners and policymakers for a number of reasons. First, African SEZs, as discussed in chapter 1, have generally underperformed – and, generally, continue to underperform – relative to zones elsewhere in the world. Whereas the evidence stemming from global experiences of SEZ development confirms that many SEZs have achieved at least some degree of success in attracting FDI, increasing exports and creating jobs (see for example Frick et al., 2019), many African SEZs have struggled to accrue significant direct economic benefits, let alone more indirect ones (Farole, 2011). This points to the fact that SEZs, if successfully implemented, can indeed serve as investment catalysts, but also that this potential has remained largely untapped in Africa.

The reasons for this lack of success are related to what often can be considered an inadequate process of design and implementation of the zone-specific set-up and, more broadly, of SEZ policies. The specific reasons behind this outcome are manifold but generally include a mismatch between the objectives of the zone and the characteristics of the local economic context, weak institutional set-up, lack of high-quality infrastructure and lack of integration of SEZs into broader national development strategies (Watson, 2001; Frick & Rodríguez-Pose, 2021).

Table 13 summarizes the main challenges that can be found among African SEZ programmes, as identified by the literature on African SEZs and the empirical evidence stemming from the previous chapters of the Handbook. Generally, the value proposition of African zones has been hindered by the absence of locational advantages and high-quality infrastructure, a mismatch between the SEZ target sectors and the country's natural comparative advantage, little attention dedicated to ESG performance and, more generally, the failure to make each SEZ truly special vis-à-vis the rest of the economy (Watson, 2001; Farole, 2011). Zone programmes have encountered several challenges, ranging from lack of integrated strategies, political support and coordination to significant deficiencies in terms of monitoring and controlling the SEZs. Limited ability to generate local linkages owing to regulatory barriers has also been endemic among African SEZ programmes (Farole, 2011; Zeng, 2016b). In this regard, the guidelines provided in this chapter aim to tap the unrealized potential and render the value proposition of African SEZs truly special, by addressing those challenges and equipping zones with attributes that effectively set them apart from international competitors and the rest of national economies.

Table 13. Summary of main challenges found in African SEZs

Zone specific	SEZ programme
• Lack of locational advantages	• Generally viewed as stand-alone policy
• Mismatch between SEZ sectoral focus and country's comparative advantage	• Lack of coordinated, high-level political support
• Lack of provision of high-quality infrastructure	• Similar value proposition among competitors (including overreliance on fiscal incentives)
• Failure to adapt services to target industry	• Regulatory barriers preventing local integration of SEZs
• Poor ESG performance	• Deficient monitoring and control
• Unclear business case for determining lack of financial viability	• Little cross-institutional coordination
• Failure to reproduce a conducive business environment vis-à-vis the surrounding economy	

Source: Based on Watson (2001); Farole (2011); Zeng (2016); Frick & Rodríguez-Pose (2020) and evidence from previous chapters of the Handbook.

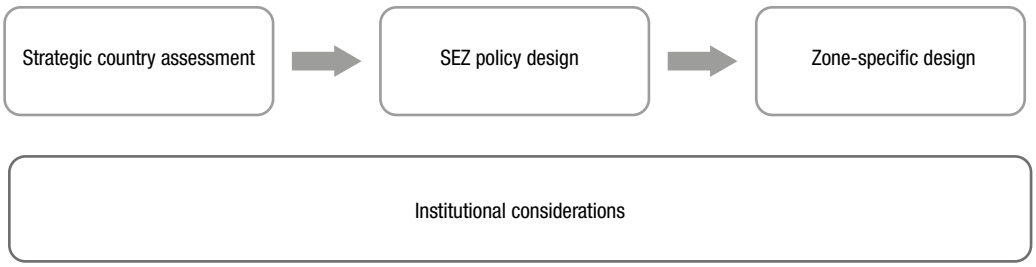
In addition to the somewhat disappointing past performance of African SEZs, the emergence of megatrends such as sustainability, regionalism and the new industrial revolution, documented by UNCTAD's 2020 *World Investment Report* and introduced in chapter 1, call for an approach to SEZ development that can withstand future shocks deriving from the restructuring of GVCs and investment patterns. Arguably, this changing reality could either exacerbate the poor performance of African SEZs or provide a window of opportunity to move towards the development of a new generation of zones capable of delivering the intended development outcomes, while capitalizing on the consolidation of RVCs and the adoption of enhanced sustainability standards and digital technologies. With the consequent objective of materializing the latter scenario, the lessons contained in this chapter provide insightful guidelines on the design and implementation approaches most likely to strengthen the readiness of African SEZs for future adjustments.

As demonstrated with the case studies in chapter 4, SEZs have the potential to improve the competitiveness of African economies and their integration in GVCs, while creating jobs, attracting FDI and, ideally, igniting a process of local industrial upgrading. In light of (i) the low performance of African SEZs, (ii) the long-standing challenges that have marked African economies in terms of investment attraction and GVC integration, (iii) the changing reality being shaped by external trends and (iv) the so far largely untapped potential of establishing SEZs as

main drivers of African economic development, the guidelines and recommendations provided in this chapter assume an all-important role in informing the policymaking process for the development of growth-oriented and sustainable SEZs in the African context.

The chapter is divided in two parts. Building on previous work conducted by Farole (2011) and UNCTAD (2019), the first part covers the four key steps that should be followed in the design and development of an SEZ policy and the specific SEZs, namely (1) the strategic country assessment, (2) the SEZ policy design, (3) the specific zone design and (4) cross-cutting institutional considerations. The second part highlights the lessons learned – the do's and don'ts – from around the world, which should be taken into account when going through the four steps of setting up and developing SEZs. Figure 39 schematically shows the four elements involved.

Figure 39. The four elements in the SEZ policy design process



Source: Based on Farole (2011) and UNCTAD (2019c).

5.2 KEY ELEMENTS IN THE SEZ POLICY DESIGN AND DEVELOPMENT PROCESS

5.2.1 Strategic country assessment

Developing an SEZ policy requires an initial and detailed evaluation of a country's economic and competitive situation. The assessment can adopt different approaches, but in all cases three aspects should be covered (table 14) (Farole, 2011; ADB, 2015; Zeng, 2016b).

First is the analysis of a country's comparative advantage. As illustrated in chapter 4, successful SEZ programmes have often developed their SEZ policy on the backbone of an existing comparative advantage. This can take many different forms, including positioning the country as a global or regional export hub for manufacturing or a gradual move towards more high-tech industries. Among other factors, each country's human resources and infrastructure endowment, its comparative advantage and its institutional capacity determine not only the potential for SEZ success, but also which options are the more feasible in a given context. A large and relatively skilled workforce, attractive labour costs and favourable market access help those countries that pursue the objective of becoming a global export hub for efficiency-seeking investors. In this regard, Ethiopia, with its competitive labour costs and favourable market access granted under AGOA trade preferences, is a prime example within the African context.

Countries with a large and/or growing internal market, combined with a strategic position for serving surrounding countries, are more likely to become regional export hubs, even if labour costs are higher than in neighbouring countries. Nigeria and South Africa, for example, can bank on a large and domestic market and improving infrastructure network. They are increasingly seen by investors as points of entry for regional markets (LSE, 2018). Possessing differentiating factors that give some edge relative to regional competitors can also be essential in determining the success of SEZ policies. In this respect, having strong national and local institutions or a well-functioning transport infrastructure network can help provide that competitive edge (ADB, 2015).

Table 14. Aspects of the strategic country assessment and main factors to consider

Aspects of the strategic country assessment	Main factors to consider
Analysis of country's comparative advantage	• Human capital endowment • Infrastructure endowment • Institutional capacity • Locational advantages • Market access
Identification of target sectors	• Country's sectoral specialization • Industrial clusters • Local skills levels • Relevance of current infrastructure to potential target sectors • Trends in digital technologies and sustainability
Diagnosis of country's growth constraints	• Industrial land • Customs procedure • Trade costs • Investment protection

Source: Based on Farole (2011) and UNCTAD (2019c).

The country assessment serves as the base for identifying specific target sectors in the second step. The specific needs of the sectors targeted with the policy have to be borne in mind (Narula & Zhan, 2019). The skills of the labour force are crucial in this respect, especially if the intent is to target advanced or knowledge-intensive services and high-tech industries. In certain sectors, especially those with highly transferable skills that benefit from industrial clustering, policies may be designed in such a way so as to foster the geographical agglomeration of those industries. This is the case of Casablanca's Midparc SEZ in Morocco, which attracts firms mainly active in the aerospace industry by providing sector-targeted, high-quality infrastructure and training centres (Ministry of Industry, Commerce and Investment, 2021). Other sectors require specialized skills, ranging from language skills in BPO services to engineering competencies in the electronics or automotive industries. Hence, matching skills and training supply to the needs of the sectors targeted by the policy can be crucial for its success, as demonstrated by the provision of ad hoc English-language training programmes in the Santander FZ, in Colombia (LSE, 2018). Industrial activities linked to extractive industries in the primary sector, by contrast, are characterized by labour-intensive production processes and, as a consequence, require a cheap labour force, although specific interventions may be needed in order to achieve more local downstream integration of the activity and allow for additional value added to remain in the country. Indonesia's Sei Mangkei SEZ is representative of the potential benefits resulting from targeting incentives to investors processing natural

resources such as palm oil and rubber: in 2016, one year after its establishment, the SEZ successfully managed to attract Unilever, one of the largest MNEs in consumer goods, which committed a total investment of $500 million to start producing palm oil-based consumer goods for the South-East Asian market (Antarikso, 2017). The different capital requirements of heavy and light industries can also inform government policies aimed at facilitating access to capital. Ultimately, each policy should respond to the needs of specific sectors.

Target sectors can also be identified by analysing the opportunities originating from major trends that characterize international production and GVCs. In this regard, more and more SEZs have sought to leverage opportunities triggered by the new industrial revolution and the consequent spread of digital technologies within industrial processes. This trend has received further impetus with the global pandemic, which looks set to accelerate the transition towards asset-light, technology-intensive international investments. With the aim of leveraging these new trends, SEZs have both offered digital services (as discussed in the section on zone-specific design) and attracted technology-intensive industries. Morocco and South Africa are prime examples of these trends. With the establishment of technology-intensive SEZs, the North African country has successfully attracted international investors active in high-tech industrial processes, i.e. in the Rabat Technopolis and the Oujda Technopolis. The ASEZ in South Africa has capitalized on new technologies in the field of renewable energy production. Other African countries, such as Ethiopia and Côte d'Ivoire, have recently designed zones that specifically target industries with a high technological content – e.g. the Kilinto IP in Ethiopia, targeting the pharmaceutical industry, and the VITIB in Côte d'Ivoire, adopting the structure of a technology park. That said, caution should be exerted in developing high-tech SEZs when the local industrial ecosystem is not equipped with the adequate skill and infrastructure endowments. As discussed in the lessons learned later in this chapter, in several countries around the world, SEZs that originally aimed to attract technology-intensive industries later had to refocus towards attracting industries in which they possessed natural competitive advantages. This has been the case, for instance, in the well-renowned Shenzhen SEZ and the zones in Bangladesh (Zeng, 2016b). Moreover, across emerging countries there are plenty of examples of high-tech SEZs not always delivering on their objectives (Frick et al., 2019).

The final step of the strategic country assessment involves an analysis of the growth constraints present in the country (Zeng, 2016b). More specifically, the analysis needs to answer the question of why the target sectors are not already locating in the country to the degree desired. What specific bottlenecks hinder or dissuade investors from setting up their operations? Based on this analysis, a careful assessment is needed in order to weigh whether an SEZ policy is the right policy tool to overcome bottlenecks or whether other policy instruments are more suitable to address current constraints (UNCTAD, 2019c). For example, alternative targeted interventions can go a long way towards addressing individual constraints. In those countries where the lack of industrial land or inadequate basic infrastructure are key bottlenecks, IPs may be a more suitable option, as there may be no need to offer special customs regimes. In these cases, sector-based incentives can provide a better option than larger SEZ strategies, as shown in the case of Mexican maquiladoras. These single-factory zones, located mainly near the United States–Mexico border, represent industries deemed strategic by the Government and therefore enjoy an array of fiscal and non-fiscal incentives (Southern Border Partners, 2016). Finally, individual bottlenecks in customs procedures could be dealt with through bonded warehouse programmes or duty drawback schemes (Farole, 2011). That said, SEZs can be preferable in countries that face a multitude of economic and institutional bottlenecks, requiring all the investment levers usually employed in SEZ regimes.

In many cases in Africa, SEZs may be the appropriate policy tool, if carefully designed and implemented, since they can address a variety of constraints simultaneously, while requiring more limited institutional capacity and resources than other country-wide solutions (UNCTAD, 2019c).

5.2.2 SEZ policy design

Once the decision is made that an SEZ policy is the most suitable way forward, the next step involves the design of the specific SEZ programme. For this purpose, the relevance of different policy elements needs to be evaluated so as to tailor the final SEZ policy to the country environment, targeted industries and bottlenecks, as identified in the strategic country assessment in the previous step (Farole, 2011; ADB, 2015). Although SEZ policies typically resemble one another in the elements they include, policymakers should carefully consider which aspects are most relevant and suitable in each context rather than being tempted to copy policies applied elsewhere (Zeng, 2016b). As described in chapter 2, four elements are at the heart of any SEZ policy (table 15).

Table 15. Aspects of the SEZ policy design and main factors to consider

Aspects of the strategic country assessment	Main factors to consider

Incentives offered	• Fiscal incentives, including reductions or exemptions of
	  ◦ Corporate tax rate
	  ◦ VAT tax
	  ◦ Local and regional taxes
	  ◦ Import duties
	• Non-fiscal incentives, such as
	  ◦ Subsidized land and office space
	  ◦ One-stop shops
	  ◦ Dedicated infrastructure

Requirements on investors	• Minimum investment amounts • Employment generation requirements • Type of firm ownership (foreign versus domestic) • Export requirements
Type of zones	• Size (i.e. wide-area zones, IPs, free points) • Sectoral scope (i.e. multi-activity, specialized)
Objectives and criteria for zone development	• Quantitative growth goals • Dynamic growth objectives • Socioeconomic development • Business case

Source: Based on Farole (2011) and UNCTAD (2019c).

First, the backbone of any SEZ policy normally consists of an incentive package offered to the firms that establish themselves in the SEZs. The incentives can be divided into fiscal and non-fiscal. Among the fiscal incentives, exemptions or reductions in the corporate tax rate are the most common. They can range from a full exemption of corporate taxes for SEZ firms for long periods or even an unlimited period to a more phased approach in which an exemption is granted for a limited number of years and then progressively reduced over time (Bost, 2019). Other fiscal incentives often relate to the exemption or reduction of other taxes, such as local or regional taxes and VAT. The exemption of import duties for raw materials and intermediate

inputs can also be considered a fiscal incentive (Bost, 2019). Many SEZ investors perceive fiscal incentives as crucial given the often-limited availability of local inputs in the host economy. Indeed, local firms in many developing countries often lack the capacity to serve zone-based investors, as they either have capacity constraints or do not produce to the standards demanded of suppliers by more advanced firms. Consequently, local firms frequently struggle to establish meaningful and/or long-lasting business relationships with zone-based firms (UNCTAD, 2019c). Empirical evidence has shown that the non-availability, price and quality of local inputs often determine SEZ-based investors' reliance on imports from third countries (Frick & Rodríguez-Pose, 2021). This has been further corroborated by evidence stemming from the Lekki FZ in Nigeria and the Bole Lemi IP in Ethiopia. In the former case, the Chinese firms that make up the bulk of the Lekki FZ residents overwhelmingly rely on imports from lead firms located in China – as is common practice for Chinese SEZs in Africa (Bräutigam & Tang, 2014). In the latter case, textile firms in the Ethiopian zone have so far shown an inclination to source their inputs from foreign garments suppliers (LSE, 2018). As a consequence, given the high import intensity of SEZ firms, fiscal incentives in the form of reduced import duties can considerably lower firms' production costs. This is particularly so in cases where a dearth of locally sourced inputs poses a challenge to foreign investors, tilting the balance in favour of tax exemptions as a means to attract investors. Surveys conducted with investors at Ethiopia's Bole Lemi IP highlight that more than 60 per cent of the investors surveyed considered duty-free imports as an essential component of the country's SEZ programme (LSE, 2018).

Fiscal incentives are frequently complemented by non-fiscal incentives. These can cover a wide range of matters; historically they have included exemptions from labour standards, such as national minimum wages or union rights within the SEZ (Jauch, 2002). Such exemptions have been hotly debated in India, among other countries, where the near suspension of labour laws and welfare measures within the country's SEZs became highly controversial (Mansingh et al., 2012). The relaxation of environmental regulations has also been a relatively frequent feature in past SEZ agreements and regulations. Mexican maquiladora plants have often been singled out for the damage to the local environment that they provoked, with serious environmental degradation around some of the industrial zones affecting local communities. Weak – or more often weakly monitored – environmental regulations and the inability of waste treatment infrastructure to maintain pace with the proliferation of the maquiladoras have been at the root of this emerging problem (Williams, 1995). This phenomenon is, however, now becoming far less frequent given the significant financial outlays needed to remedy environmental degradation. In China, early zones mostly focused on high economic growth, with limited or no consideration of the need to provide environmental protection. But following cases in which the Chinese Government and, in some cases, firms have had to spend billions of dollars to remedy environmental damage, the environmental rules are now stricter and more closely monitored (Zeng, 2016b). In general, these types of non-fiscal incentives have become much less common and other, more positive incentives have taken centre stage (Narula & Zhan, 2019).

The provision of subsidized land or industrial building rents is another incentive that features prominently in many SEZ laws. Nevertheless, questions exist about whether land grants or rent subsidies can compensate for the lack of competitiveness of the regional or national ecosystems in which the SEZs are established (Narula & Zhan, 2019). For instance, capital flight from SEZs in Latin America and Africa following the expiry of the Multi-Fibre Agreement showed that rent subsidies rarely offset negative shocks that derive from changes in trade preferences (Aggarwal, 2019). Furthermore, administrative facilitation has been highlighted as

particularly important (Farole, 2011). This includes streamlined services in the form of one-stop shops for business registration, dealing with visas and other activities, which may ease the bureaucratic burden on firms that settle in the SEZ. The provision of dedicated infrastructure, such as electricity and waste management services as well as pre-built industrial structures and buildings, has also been included repeatedly as part of incentives packages (ADB, 2015). In particular, pre-built industrial structures have been used as part of a plug-and-play system in Ethiopian SEZs to serve the garments and textiles industry, given the limited variation in building requirements of garments firms (Centre of Government and Delivery, 2020). Finally, some SEZ laws also require zones to provide specific services such as training institutions, hospitals or accommodation for workers (UNCTAD, 2019c). Although some of these elements are included in the SEZ policy, at times they are also dealt with at the zone level.

The second element of the overarching SEZ policy is the requirements that may be imposed on investors that want to establish a business within an SEZ. Typical requirements relate to minimum investment amounts, employment generation requirements, type of firm ownership (foreign versus domestic) and export requirements (UNCTAD, 2019c). In order to decide whether any requirements need to be imposed, policymakers must take into account the objective of the overall policy, the feasibility of any requirements and interactions with international laws. For example, export requirements for SEZ firms can be difficult to impose given WTO rules and, as shown in chapter 3, they will become problematic with the implementation of the AfCFTA. Furthermore, differentiation between domestic and foreign investors should be avoided to limit distortions in the market (World Bank, 2017b). Some of these requirements have been found to create such distortions, causing unintended and, most of the time, detrimental consequences, as in Senegal, where strict requirements on capital investment, the explicit exclusion of domestic firms and restrictions on market sales, under the initial 1974 SEZ policy were amended when found to be damaging the local industrial environment (Farole, 2011).

The third element is the type of zones considered suitable in the context of specific countries. Two aspects require consideration: the geographical extension and the sectoral scope of the zone (UNCTAD, 2019c). With regard to the geographical extension, three options are typically considered. First, wide-area zones, i.e. those zones constituting an entire part of a country, be it a city or a region; second, IP-style zones; and third, SEZ status for individual firms independent of where they establish themselves within the country, the so-called free points (table 16).

Table 16. SEZ types according to size

Type of zone	Description
Wide-area zones	• Large, integrated zones – usually more than 10,000 ha – often coinciding with a subnational administrative region or built as townships with residential areas and amenities • Originally intended to pilot economic reforms, local industrial upgrading and regional development • Aim to spawn significant contributions to employment creation and exports
Industrial park-style zones	• Usually fenced-in land including industrial production sites of multiple firms, varying from a couple dozen to more than 1,000 ha • Range of facilities varying greatly, from hosting factories only to offering additional services and amenities • Frequently located near major trade gateways
Free points	• Single-company free zones, often private and small • Refers to a legal status rather than a specific geographical location • Usually designed to serve export markets • Tend to employ relatively few workers and have a smaller impact in terms of exports • Usually apply the same selection criteria and incentives offered in multi-enterprise SEZs

Source: Based on UNCTAD (2019) and Bost (2019).

Each option has its advantages and disadvantages. For instance, region-wide zones – common in China – have at times proven effective for piloting economic and business reforms, while providing special regulatory regimes (Chen, 2019). Single-factory zones can assist small countries with limited industrial land or sectors in which physical agglomeration is not considered all-important. Certain countries, such as India and Mexico, have made free points a key policy instrument to drive industrialization. These countries currently host 2,000 and more than 6,000 single-factory zones, respectively (Bost, 2019). That said, free points can be particularly costly when it comes to customs compliance and monitoring, as monitoring each single-factory zone can be a costly and complex undertaking for the government. To avert these costs, countries such as Mexico are increasingly shifting away from physical arrangements – e.g. customs officers stationed at licensed premises – towards specialized software by which companies need to track all imports and exports (UNCTAD, 2019c). Generally speaking, zone size matters. Larger SEZs have been found to perform better than smaller SEZs, given their great potential for cluster development (World Bank, 2017b). Yet smaller zones can be the only option for countries that are affected by geographical constraints, such as small island States.

A decision also has to be made about the sectoral focus of the zone. Sector-specific SEZs present advantages in terms of cross-company collaboration and resource and facility sharing. Firms belonging to the same industry and co-located in zones benefit from knowledge spillovers and economies of scale, which enable firms to reach greater productivity through improved production processes (Enright, 2003; Farole & Winkler, 2014). Moreover, specialized zones tend to be characterized by higher GVC participation and growth rates (UNCTAD, 2019c). Nevertheless, depending on the strategic country assessment, a sectoral focus may not be required, e.g. if the zone is supposed to serve as an entry point into the regional markets. This implies that investors in different industries may benefit from setting up shop within a zone, without sectoral clustering being required. This was for instance the case of early zones set up by Taiwan Province of China (1966), Singapore (1969) and the Republic of Korea (1970), which were established as multi-activity, labour-intensive and export-oriented EPZs and later converted to specialized zones targeting high-tech industries, such as biotechnology and software (UNCTAD, 2019c).

Finally, the SEZ policy should establish the objectives and criteria for new zone development, as well as the objectives it intends to achieve. SEZ programmes can vary in their goals. Objectives may range from purely quantitative growth goals, such as increasing exports and creating jobs, to dynamic growth objectives, such as upgrading skills and industries, and meeting socioeconomic goals (UNCTAD, 2019c). Increasingly, SEZ programmes include objectives related to sustainable development, labour and environmental standards. This has been the case in Africa too, with South Africa's SEZ establishment targeting decent work conditions and greater economic participation by local SMEs and Liberia's SEZ programme aiming to achieve long-term environmental, labour and gender sustainability, and the advancement of human rights (UNCTAD, 2019c). New SEZs therefore require careful benchmarking against the objectives of the overall SEZ policy, to ensure alignment between the proposed zone and the national SEZ programme (UNDP, 2015). Usually, a key prerequisite for establishing a new zone is a clear business case and overall commercial viability (Fruman & Zeng, 2015). A clear business case implies demonstrating why a new zone is needed and what the benefits are once the SEZ is completed. In general, a well-articulated SEZ policy should provide an answer to the question, What are the expected outcomes if this investment decision – e.g. new SEZ

development – is pursued? Finally, the SEZ policy should set the conditions that need to be satisfied by development plans for new zones in order to release funding. Conditional funding can be tied to the specific set-up of an SEZ or to alignment with key objectives set by the government (Farole, 2011).

5.2.3 Design of specific SEZ set-up

The third step in the development and design of SEZ programmes is the set-up of the zones. Key elements to be considered are the location of the SEZ, the provision of infrastructure within the zone and the services provided (table 17). The specific set-up of SEZs eventually determines the value proposition of the zone and is a key element in the efforts to attract investors and tackle national economic and institutional deficits. As in the previous steps, the specific set-up requires adequate tailoring to the country environment, taking into account the bottlenecks it aims to address as well as the target sectors.

Table 17. Aspects of the design of specific SEZ set-up and main factors to consider

Aspects of the specific SEZ set-up	Main factors to consider
Location	• Major infrastructure hubs (e.g. airports, seaports) • Large labour pools • Urban agglomerations • Capabilities of local firms • Transport corridors and RVCs
Provision of infrastructure	• Basic utilities (i.e. water, electricity, telecommunication, and waste management) • Value added infrastructure (e.g. dedicated customs office, inspection units, R&D and training centres, technology laboratories) • Amenities • External infrastructure
Services offered	• Skill development • Security • Catering and housing • Business services (e.g. business matchmaking, supplier development programmes, local recruitment services)

Source: Farole (2011) and UNCTAD (2019c).

First, the choice of location of the SEZ is an active policy decision that will deeply influence the future economic fortunes of any zone. A strategic location close to major infrastructure hubs, such as ports and airports, and within reach of large labour pools facilitates the attraction of investors (ADB, 2015). Recent studies have highlighted that the greater the distance to large urban agglomerations, the lower the zone performance (Frick et al., 2019). For this very reason, some types of SEZs may not be considered as an optimal or even adequate development tool for remote and lagging regions located far from infrastructure hubs and large cities (Frick & Rodríguez-Pose, 2019). Contextually, when zones are located near cities, effective urban planning that incorporates the development of SEZs assumes a key role in ensuring effective land use and facilitating connectivity and accessibility to jobs while limiting environmental pressure, travel times and congestion (Wessendorp et al., 2020). But even proximity to a primary urban centre, such as a capital city, may not deliver if the local conditions – including availability and reliability of infrastructure provision, the labour pool, or the sectoral structure and competitiveness of the local entrepreneurial and manufacturing context – are deficient or

if there is a huge gap between the technology of the firms attracted to the SEZ and local firms (Boschma, 2005). In addition, the choice of target sectors can play a crucial role in determining the location of SEZs: for example, firms that produce perishable food goods may require easy and fast access to airfreight, whereas firms in heavy manufacturing may be more interested in leveraging access to maritime transport through a seaport (Farole, 2011). Finally, the location of SEZs should also be planned in view of regional opportunities and existing and potential trade complementarities with regional partners. Increasingly, border and cross-border SEZs located along transport and trade corridors are making it possible for governments to leverage differences in the factor endowments and productive structures of neighbouring countries (UNCTAD, 2017a).

Second, the provision of adequate infrastructure is key for zone success. For any zone to be successful – as for most economic activities – reliable utilities, such as water, electricity, telecommunication and waste management, are a must (Farole, 2011; Zeng, 2016b). SEZs increasingly seek to craft their competitive advantage through the provision of value added infrastructure, such as dedicated customs offices, inspection units, R&D and training centres, and technology laboratories (Narula & Zhan, 2019). But the provision of infrastructure within zones commonly does not end with business infrastructure. Good amenities are increasingly sought after by firms and are more and more on offer from SEZ management (Yusuf & Nabeshima, 2006). Workers in certain zones enjoy a combination of high-quality housing, modern amenities, and sports and recreational facilities, in addition to access to international schools and health-care facilities. In this regard, the case of the China–Singapore SIP is representative of how an industrial area can also become a liveable, modern and garden-like city, featuring well-maintained green areas, high-quality social amenities and highly regarded education providers, such as the Suzhou Singapore International School. Such amenities are increasingly deemed essential for the attraction of high-end investment and talent (Zeng, 2016b). At times, SEZs also provide external infrastructure, such as access roads and electricity generation in the surrounding areas, to support firms within the zone by reducing operational costs. The provision of transport infrastructure outside the zone also facilitates GVC integration for SEZ tenants by enabling faster and safer connections to major trade hubs in the country (UNCTAD, 2019c). In Honduras, for instance, the Government has made a significant investment in integrating maquila factories (single-factory zones) into the broader national transport infrastructure network by constructing highways that link factories in the remote valleys around San Pedro Sula with the seaport of Puerto Cortés (IDB, 2019). This type of integrated intervention can considerably shorten delivery times for both imports and exports, hence benefitting both SEZ-based and non-SEZ-based firms.

And third, the types of services each SEZ provides help the zone achieve a distinctive value proposition, setting the zone apart from its competitors. Non-infrastructure services can include security services, human-resources related services, and catering and housing services, among others. Increasingly, SEZs have been offering skill development services to ensure a supply of skilled workers that correspond to investors' needs (UNCTAD, 2019c). Moreover, to smooth firms' operations in zones, several SEZs have offered business services, such as business matchmaking, supplier development programmes and local recruitment services. Such investment-facilitating services were singled out as key success factors in the Penang SEZ in Malaysia and in SEZs in the Dominican Republic, where business matchmaking and supplier development initiatives were crucial to attract anchor investors and augment the value proposition of zones (World Bank, 2016; COMCEC, 2017).

As well, the rapid advancement of digital technologies has rendered the provision of digital services within SEZs crucial. Digital services have become important drivers of competitiveness as well as determinants of investment (Narula & Zhan, 2019). The most successful zones worldwide provide streamlined administrative services through online single windows. More and more often, they also facilitate business activities by digitalizing some routine processes within the SEZ. In Africa, the Kigali SEZ and the GAFI in Egypt offer wide-ranging services through their online platforms, ranging from registering a company to requesting an SEZ licence and import permit. This sort of service will increasingly assume importance, and their inclusion within SEZ value propositions will become essential.

Finally, the provision of specific services can be complementary to the provision of traditional hard infrastructure. For instance, in zones with highly polluting industries, the establishment of waste treatment plants can be complemented by environmental compliance assistance services; similarly, IT support services can match the provision of telecommunication infrastructure so as to facilitate operations of firms that rely on digitalized processes. These types of services should endow the SEZ with 360-degree investor care package that responds to the specific needs of the users it hosts.

5.2.4 Institutional considerations

The institutional structure put in place to support the development and implementation of the SEZ policy is the foundation to an effective SEZ policy and cuts across the three other elements. The precise institutional set-up varies from SEZ to SEZ and often depends on each country's specific circumstances. In any case, it typically involves a number of stakeholders (table 18).

Table 18. Main actors in SEZ policy development and implementation and their functions

Stakeholder	Main functions
Government	• Adopting SEZ-relevant policies and supervision of its implementation • Choosing the organizational set-up of SEZ programme • Establishing specific SEZs through decrees • Conducting initial feasibility studies • Allocating resources to all SEZs • Developing off-site infrastructure
SEZ authority	• Conducting strategic planning and assessment • Designating SEZs • Licensing private sector stakeholders • Monitoring compliance
Zone developer	• Providing essential infrastructure • Making land arrangements and planning
Zone operator	• Managing and administering a zone • Facilitating leasing and utility provision • Providing value added services • Promoting a zone and selecting zone users
Zone user	• Investing and undertaking business activities in a zone

Source: Adapted from UNCTAD (2019), Mangal (2019), FIAS (2008) and Farole & Kweka (2011).

As could be expected, the national government is a central player in the establishment of an SEZ regime. Its responsibilities range from setting the economic development goals of SEZs to ensuring that the SEZ regime is aligned with the broader national industrial strategy (FIAS, 2008). It is also responsible for earmarking the areas of the country that are intended to become SEZs and administering and allocating resources to all SEZs (Mangal, 2019). Furthermore, the government needs to guarantee that the domestic SEZ regime complies with international treaties and aligns with other obligations that could originate from RTAs and bilateral agreements (UNCTAD, 2019c). When the land area of an SEZ is a matter of dispute, the government usually provides compensation, for instance through the delivery of resettlement options to displaced people (Mangal, 2019). If SEZs are not publicly run, the government time and again remains in charge of holding legal tenders to select private developers and operators. This type of process should be competitive and based on an objective and widely agreed-on scoring system (FIAS, 2008; Mangal 2019).

Most countries establish a separate SEZ authority to support the government in regulating SEZs. These authorities generally cover several policymaking functions and, in most cases, report to the highest political level, such as presidents, prime ministers or leading line ministers, including those of the economy or trade and finance (Mangal, 2019). In some notable cases, such as in Singapore's EDB, the Ministry of Education is also directly involved in the affairs of the SEZ authority (EDB, 2021a). The responsibilities of SEZ authorities customarily include scrutinizing and examining proposals to build new SEZs, conducting feasibility studies on proposed investment in SEZs and ensuring that all parties comply with SEZ laws and regulations (Farole & Kweka, 2011). On occasion the SEZ authority may take responsibility for providing basic infrastructure external to the zone, such as access roads and electricity. Finally, SEZ authorities are in charge of issuing permits and licenses through their branches in SEZs, usually helped by the establishment of one-stop shops to set standard operating procedures and enhance coordination between the government and investors (Mangal, 2019).

The government and the SEZ authority can decide whether to develop SEZs directly or resort to private developers. SEZ developers are in charge of preparing the land master plan, which usually involves the specific physical set-up of factories and other service providers inside the zone (UNCTAD, 2019c). For instance, they may classify locations for heavy industry vis-à-vis light industry and decide the location of commercial activities such as banks, health clinics and amenities within the SEZ. The developer is also responsible for building roads, drainage and waste treatment facilities and ensuring the provision of water and electricity to firms within the zone (Mangal, 2019).

Yet in most SEZ regimes there is separation between the developer and the operator in charge of the day-to-day responsibilities within the zone. SEZ operators are often responsible for attracting single investors to the zone; providing basic infrastructure, such as electricity, water supply, security and maintenance; and offering value added services such as a one-stop shops, training, office space and conference facilities (Farole & Kweka, 2011). The zone operator is also often in charge of screening investor applications and approving them (UNCTAD, 2019c).

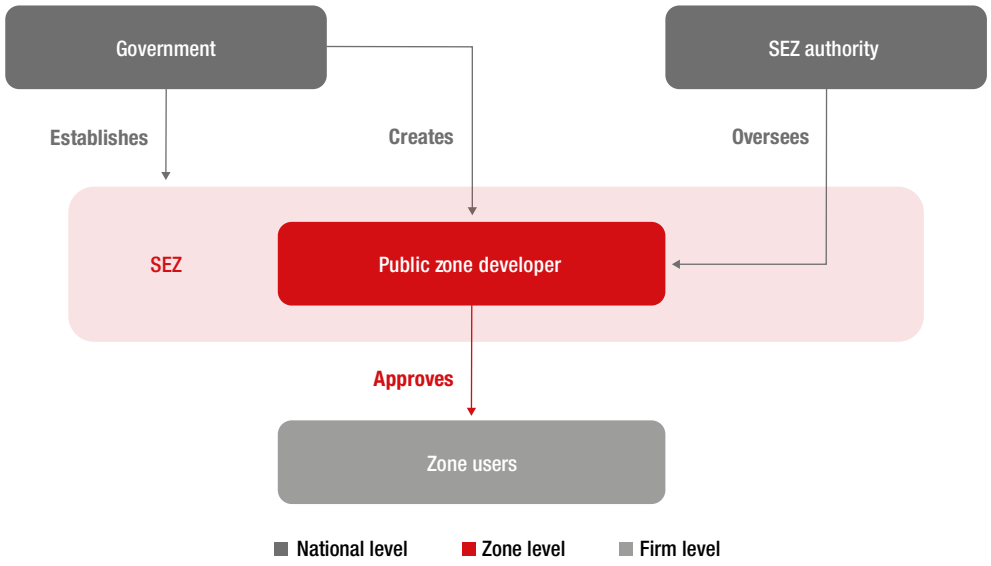
The zone users are the firms that operate in the zone. Although some zones aim to attract specialized firms in an individual industry or sector, most SEZs in emerging markets are multisectoral, hosting companies in a multitude of sectors (UNCTAD, 2019c).

Although the majority of SEZs worldwide exhibit a separation of responsibilities according to the allocation described here, some of these responsibilities are fluid and can be carried out by different stakeholders, depending on the context. For instance, the marketing and commercial promotion of an SEZ can be performed by the regulator, the developer or the operator, or by all three jointly. The provision of basic infrastructure could be undertaken by either the developer or the operator. Moreover, the private sector can play a greater or smaller role in any of the key responsibilities, depending on the SEZ. In some cases, SEZs are owned, developed and operated by the same private entity (Mangal, 2019).

Depending on the country or on specific policies, the responsibilities of each stakeholder may vary. How the different stakeholders interact and collaborate also follows different governance models. Three models prevail: the public model, the private model and the hybrid model (FIAS, 2008; Mangal, 2019; UNCTAD, 2019c).

In the public model the government is in charge of all aspects of an SEZ, from regulation to ownership, development and operation (figure 40). The main actors of the SEZ policy are either public or publicly controlled. In some cases, zone regulators and operators enjoy a certain degree of financial and administrative autonomy, but they report to the highest levels of government and are subject to strong control by government representatives (UNCTAD, 2019c).

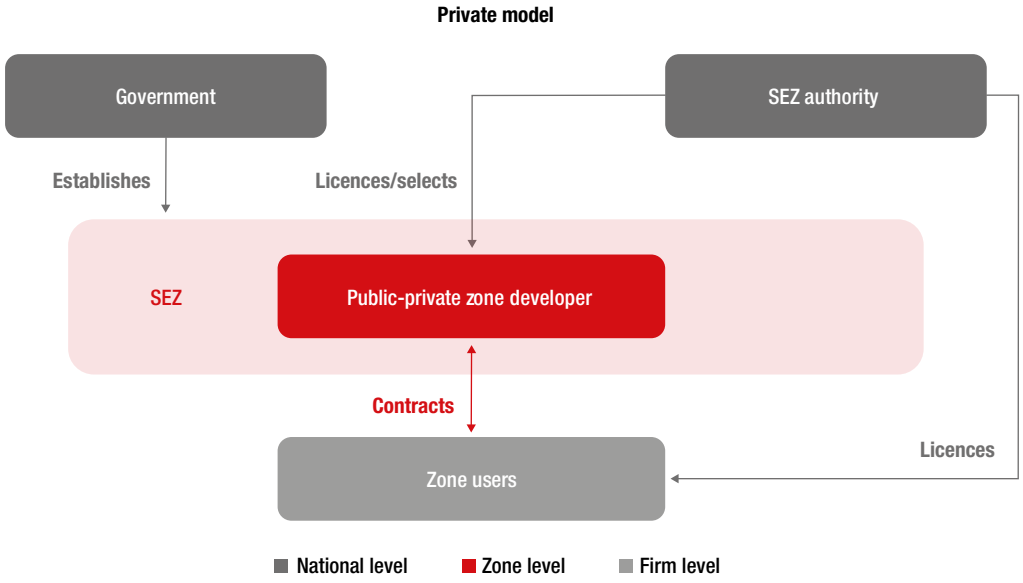
Figure 40. Public SEZ institutional model



Source: Adapted from UNCTAD (2019c).

The private model exhibits the opposite, with private entities responsible for all aspects of the zone except regulation (figure 41). Private developers and operators are selected in competitive tenders. The government, through the SEZ authority, retains regulatory powers, while the private entity manages the day-to-day operations, finalizes investment contracts and develops the land plan. In some cases, the private company that owns the SEZ subcontracts the development and operation sides to another private company (UNCTAD, 2019c).

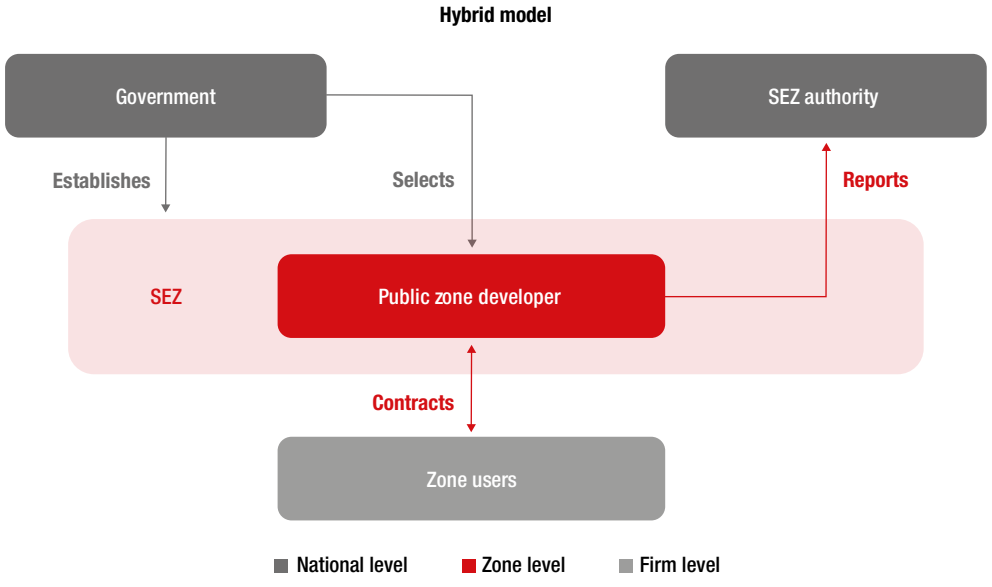
Figure 41. Private SEZ institutional model



Source: Adapted from UNCTAD (2019c).

The hybrid model takes the form of a joint venture between the government and private investors and incorporates elements of both the public and the private models (figure 42). Although the development and operation of the SEZ could be outsourced to a private company, the government may be partly involved in regulating, owning, developing and operating the SEZ (Mangal, 2019). Whereas in the private model the private company is in full control of the admission process in the zone, in the hybrid model SEZ authorities license all private stakeholders and hence have some control over the admission process (UNCTAD, 2019c).

Figure 42. Hybrid SEZ institutional model



Source: Adapted from UNCTAD (2019c).

Each model has its advantages and disadvantages and may be better suited in one context than in others (table 19). The pure public model is typically preferred when interest groups retain sufficient autonomy and when the success of the zone for the country at large does not depend exclusively on the profit motive (Mangal, 2019). Public SEZs also offer the chance of decentralizing ownership to the local level, such as local or regional governments, thus increasing the participation of local stakeholders. For instance, in South Africa the majority of SEZs are co-owned by the provincial governments where zones have been set up. That said, the public model carries some disadvantages, including (i) high opportunity cost for the government, (ii) relatively frequent instances of poor investment choices caused by lack of market know-how by the government (iii) and conflicts of interests (FIAS, 2008).

First, the more the government is involved, the greater the public investment. Given the costly nature of SEZs, investment by the public sector has high opportunity costs. It can potentially drain public finances and resources. It also often fuels an inefficient allocation of public funds (Farole, 2011). For a sense of proportion, in Ethiopia the first public SEZ, the Bole Lemi Industrial Zone, required an initial investment of $113 million from the Government and an additional $250 million grant from the World Bank (Mangal, 2019). Second, governments may lack sufficient expertise and resources to assess whether an SEZ is commercially viable. Lack of commercial viability in a public SEZ can trap a government in a vicious cycle of underinvestment (FIAS, 2008). Third, the overlapping mandates taken on by the State can be a source of conflicts of interest, affecting the competitiveness and even the viability of an SEZ. For instance, in Lesotho, where the Government pursued a public model for its SEZs, the vacant land in public zones was offered at below-market prices, which contributed to wasteful management of resources and constituted a deterrent for private sector developers (Farole, 2011).

Table 19. Main advantages and disadvantages of the three governance models

Governance model	Advantages	Disadvantages
Public model	• Potential decentralization of ownership at local and regional levels • Full control by the State ensures public objectives get adequate priority	• High opportunity cost for the government • Relatively frequent instances of poor investment choices owing to lack of market know-how in the government • Conflicts of interest
Private model	• Reduces the opportunity cost of SEZs by delegating development and operation of the zone to the private sector • Facilitates SEZ development when the State does not possess institutions of adequate quality	• Risk that private developers and operators focus excessively on maximizing economic returns at the expense of creating spillovers in the wider economy
Hybrid model	• Ensures strong commitment by political leaders to supporting the SEZ throughout its life cycle • Exploits private sector expertise while allowing governments to retain some control over the SEZ	• Coordination problems between private and public stakeholders, and when foreign consortia are involved, communication problems caused by differences in culture and social norms

Source: UNCTAD.

The private model is widespread among most developing countries (FIAS, 2008). Countries tend to pursue private SEZs under the assumption that the private sector is best placed to maximize the economic returns from SEZs (OECD, 2009). Countries can also reduce the opportunity cost of SEZs by delegating the development and operation of the zone to the private sector, thus limiting public investment commitments. For instance, it has been estimated that governments can save up to 75 per cent of the total cost of establishing an SEZ by providing only external infrastructure under the private model (FIAS, 2008).

Additional savings can be achieved by imposing the construction expenses for government offices and facilities – i.e. for the SEZ authority – in the SEZs on the private developers, as is the case in some private zones in the Philippines and the Dominican Republic (Mangal, 2009). However, the government should possess adequate regulatory capacity to guarantee accountability in privately run zones. Private developers and operators risk focusing excessively on maximizing economic returns at the expense of creating spillovers in the broader economy (Farole, 2011). That was the case in India, where some private SEZs acquired land under the SEZ law to circumvent traditional land acquisition laws and use the land for purposes unrelated to SEZ activities (Khandelwal & Teachout, 2016). To prevent the development of problems, the State needs to have a say in the priorities and objectives of the SEZ and to set up some capacity to oversee specific developments, not with the aim of intervening in day-to-day affairs but mainly to deter and prevent malpractice and unfair competition.

The hybrid model is often considered as midway between the public and the private SEZ as, in the best of cases, it combines the advantages of both models. Typically operationalized through PPPs, the hybrid model has three main advantages (Farole & Kweka, 2011; Mangal, 2019). First, it can be employed when a government is unable to attract private investment to finance an SEZ. Second, it can also be pursued when the risk of being the sole owner of the SEZ is too high for a private company owing to fears of political instability. In this case co-ownership with the government ensures strong commitment by political leaders to supporting the SEZ throughout its life cycle. Third, the hybrid model provides the opportunity to exploit private sector expertise while allowing governments to retain some control over the SEZ.

Hybrid SEZs have managed to attract significant investment in Africa, and the hybrid model has lately gained increasing popularity around the world. Examples of hybrid SEZs are the Lekki FZ in Nigeria and the Chambishi MFEZ in Zambia, which had attracted investments of $76 million and $322 million respectively by 2013 (Zeng, 2015). That said, hybrid SEZs can pose coordination problems between private and public stakeholders, and when foreign consortia are involved, differences in culture and social norms can hamper communication. In the Lekki FZ, for instance, miscommunication between the Nigerian and Chinese investors has been a key factor contributing to delays in the financing and early development of the zone (Bräutigam et al., 2010).

There is no clear evidence that one model is superior to the others. Although private zone development has long been advocated by many for its perceived advantages in terms of efficiency and effectiveness (Watson, 2001; FIAS, 2008; OECD, 2009; Farole & Kweka, 2011), recent research has not necessarily supported this perception (Frick et al., 2019). Moreover, empirical evidence shows that some publicly owned SEZs have achieved successful results in many parts of the world. For instance, most SEZs in China, the Republic of Korea and Singapore are public, and they have been effective in achieving economic transformation and upgrading (Farole & Moberg, 2014). However, these countries possess attributes (such as financial resources, strong trade and logistics links, and a streamlined bureaucracy) that many emerging countries in Africa may not be able to replicate easily. Therefore, the models may be better suited for different contexts. The choice should depend on a country's institutional capacity and ability to regulate private developers of zones. Across African countries, where poor implementation capacity in government remains a fundamental deterrent to private sector investment, publicly owned SEZs risk perpetuating those barriers that zones aim to break down in the first place. Conversely, countries that enjoy adequate financial resources and good-quality institutions are better placed to develop zones on their own.

Alongside the specific governance model chosen to develop SEZs, zones themselves can be viewed as international investment projects, as part of which private investors and SEZ-based tenants engage in greenfield projects in the host economy. The magnitude of such investments can be significant, as a recent wave of Chinese-led partnerships attests. For instance, investment by the Huajian Group, a conglomerate active in the shoemaking industry, totalled more than $100 million for the construction of production units at Ethiopia's Jimma IP. Similarly, Jiangsu Quiyuan Group, a manufacturer and distributor of steel products, committed close to $150 million for the establishment of factories within the Eastern Industrial Zone in Ethiopia. Other countries have experienced significant increases in private investment in their SEZs. In South Africa, for example, the value of private investment in the country's SEZs reached R 19.5 billion (approximately $1.3 billion) in 2020. The total value of investment by foreign firms through their subsidiaries is set to reach new heights in 2021, following Ford's recent commitment – worth R 16 billion (roughly $1 billion) – to upgrade assembly plants at the Tshwane Automotive SEZ, in South Africa's Gauteng Province (Opperman, 2021). This underscores that, regardless of the governance model, SEZs can be considered important vehicles of international project finance in which the private sector can play a key role.

5.3 LESSONS LEARNED

Many unknowns remain when it comes to understanding why some SEZs work and others either languish at low levels of activity or fail, as well as how much economic and social impact they truly generate. Yet, many decades of SEZ policy implementation around the world provide important insights about how best to proceed when designing SEZ policies. These lessons can help to facilitate a smoother design process for SEZ policy and help to ensure that the desired outcomes are more likely to be achieved.

The following lessons learned build on the sorts of pitfalls and challenges common among African countries, as outlined in the introduction of this chapter (see table 13). African SEZs have been plagued by deficits in both the design and the implementation of SEZ-based developmental strategies, which, in turn, has generally determined their relatively low performance in terms of both direct (or static) and indirect (or dynamic) socioeconomic gains. In addition, global trends such as the heightened focus on sustainability and rapid technological advancements can exacerbate the underperformance of African SEZs. They can also represent a window of opportunity for re-routing African zones towards better outcomes. The guidelines presented here can thus serve as a valid reference when tackling the common shortcomings of African SEZs – ranging from the lack of locational advantages to the mismatch between target sectors and a country's comparative advantage, the failure to ensure coordinated, high-level political support and the existence of regulatory barriers that prevent local linkages from materializing – while also endowing African zones with robust and future-proof competitive advantages.

This section starts by presenting a set of general lessons learned and then delves into the more specific lessons – or the do's and don'ts – linked to each step in the SEZ design process described earlier in the chapter. Table 20 summarizes and illustrates how the lessons learned relate to each of the four steps.

Table 20. General lessons learned and specific lessons for the four stages of SEZ development

GENERAL LESSONS: Planning & Objectives

1. SEZs are generally not a panacea for growth.
2. Zone growth is difficult to sustain over time.
3. SEZs can positively affect the economic performance of surrounding areas, but there is a strong distance decay effect.
4. SEZ design needs to be tailored to the specific country context. A one-size-fits-all approach will lead to wasteful policies.

SPECIFIC LESSONS: Design & Implementation

Main elements	Lessons
A. Strategic country assessment	
• Comparative advantage • Sectors • Growth constraints	1. Devote enough attention to identifying key drivers of the country's comparative advantage. 2. Choose an adequate sectoral focus. 3. Single out the country's main deficits.
B. SEZ policy design	
• Incentives package • Requirements • Type of zones • Criteria for zone development	1. Tailor the SEZ policy to the country characteristics and target sectors. 2. Avoid overreliance on fiscal incentives. 3. Give the infrastructure aspect sufficient emphasis. 4. Remove regulatory barriers and support local integration of SEZs. 5. Think bigger: size matters. 6. Regularly monitor and evaluate each SEZ, and plan exit strategies for underperforming zones.
C. Specific zone set-up	
• Location • Infrastructure • Services provided	1. Leverage strategic locational advantages. 2. Consider indispensable infrastructure for target sectors. 3. Tailor services to the country environment. 4. Design human resource services to overcome the key challenge of recruitment across sectors. 5. Boost ESG performance as a competitive edge. 6. Assess the financial viability of a zone throughout its development and implementation.
D. Institutional considerations	
• Actors involved in SEZ development • Governance model	1. Ensure coordinated, high-level political support. 2. Develop integrated strategies rather than stand-alone SEZ policies, with particular emphasis on policy coherence across different areas. 3. Place sufficient emphasis on investment promotion. 4. Grant appropriate financial and administrative autonomy to the SEZ authority. 5. Tailor the governance model to the country's institutional capacity.

Source: UNCTAD.

5.3.1 General lessons learned

The general lessons learned relate to the across-the-board expectations that policymakers frequently have when setting up an SEZ programme or a new zone. Lessons 1–4 assume particular relevance in the African context, where several studies have found SEZs to underperform for a plethora of reasons, including inadequate location, lack of effective strategic planning and management, and weak governance (e.g. Farole, 2011; Newman & Page, 2017). Arguably, policymakers still lack clarity about what SEZs can and cannot accomplish. The impact of any type of SEZ intervention will also depend highly on context. Nevertheless, for the purpose of setting and reaching key policy targets, it is essential to understand first what and under which circumstances SEZs can deliver. Only through retaining a clear picture of the potential results of SEZs, including the scope, duration and spatial extent of economic benefits, can policymakers ensure the creation of an effective development strategy based on unambiguous assumptions about the role that SEZs could play within the broader framework of national economic policy. In contrast, when expectations about the capacity of SEZs to deliver on overambitious goals are unrealistic, SEZ programmes risk becoming white elephants good only for reinforcing questionable objectives and squandering public resources.

Lesson 1: SEZs are generally not a panacea for growth.

SEZs have become one of the most popular policy tools for economic development. Countries all over the world have put in place new zones – and many others are planning to do so – with the aim of using the zones as catalysts to create new knowledge, generate and diffuse innovation, and promote growth and employment in the regions and the countries where the zones are located.

Yet, the success of SEZs in achieving these goals is highly variable (Farole, 2011; UNCTAD, 2019c). Alongside zones that have indeed dynamized the areas where they are located and provided an important boost for economic expansion – as is the case of the frequently cited Shenzhen SEZ in China – many others have either failed to ignite economic activity or have merely relocated economic activity from one place to another. Recent research has shown that many zones across the world have been less than capable of becoming the engine for economic growth they were intended to be. In the biggest analysis of SEZs in emerging countries to date, of 345 zones in 22 countries, only 19 per cent exhibited a higher growth rate than the host country as a whole (Frick et al., 2019). In contrast, 26 per cent grew at a rate less than the national average. These numbers demonstrate that SEZs, while having the capacity to create economically dynamic spaces and influence the development of surrounding areas, are far from being a certain fix for promoting growth. This is not because the idea of an SEZ is flawed. It is mainly because often the way in which SEZs have been designed and implemented across most of the emerging world has left a lot to be desired (Aggarwal, 2019). Policymakers should therefore consider carefully whether SEZs are the right tool for the country and whether the possibly costly intervention can be justified. Only in such cases may SEZs have a significant positive impact on a country's economy.

Lesson 2: Zone growth is difficult to sustain over time.

Zones are expected to be game changers in terms of medium- and long-term economic growth. The new knowledge and innovation associated with the development of SEZs is repeatedly considered a potential driver of long-term improvements in the performance of local firms. The reality is that the economic impact of SEZs tends to wane with time (Frick et al., 2019). It is challenging to sustain zone growth over time, and the potential considerable benefits that

SEZs may bring to an economy are often relatively short-lived. Although many zones require some time for their set-up, once a zone becomes operational, the main benefits tend to accrue in the first years of operation (World Bank, 2017b). But gradually they wane, until the economic dynamism of SEZs is indistinguishable from that of neighbouring areas. Rather than signalling that SEZs have a fixed expiration date beyond which they are incapable of driving dynamism, these findings imply that zone growth needs to be stimulated after the initial years and cannot be taken for granted. Arguably, the older the SEZ gets, the more stimulus and adjustment is needed to spur economic benefits (Farole, 2011). Given this relatively short time span for SEZs' economic gains, it is not always clear that SEZs can serve as long-lasting drivers of transformative economic growth. Hence, when planning and designing SEZs, decision makers have to keep in mind that their task does not end with the opening of the zone. If zones are to remain dynamic and provide the stimulus necessary to transform the economies of surrounding areas or of the nation as a whole, they will require attention throughout their lifespan (Zeng, 2016b). This attention can take different forms, from repositioning the value proposition to adjusting the target sectors and investors, tweaking the incentives packages and rearranging the organizational set-up.

Lesson 3: SEZs can positively affect the economic performance of surrounding areas, but there is a strong distance decay effect.

SEZs are frequently conceived with the aim of driving economic dynamism not only in the zone itself but also in the surrounding areas and in the country as a whole. Dynamic economic gains can be obtained through a number of transmission channels, including knowledge spillovers, forward and backward linkages, and pooled labour markets (World Bank, 2017b). In general, the greater the interaction between firms in SEZs and local firms outside the zone, the stronger the impacts of such benefits (Narula & Zhan, 2019). Research shows that forward and backward linkages can ignite a series of multiplier effects on local employment, innovation and growth (Zeng, 2016b). That said, economic dynamism is hard to realize beyond the zone's boundaries. A multitude of economic, regulatory and firm-level mediating factors determine whether effective transfer of knowledge and skills can happen. Research highlights that every so often low regional absorptive capacity and low learning competencies of local workers and firms deter the materialization of economic dynamism (Boschma, 2005). Furthermore, although SEZs can indeed have a positive impact on the areas they are located in, the effect is limited in space and typically cannot be felt beyond 50 km from the SEZ (Frick & Rodríguez-Pose, 2019). This suggests that policymakers should consider the transience and circumscribed spatial extent of SEZs' positive effects when framing policy incentives and preferential treatment so to guarantee efficient allocation of public resources.

Lesson 4: SEZ design needs to be tailored to the specific country context. A one-size-fits-all approach will lead to wasteful policies.

In the past, zone policies have tended to mirror strategies adopted in other countries – more often than not developed-world best practices that were considered successful – while disregarding local context. Frequently, policymakers in emerging countries have adopted SEZs as a blanket policy, mimicking the design and specific set-up of the most successful zones worldwide. These "best practices" have a special allure in the eyes of countries with low institutional capacities that may lack the means to adapt the SEZ programme to their country specificities. But what works in Cambridge in the United Kingdom or in the Bay Area in the United States may not work in other parts of the world, including in most of Africa. Hence, such an approach to zone development carries considerable risks, as mimetic interventions are unlikely to deliver.

Research has found that SEZ interventions that respond to contingencies of the specific national and regional context and are designed and adapted to different attributes of SEZ policies display varying outcomes when transferred to another country or region (Farole, 2011; Frick & Rodríguez-Pose, 2019). This suggests that there is no universal blueprint for zone development, implying the need for SEZ design to be informed by what is happening elsewhere in the field but adapted to local circumstances and, in some cases, entirely homegrown. Moreover, many instruments commonly assumed to be driving SEZ performance, such as the nature of the zone and incentive packages, do not always work in the same way everywhere (Frick et al., 2019). This is not to say that these factors do not matter for SEZ policy design, but rather that their relevance and usefulness are highly context dependent. What is an important element of the SEZ policy in one country might not be appropriate for a different context. As a consequence, policymakers should refrain from espousing a one-size-fits-all approach to SEZ development. Instead, SEZ interventions need to identify which features of SEZ policies are more likely to deliver given the country-specific context.

5.3.2 Specific lessons linked to each stage of SEZ design and implementation

In addition to the general lessons about SEZ interventions in many parts of the emerging and developing world, research has provided other sets of lessons that are more specifically linked to different stages of the SEZ design and implementation process. As described earlier, this process includes the following phases: strategic country assessment, SEZ policy design, specific zone set-up and institutional considerations. These are treated in turn in the following subsections.

5.3.2.1 Lessons – strategic country analysis

Lessons A1 through A3 (see table 20) aim to assist policymakers in designing SEZ policies that are context-driven, while identifying crucial steps towards what is generally viewed as the preliminary stage to the development of any SEZ programme: the strategic country analysis. Chapter 4 of this Handbook indicates the opportunities that arise with correct positioning of the national SEZ programme in light of a country's strong points in terms of industrial capabilities. By contrast, SEZ policies that are disconnected from the broader industrial environment usually fail to deliver. External factors, such as proximity to large markets, a skilled workforce and cheap labour costs, as well as the country's sectoral specialization and growth constraints, play an all-important role in determining the success of SEZs. In order to ensure that the SEZ policy supports and complements those pre-existing sources of comparative advantage – or tackles inhibitors of them, in the case of economic and institutional deficits – policymakers should make a concerted effort to diagnose the strengths and weaknesses of the country's industrial ecosystem. Bearing this necessity in mind, the following three lessons shed light on good practices relating to the three main elements of a strategic country assessment: sources of comparative advantage, sectoral specialization and growth constraints.

Lesson A1: Devote enough attention to identifying key drivers of the country's comparative advantage.

Because of the tendency to mimic best practices, SEZs in developing countries have frequently been designed by banking on ideal country endowments, which are not always readily available in the actual context. Nevertheless, SEZs do not operate in a void and the effectiveness of an SEZ policy is strongly determined by external factors. In particular, the country- and region-specific context are among the most important drivers of SEZ

performance. For instance, the importance of access to markets for SEZ performance and factors such as the cost of labour and the skill level of the workforce have been considered essential drivers of SEZ performance (Frick & Rodríguez-Pose, 2019). As shown in chapter 4, the presence of external factors, including strategic geographies, natural resources and a skilled workforce, regularly determines the long-term sustainability and competitiveness of SEZs. This is further substantiated by the experiences in Ghana and Nigeria, where SEZs have been most successful in natural resource-intensive industrial activities, such as the oil- and wood-processing industries, despite the original SEZ programme having aimed at labour-intensive industries. Similarly, although SEZs in Bangladesh originally aimed to attract high-tech firms, they took off only when they were later (re)focused on the garments industry, in which Bangladesh retained a clear competitive advantage (Shakir & Farole, 2011). This evidence demonstrates that the pathway towards successful SEZs cannot open without a careful assessment of the country's endowments, to enable the SEZ programme to be built on those pre-existing sources of comparative advantage.

Best practice in the identification of key drivers of comparative advantage also involves gaining direct inputs from investors already active in the country and benchmarking any intervention with alternative investment locations (Farole, 2011). Furthermore, policymakers need to constantly monitor the evolution of the external environment as competitive endowments may change over time: what are considered strategic advantages today may lose prominence tomorrow following changes in the geography of GVCs and trade preferences (UNCTAD, 2019c). These findings highlight the importance of building on a country's competitive advantage when designing the SEZ policy and thus the usefulness of the strategic country assessment as a first crucial step.

Lesson A2: Choose an adequate sectoral focus.

Many zones around the world aim to attract high-tech industries in a quest to upgrade the country's production base. Emerging countries have sought to leverage SEZs to leapfrog to higher value added industrial activities, on the basis of the idea that radical innovations in their industrial organization can enable countries to catch up sooner and quicker with more developed ones. However, it is frequently the case that high-tech zones in emerging countries perform worse than zones that focus on more low-tech, labour-intensive industries (World Bank, 2017b). The reason behind the failure of SEZs that target sectors with high technological content usually lies in a lack of capacity to connect to the local economic and manufacturing context. Many emerging countries that develop SEZ strategies lack the locational factors – more frequently present in developed countries – that are considered key to attract high-tech industries. Shortages of a skilled labour force and a dearth of top-level and world-competitive education providers represent a considerable barrier for successful installation of high-tech firms (Castells, 2014). Together with the gap between the local economic context and the type of suppliers and customers that high-tech investments require, these missing locational factors limit the potential for the high-tech economic activities attracted to SEZs in many emerging countries to develop strong linkages with the local economy.

For many African countries, a healthy diversification of the types of SEZs may represent a sounder overall strategy. On top of the traditional focus on manufacturing SEZs – whether high-tech or not – policymakers may find that SEZs connected to the early stages of natural resources or agriculture could provide a more economically sustainable source of competitive advantage (UNCTAD, 2019c). The evidence from the African zones covered in this Handbook shows that sectors with lower technological content can also be leveraged as sustainable

sources of SEZs' competitive advantage through the downstream integration of processing productive activities. In addition to the African cases, the Sei Mankgei SEZ in Indonesia is representative of the potential gains originating from an SEZ strategy that capitalizes on comparative advantages rooted in natural resources. The SEZ managed to attract anchor investors (i.e. Unilever) by leveraging its abundance of palm oil and specializing in the processing of palm oil-based consumer goods (Antarikso, 2017). Although the opportunity to leapfrog understandably retains a certain charm for policymakers, empirical and theoretical evidence confirms that industrial upgrading and diversification through SEZs is more likely to succeed if done by progressively and incrementally accumulating technological and industrial capabilities and by capitalizing on the sectoral specialization that already characterizes the country (Farole & Akinci, 2011; Zeng, 2016b). Therefore, it becomes crucial for policymakers to choose an adequate sectoral focus for SEZ programmes that clearly targets the dominant sectors of the economy, while designing SEZ policies that gradually incline those sectors towards higher value added activities.

Lesson A3: Single out the country's main deficits.

SEZs have often been advocated as places for policy experimentation in an effort to address and provide actionable solutions to countries' most pressing economic and institutional deficits. One of the most important factors that makes zones in China and East Asia particularly successful is indeed their reform-oriented approach to overcoming constraints in the business environment that arise from legal and policy aspects, as well as inefficient government services and poor coordination (Zeng, 2011).

However, such expectations can be fulfilled only if those growth constraints are clearly delineated and identified in the first place. To single out the country's most pressing deficits requires a diagnostic exercise (Farole, 2011; ADB, 2015). Such an exercise is frequently led by the government, with participation by representatives from the private sector that are active in industrial activities within the country. In this exercise, the identification of bottlenecks needs to be two-way: top down by committing the government to detect institutional bottlenecks through benchmarking with comparable countries; and bottom up by involving local stakeholders, such as SMEs and local governments, in identifying those market failures and bureaucratic tangles that can be better acknowledged by local players (Farole, 2011).

5.3.2.2 Lessons – SEZ policy design

Lessons B1–B6 cover the main elements that are part of any SEZ programme. The following do's and don'ts provide guidance based on best practice for the provision of fiscal and non-fiscal incentives, the use of export requirements and the types of zones that best align with the country's characteristics.

In the last decades SEZ programmes have tended to resemble each other even across regions of the world that differ in their economic and social characteristics and institutional set-up. Some components considered vital in any standard SEZ policy, such as the provision of fiscal incentives, have been widely adopted in many developing countries in an attempt to influence investors' decision choices. Nevertheless, given the non-negligible impact that incentive packages have in terms of forgone fiscal revenues for governments, they have increasingly become a wedge issue and been put under scrutiny. Export requirements have also been found to be problematic for spillovers and the local integration of SEZs. Moreover, certain criteria for new zone development, such as the size of SEZs, seem to correlate positively with zone performance. More generally, the following lessons can be of use for policymakers who

are looking at shifting away from an SEZ programme based on the traditional enclave-like EPZs towards a model of SEZs that are coherently entrenched in local economies and looking at employing a broader range of investment levers tailored to local needs.

Lesson B1: Tailor the SEZ policy to the country characteristics and target sectors.

Fiscal incentives, along with other benefits under the SEZ programme, have often been offered as blanket policies in similar ways across countries. Exemptions from corporate taxes, VAT and import duties, as well as one-stop shops and other administrative facilitation tools, are found in most SEZ policies. They are intended to boost the country's competitive position in the global markets (Bost, 2019). Nevertheless, recent research shows that the role of factors such as tax breaks and non-fiscal benefits such as a national one-stop shop are much more context dependent than hitherto thought (World Bank, 2017b). It is also often the case that the presence of commonly used incentives and elements of SEZ policies does not always contribute per se to zone performance and dynamism (Frick et al., 2019). This happens because commonly used incentives tend to lose their appeal with time and become obsolete as economies become more open and other countries adopt similar investment levers (Vats et al., 2018). For instance, in China adaptive and "smart" incentives to attract R&D labs were found to be more conducive to zone development; they contributed to placing the Shenzhen SEZ at the top of the innovation and technological ladder (Chen, 2019). Adopting a proactive, demand-driven approach to the crafting of SEZ policy – by carefully considering which aspects of the incentive packages are really required in a given context and attractive for investors in the targeted industries – can represent a step in the right direction to not just making the SEZ more viable, but also embedding it deeper in the local, national and regional economy (Farole, 2011).

Moreover, the SEZ programme should be nestled in the analysis of market failures that the attraction of SEZs is aiming to solve in a given country, as identified in the strategic country assessment (Zeng, 2015). For instance, should the analysis of growth constraints classify widespread corruption as an important growth inhibitor, policymakers can design one-stop shops that include additional incentives and tools to ease red tape and thus minimize the risk of corruption. Ultimately, findings from research suggest that policymakers need to think about how the common elements of SEZ policies can be designed and implemented to make the most of a country's investment climate (Aggarwal, 2019).

Lesson B2: Avoid overreliance on fiscal incentives.

Given lesson B1, caution should be exercised when providing fiscal incentives. Fiscal incentives tend to be the norm for SEZ policies. The use of fiscal incentives is meant to compensate for market failures. Their convenience derives from their relative ease of implementation vis-à-vis other types of economic interventions. Yet, many aspects of the traditional incentive packages have lost their appeal, given the similar offerings across countries (Zeng, 2016b). Moreover, fiscal incentives are being used more and more by multinational firms in order to pit zones and countries against one another and gain greater fiscal advantages – thus increasing the deadweight loss on the local and the national economy.

It therefore comes as no surprise that fiscal incentives are becoming increasingly ineffective when used as a stand-alone tool. Recent research has shown that on the whole and with caveats for more developed countries, higher tax breaks are far less effective in less-developed contexts (OECD, 2015). Often, tax incentives alone do not suffice to attract sustainable investments to less-developed countries (Tuomi, 2011; Frick et al., 2019). This is partly explained by the fact that fiscal incentives do not address the underlying factors that

shape investors' location choices in the first place. Tax breaks in Africa often conceal structural economic deficits, such as low productivity or human capital, that eventually determine the modest competitiveness of many national economies. In this sense, rather than tackling the root cause of countries' underperformance, fiscal incentives provide a short-term fix to the shortage of private investment (Farole, 2011). Successful zone programmes have indeed moved towards removing or re-targeting fiscal incentives and focusing on other aspects of the SEZ regime, such as the quality of service delivery and non-fiscal incentives (Narula & Zhan, 2019).

Yet, fiscal incentives might be seen as a "hygiene factor" by investors: on their own they will not attract investment but they need to be in place in order for investors to consider an investment location (ADB, 2015). Policymakers should therefore compare incentive packages offered by other countries that are competing for similar types of investors and evaluate carefully which aspects are required and cost effective. Also, fiscal incentives have been found to be useful in attracting investment at the early stages of establishing SEZs, as in a number of Chinese zones, including the Shanghai FTZ (ADB, 2015; Chen, 2019). Should the need for fiscal incentives arise, policymakers ought to consider the use of sunset clauses that establish an expiration date in order to sensibly evaluate the efficacy of the incentives, assess whether changes are needed and, if necessary, reconfirm them. In the meantime, particular attention needs to be placed on optimizing non-fiscal incentives and focusing on those sectors in which the country holds a natural comparative advantage, so as to avoid sudden capital flight when fiscal incentives are phased out (ASEAN, 2016).

Lesson B3: Give the infrastructure aspect sufficient emphasis.

Sufficient emphasis should be given to the infrastructure aspect. Sound infrastructure is particularly important to overcome bottlenecks in countries with a lower infrastructure endowment. Although infrastructure is often somewhat overlooked in the context of SEZ incentive packages, investors have highlighted the importance of the infrastructure provided in SEZs for their investment decisions. The cost and quality of utilities and access to transport infrastructure are among the main criteria firms apply when selecting an SEZ investment location in Africa (Farole, 2011; LSE, 2018). Research also records that poor utilities correlate highly with lower levels of zone exports and employment (Farole, 2011). When tailored to the country characteristics and target sectors, the provision of specific infrastructure can be extremely beneficial to draw investment to SEZs. For example, in countries at early stages of industrialization, pre-built factory units may be an important element to lower entry barriers for investors (UNCTAD, 2019c). In this regard, the Ethiopian IPDC, as part of its one-stop shop, offers serviced industrial land and pre-built sheds that are equipped with world-class utilities and infrastructure facilities, and that conveniently respond to the needs of firms in the garments industry (Newman & Page, 2017).

Although upfront investment to cover the infrastructure gap is crucial, SEZ authorities should make sure that infrastructure is well maintained throughout the lifespan of a zone. As a good practice, they should collaborate with national providers of utilities in order to guarantee reliable provision of electricity and energy to industrial zones, hence minimizing production downtime for SEZ-based firms (Farole, 2011). Finally, a well-developed SEZ policy must reach beyond the zone's gates for infrastructure development. In Honduras highways and transport links were developed to connect free points located in isolated areas to ports, whereas in the Philippines and Viet Nam private developers built external infrastructure (access roads and utility connections), in addition to financing on-site infrastructure and facilities (internal roads, utilities, common facilities and factory buildings) (IDB, 2019; ADB, 2015).

Poor infrastructure in ports and along transport corridors can have negative effects on the competitiveness of firms in SEZs. This implies that, for an SEZ to be viable, the surrounding region has to be endowed with good-quality transport and social infrastructure.

Lesson B4: Remove regulatory barriers and support local integration of SEZs.

When setting up a new SEZ programme, policymakers often aim to boost local and regional economies as well as contribute to the structural transformation of portions of the economy. Accordingly, SEZs have been advocated as an active regional development tool able to fast track regional economic growth (Ambroziak & Hartwell, 2018). Yet the truth is that many SEZs remain isolated enclaves with few or no linkages with the surrounding economy (UNCTAD, 2019c). The very nature of many SEZ programmes, originally intended as platforms for international exports under the EPZ model, explains only part of the story. In many countries, regulatory barriers have contributed to the isolation of SEZs. For instance, restrictions on local sales deter forward linkages, and policy disincentives, such as high taxes on local imports by SEZ-based firms, increase the opportunity cost of local sourcing and encourage firms in zones to source their inputs from abroad. Even when backward linkages are encouraged by specific policies – such as duty-drawback schemes for local producers selling to zones – the bureaucratic burden often predetermines the low utilization rates (Farole, 2011).

Regulatory barriers, which usually come in the form of export requirements, can severely hinder the creation of spillover effects in the local economy (Frick et al., 2019). Policymakers need to integrate the SEZ programme locally by supporting forward and backward linkages, both removing regulatory barriers that impede linkages and introducing support mechanisms to facilitate local integration. Support for local integration can take the form of both fiscal measures, such as incentives available to firms that create linkages between SEZs and the local economy, and facilitation provisions, such as the establishment of shared facilities and streamlined administrative support for SEZ-based and local firms willing to collaborate (Zeng, 2015). In Africa, this support has been operationalized by Ghana and Kenya through the adoption of different arrays of measures. In Ghana, export fiscal incentives have been conferred on domestic firms that engage in supply linkages with SEZ-based firms. In Kenya, business accelerators were established to optimize the production processes of local SMEs so as to meet the standard requirements of SEZ-based firms. Similarly, in China, SEZs support foreign investors in establishing joint ventures with local counterparts, whereas in the Masan FTZ in the Republic of Korea, administrators have actively promoted interlinkages between local firms and investors in the zone by allowing preferential access to intermediate goods and raw materials to local companies that supply SEZ firms and offering technical assistance to subcontracting firms (Zeng, 2016b). All of this suggests that beyond removing regulatory barriers such as export requirements, policymakers can employ other more proactive mechanisms that grant equal footing to local suppliers so as to give impetus to the formation of linkages between zone-based and domestic firms (Engman et al., 2007).

Lesson B5: Think bigger: size matters.

SEZs come in different types and sizes, ranging from single-factory free points, such as those in Kenya and Mauritius, to region-wide SEZs, such as the Suez Canal SEZ in Egypt. Research shows that the size of zones correlates positively with their performance. Larger zones tend, on average, to perform better than smaller ones (Frick et al., 2019). Moreover, empirical evidence signals that in Africa most firms in single-factory free points struggle to reap the economic gains derived from the enhanced investment climate available in larger zones (Farole, 2011).

Indeed, single-factory free points are unable to benefit from the industrial agglomeration effects that typically characterize SEZs. Although they may require greater upfront investment commitment and greater implementation capacity by the government, larger zones have the advantage of concentrating enhanced services and infrastructure in a limited geographical area. This represents a cost-effective solution for countries with limited resources (UNCTAD, 2019c).

Free points and single-factory zones also require enough regulatory capacity to enforce conditions related to the provision of incentives. As mentioned in the case of Mexico, monitoring of compliance and enforcement of free points can be costly and place an additional burden on already weak customs authorities, although the adoption of specialized software can go a long way towards reducing costs involved in physical control measures (UNCTAD, 2019c). That said, free points have proven to be high performing in small island developing countries and more generally where land availability is a key constraint, as in Mauritius. In fact, Mauritius managed to develop one of the most successful SEZ programmes in Africa, based on relatively small zones (Farole, 2011). This suggests that even though large zones have greater growth potential, the size of SEZs should ultimately be determined by place-based opportunities and constraints.

Lesson B6: Regularly monitor and evaluate each SEZ, and plan exit strategies for underperforming zones.

Locational and comparative advantages are not static. Instead, they fluctuate dynamically, following changes in GVCs and international trade flows. What gives countries a competitive edge today might lose its relevance in the long run. Consequently, policymakers need to constantly monitor whether a zone is still delivering after its first years of development (Zeng, 2016b). Monitoring and evaluation should take into account a number of indicators aimed at assessing those factors considered as key determinants of zone success, including industrial output, revenue, productivity, FDI inflows, value of foreign trade and number of listed companies, as well as sustainability-oriented indicators, such as numbers of vocational training institutions and environmental and social performance (Farole, 2011). That said, the exact evaluation methodology is likely to depend on the type and nature of a zone. For instance, China has developed a comprehensive monitoring and evaluation mechanism that ranks its SEZs according to indicators covering knowledge creation, industrial upgrading, internationalization and sustainable development capability (UNCTAD, 2019c). The underperforming zones are asked to rectify their performance within a limited time period, and if they fail to meet targets for two consecutive years, they face the risk of closing.

This points to the importance of planning exit strategies for SEZs that have fallen short of initial expectations. Anecdotal evidence shows that governments have been reluctant to close an SEZ after recurrent evidence of economic losses (FIAS, 2008). In the Philippines, after committing significant resources to development of an EPZ in Bataan Province in the northern island of Luzon, to upgrade ports, construct a $25 million hydroelectric energy dam and build upscale office buildings, the Government faced important losses as the zone failed to attract foreign investors. After the zone became operational in 1973, despite the first signs of underperformance, the Government was reluctant to close it – possibly a face-saving concern, given the non-negligible amount of public money invested (Warr, 1987; FIAS, 2008; Freeport Area of Bataan, 2020). Although there have been successful cases of revamping and turning around SEZs (e.g. the Tema FZ in Ghana), they remain the exception rather than the rule.

In general, a zone may fail mainly because it lacks the locational advantages or the adequate regional context to succeed. It may also fail because the original policies behind its set-up were botched. In such circumstances, countries need to set up actionable exit strategies that provide a way out of the investment.

5.3.2.3 Lessons – SEZ set-up

As shown through the case studies, the performance of the distinctive features of SEZ policies displays a high degree of context dependency. Similarly, when formulating the specific set-up of individual zones, policymakers should bear in mind the particular aspects of the country investment environment and target sectors. In addition, they should consider devoting enough attention to designing and developing each SEZ, given the impact that the SEZ set-up can have on zone performance. Research and international best practice stemming from some of the most successful SEZ programmes – including those of China – suggest that getting the SEZ set-up right can make or break the fortunes of a zone (Farole, 2011; World Bank, 2017b). Although the spotlight of SEZ best practices has often been on the design of the SEZ policy itself, international studies have shown that zone-specific aspects, including the incentives pakage, have become even more important for the effectiveness of SEZ programmes than the SEZ law. (Frick et al., 2019). In particular, aspects such as the geographical location of the SEZ, the provision of infrastructure and the delivery of value added services are regarded as crucial in driving zone growth. Lessons C1 to C6 presents do's and don'ts relating to the key steps along the pathway to setting up a successful SEZ.

Lesson C1: Leverage strategic locational advantages.

Policymakers need to consider carefully how the choice of zone location may impact the overall effectiveness of the SEZ policy. The choice might be particularly important for the first zones in the country, as they may generate a demonstration effect for investors.

Research has shown that location is among the most important factors for the success of a specific SEZ (World Bank, 2017b). Distance to the largest national city has been found to be negatively correlated with zone performance. Zones located farther from major agglomeration centres are, in general, less dynamic (Frick et al., 2019). Other locational aspects are essential in determining the potential future success of a zone. Among these are proximity to important transport infrastructure nodes, but also to a sufficiently large and often skilled labour pool (ADB, 2015). Proximity to major trade gateways, such as ports and airports, can significantly lower trade costs (Farole, 2011). Such location-specific factors are particularly relevant for SEZs that rely on manufacturers that require access to imported inputs, especially those in light manufacturing. Similarly, being close to a large metropolitan area ensures SEZ-based firms have access to large labour pools and advanced business services (World Bank, 2017b).

All these locational characteristics are well displayed in some of the most mature SEZ programmes in Africa and elsewhere. For instance, Morocco established most of its SEZs along the coastal areas near the Strait of Gibraltar, an important trade gateway, and close to its largest cities, Casablanca and Tangier. Egypt's newly launched Suez Canal SEZ is set to leverage the significant trade flows passing through its waterway. Similarly, Ghana and South Africa established the majority of their zones near major cities and seaports, such as Tema, (which hosts Ghana's largest seaport), in the former, and Port Elizabeth, in the latter. Outside of the African continent, locational advantages deriving from accessibility to major cities with a history of foreign trading and proximity to coastal regions have been recognized as crucial

to drive success in Chinese SEZs. Locational advantages have been especially prominent for early SEZs in the Pearl River Delta and the Min Delta regions, respectively close to Hong Kong (China) and Taiwan Province of China (Zeng, 2015).

Some countries incentivize the location of SEZs in peripheral regions or rural regions that lag behind. The objective of directing SEZ investment to such areas is generally to boost economic growth and reduce regional inequalities (Kuznetsov & Kuznetsova, 2019). This has been the case in the Republic of Korea, where in the 2000s the SEZ programme established new SEZs in lagging regions to promote FDI and balance regional disparities (UNCTAD, 2019c).

Locating SEZs along transport and economic corridors can allow SEZs to leverage RVCs to facilitate access to regional markets (UNCTAD, 2017a). This opportunity, as shown in chapter 3, will assume more and more relevance with the implementation of the AfCFTA and the greater regional integration that is promised. These considerations point to the need for assessing locational choices by means of thorough feasibility assessments that consider the distance to trade gateways and metropolitan areas, as well as the geographical extent of the regional economic corridors in which RVCs unfold.

Lesson C2: Consider indispensable infrastructure for target sectors.

It is important to get the infrastructure available in each SEZ right. Most industries share similar needs in terms of the basic infrastructure required, but different sectors may place varying degrees of importance on the different infrastructural aspects. Policymakers should therefore carefully consider the specific needs of each of the target sectors identified in the previous steps of the SEZ design process. For example, a stable power supply is a non-negotiable aspect for more high-tech sectors, whereas it might be less of a deal breaker for more low-tech industries (while still being important). For buyer-dominated industries, such as garments, adequate water treatment and waste management facilities to meet sustainability requirements might be an important draw to invest in a specific zone, as seen in the EIPs in Egypt and Viet Nam (UNIDO, 2017a). For zones attracting domestic manufacturing firms, the provision of shared facilities can be crucial to facilitate access to costly equipment and machinery for smaller businesses, as proved by the MPIP in the Tema FZ, Ghana (Wolfowitz, 2005). Finally, for technology-intensive firms, access to high-quality ICT may be the conditio sine qua non for setting up shop in a zone (ADB, 2015). Therefore, rather than aiming to provide world-class infrastructure in every aspect of industrial production, a more cost-effective approach for developing countries is to focus the delivery of improved infrastructure on those aspects that are highly relevant to target investors.

Lesson C3: Tailor services to the country environment.

As in the case of infrastructure, sufficient attention needs to be given to the services provided in each SEZ. Services provided in zones have been found most effective when they respond to precise aspects of the local and national ecosystem (UNCTAD, 2019c). Empirical evidence cited earlier highlights the opportunities that arise with a locationally conscious approach to service provision in SEZs. For instance, customs facilitation services are essential for most industries, considering the importance of imported inputs; other services, such as security, can be critical in some countries but superfluous in others. In Nigeria and South Africa, where high crime rates are endemic, anecdotal evidence indicates SEZ investors regard the provision of security services as a highly appreciated government-induced locational advantage (LSE, 2018). For countries plagued by bureaucratic delays in transshipping and re-exporting, services that facilitate trade, such as single windows and one-stop shops, can go a long way

in supporting streamlined operations. In those regions and countries where access to quality health care remains problematic, the provision of medical services within SEZs can represent an additional competitive edge to attract investors. In Kenya, where access to basic health care remains a key challenge, the provision of medical facilities for workers is one of the evaluation criteria of firms applying for SEZ status (Republic of Kenya, 2015). However, research has found that the presence of key services within SEZs is not per se a driver of zone performance, hence effective implementation also plays a role (Frick et al., 2019). This suggests that, besides focusing on identifying which services are more likely to be needed in the country context, policymakers should pay sufficient attention to the quality of those services and the way they are implemented.

Lesson C4: Design human resource services to overcome key the challenge of recruitment across sectors.

Among the services that can be provided within SEZs, the availability of training and educational services deserves special attention. Many SEZ firms across all sectors struggle to recruit sufficiently skilled workers. Frequently, the available workforce does not possess the right skill set. Recent surveys of firms based in SEZs in emerging countries reveal that one out of four investors see the lack of adequate human resources as a main challenge (LSE, 2018). Therefore, policymakers should ensure that the skill levels of the workforce match the needs of SEZ investors. When this is not the case, they ought to promote the provision of skill development programmes in collaboration with local educational providers, always bearing in mind the needs of investors (Zeng, 2016b). It is also crucial for zone operators to consider these issues in advance and design policies to train the workforce. Often-cited illustrative examples of upskilling SEZ labour forces include the Penang SEZ in Malaysia, where a public-private initiative in 1989 brought about the creation of an industry-led training centre – the Penang Development Skills Centre – aimed at developing skills that are in line with industry needs: over 30 years, more than 200,000 workers received training in areas such as Industry 4.0, applied engineering and digital technology (PSDC, 2021).

Moreover, policymakers should take into account a variety of other factors that can constrict the availability of suitable human capital and undertake targeted actions to address them. For instance, zones may be located in places that are difficult to reach and therefore limit the number of workers willing or able to travel to the SEZ. If access to the zone is an issue, zone authorities could consider offering housing services, such as dormitories for workers along with transport services.

Lesson C5: Boost ESG performance as a competitive edge.

In the past, SEZs sought to lure foreign investors by tilting the playing field towards lower environmental and social standards, thus fuelling a race to the bottom among emerging countries (ILO, 2017). However, evidence stemming from the African zones analysed in chapter 4 shows that enhanced ESG standards can improve the attractiveness of a zone in the eyes of foreign investors that are active in consumer-facing industries, which tend to be vulnerable to reputational risk factors. They can also realize new business opportunities through the adoption of some basic principles of the circular economy, such as waste recycling and treatment of wastewater (Kechichian & Jeong, 2016). In this regard, the RELP in Egypt, the ASEZ in South Africa and other extra-African cases, such as Viet Nam's EIPs, have proven to be viable business models to deliver gains both in terms of quantitative growth targets and environmental sustainability (UNIDO, 2016). In addition, Ethiopia has attempted to decouple

its industrial zones from environmental impacts as part of its ambitious Climate Resilient Green Economy strategy, by relocating highly polluting firms to new industrial zones with common effluent treatment plants (Okereke et al., 2019). EIPs increasingly allow governments and industries to reap the economic benefits coming from greater resource efficiency. For example, in the Hoa Khanh Industrial Zone in Viet Nam, savings averaged about $500,000 per company across a three-year period as a result of the introduction of sustainable practices aimed at reducing the environmental impact of SEZ firms (UNIDO, 2016). In this context, SEZs can effectively respond to some of the key environmental challenges prompted by the changing reality, while also retaining their role as efficient production hubs and growth centres.

Moreover, there is arguably greater scope to leverage SEZs as venues for the advancement of SDG-related goals. In this regard, the conceptualization of SEZs along the lines of the SDG Model Zones may prove crucial to leverage the emerging global sustainability trend and add to SEZs' competitive edge. For instance, SEZs could (i) provide services to control the ESG performance of their tenants, including health and safety standards inspections, as well as consultancy services to identify recycling opportunities or facilitate emissions reduction; (ii) offer sustainable development-oriented shared facilities for renewable energy generation, waste management, health and education; and (iii) link the provision of fiscal incentives to specific ESG targets (UNCTAD, 2019c). Specific provisions for the female workforce can also help to improve zones' ESG performance. As seen in the case of the Ismailia FZ in Egypt in chapter 4, gender-inclusive policies can both reduce the marginalization of women through the improvement of health outcomes and improve the productivity of SEZ tenants by reducing absenteeism. Although at the moment it is difficult to find a fully SDG-compliant SEZ in the African context, the initial steps pursued within the Ismailia FZ and other examples presented in chapter 4 are evidence of not only the feasibility of the concept of SDG model zones, but also a business case to enhance the productivity and competitiveness of SEZ-based firms.

Policymakers need to consider three steps towards the attainment of better ESG standards (Kechichian & Jeong, 2016; UNCTAD, 2019c). First, clear environmental and social policies have to be designed for each zone in order to define transparent ESG objectives and requirements, taking into account the type of firms operating in the SEZ and the opportunities and challenges that arise with each sector and industry. Second, a monitoring committee is vital to measure the environmental and social performance of firms against the objectives agreed upon in step one. Third, enforcement mechanisms should be put in place to ensure compliance, with a clear set of penalties that could be enforced, ranging from revoking a license to terminating a lease in case of non-compliance.

Lesson C6: Assess the financial viability of a zone throughout its development and implementation.

When setting up a new zone, the profit motive rarely represents the primary objective. Nevertheless, it is important to set up SEZs that at least ensure cost recovery, so as to avoid a negative fiscal impact on national financial resources. In many countries around the world, SEZs have turned out to be a considerable drain on government spending, becoming black holes for public money (FIAS, 2008). For this reason, a zone's financial viability should be ensured throughout its lifespan, from inception to the time horizon of its potential closure. Likewise, when a zone does not deliver, policymakers should be able to quantify the losses. This accounting exercise can be conducted by making use of a profit and loss statement, where the direct and indirect economic benefits of an SEZ are weighed against its costs of design, implementation and operation. The profit and loss statement should account for

the wide range of expenses incurred in SEZs, such as infrastructure development outlays, the costs of operating the zone authority, other operating expenses and revenues forgone through exemptions from import duties and taxes (UNCTAD, 2019c).[1] In addition, the fiscal impact can be higher in SEZs that allow domestic firms to convert to zone status without significant investment in new productive capacity (UNCTAD, 2019c). Zone operators should factor in all these elements, as a bleak financial outlook may determine an unsustainable business case in the long run.

5.3.2.4 Lessons – institutional considerations

There is no universal blueprint for SEZs; instead, a number of key recommendations embrace best practice from SEZs internationally. Organizational set-up and the institutional model of each SEZ programme is likely to be determined by contextual factors. Governance models that benefit from strong political support, empower SEZ authorities and capitalize adequately on investment promotion are generally more likely to succeed. Other recommendations also stem from international experience related to the importance of attracting anchor investors and developing integrated SEZ strategies to safeguard policy coherence.

Lesson D1: Ensure coordinated, high-level political support.

Lack of political commitment is a leading cause of failure of SEZs. In many countries, government support for the design and development of SEZ programmes has been unenthusiastic. This can have harmful consequences, as happened in Bangladesh, where the first private SEZ waited for more than eight years for the Government to produce its operating license. It subsequently faced considerable challenges owing to the lack of government guarantees of access to energy (Farole, 2011). There is hence a compelling need for high-level political commitment to provide adequate financial and technical resources for zone management, infrastructure development and investment promotion, and to signal to foreign investors that the attraction of FDI is indeed a top government priority (Zeng, 2016b; Farole, 2011; Page & Tarp, 2017). This is corroborated by some of the most successful cases of SEZ programmes: in China, the SEZ policy enjoyed great support from Chairman Deng Xiaoping; in Costa Rica then-President Jose Maria Figueres took a personal stance to attract key anchor investors to the country; in Mauritius, then Foreign Minister Gaetan Duval was one of the leading advocates for the establishment of the domestic SEZ programme (Farole, 2011).

International good practice suggests a number of ways in which political support can be harnessed. First, public and hybrid governance models in which the government holds shares – even if a minority – of the SEZ operator and developer facilitate involvement of the government in decision-making (Mangal, 2019). Second, a direct line of report between the SEZ authority and senior government members, such as the prime minister or the president, promotes swift knowledge transfer and information exchange on current developments in SEZs, including bottlenecks that are hindering zone success. In Senegal, Kenya and the Dominican Republic, the SEZ authority reports directly to the President, whereas in Bangladesh it reports to the Prime Minister (Farole & Kweka, 2011). Third, placing leading government officials, such as economy, trade and transport ministers, on the boards of directors of SEZ authorities and zone operators can not only facilitate information exchange but also contribute to greater involvement of the political class with the overall objectives of SEZs (Mangal, 2019). Moreover, support from political leadership needs to be coherent in order to avoid overlapping mandates. Ideally all political entities involved in zone management should be part of a coordinated effort towards SEZ success (Farole, 2011). The unintended consequences of the lack of such

coordination can be serious: in India, a survey found that firms had to deal with 15 entities in order to open a shop in an Indian zone, and that as of 2015, in the state of Maharashtra 61 private developers out of the 139 approved SEZs had withdrawn their investment because of overlapping policymaking and questionable selection criteria (Economist, 2015). To avoid such situations, policymakers can adopt coordination mechanisms such as interministerial committees, coordination boards with participation from different levels of government and memoranda of understanding to safeguard the interests of each stakeholder and the division of responsibilities (Mangal, 2019).

Lesson D2: Develop integrated strategies rather than stand-alone SEZ policies, with particular emphasis on policy coherence across different areas.

SEZs are not an end to themselves. Instead, they are a functional means to the achievement of long-term objectives set by national development strategies. In developing countries, SEZ programmes have too often remained secluded from the broader policy arena. Yet, empirical evidence suggests that when SEZs are designed as stand-alone policies, they are less likely to deliver on their objectives, as they lack support from complementary policy areas (ADB, 2015; Zeng, 2016b). The experiences of China, the Republic of Korea, Singapore and the United Arab Emirates all underscore this aspect. For instance, in the Republic of Korea individual SEZs have since the 1970s been integrated into country-wide strategies to increase exports, as a way to boost the industrialization of the country. Similarly, in China SEZs are mainly seen as a tool to facilitate the achievement of national and regional targets set under the respective development strategies (Zeng, 2016b). Indeed, when SEZs are integrated within the national framework for economic growth policy, they benefit from interventions under trade, industrial and education policies. For instance, SEZs can benefit from the promotion of industrial clusters and trade facilitation tools enacted by industrial policies. Moreover, the construction of critical transport links under national trade policies can strengthen SEZs' locational advantages by reducing trade costs for SEZ firms. Education policies implementing skill development programmes aimed at addressing the quality of the workforce can be leveraged by SEZs to attract more skilled workers to zones (Farole, 2011). Hence, policymakers should aim at building mutually reinforcing linkages between different areas of national policies to optimize economic gains deriving from development interventions.

Lesson D3: Place sufficient emphasis on investment promotion.

Marketing, promotion and negotiation with potential investors need to be adequately stressed within the institutional set-up of SEZ programmes. Anecdotal evidence underscores that those SEZs which operationalize institutional mechanisms to incorporate a unified approach to investment promotion generally perform better. Particular attention needs to be given to anchor investors, who can signal to other potential investors that an SEZ is an attractive investment destination (ASEAN, 2016). The cases of Costa Rica, with its successful attraction of Intel, and Indonesia, which managed to draw Unilever to its natural resource-intensive Sei Mangkei SEZ, are illustrative of the transformative impact that anchor investors can have on the national and regional industrial landscape (Larrain et al., 2000; UNCTAD, 2019c). However, special treatment does not need to include incentives other than those normally granted under the SEZ regime. Rather, it can take the form of personalized and streamlined administrative services and a direct connection to the highest levels of the government, as shown in chapter 4. Even when special incentives are thought to be indispensable, any special benefit accorded to anchor investors should be weighed by the government against the expected social returns of having a high-level investor in the zone (ASEAN, 2016).

More broadly, promotion of investment in SEZs should be a collective and coordinated effort involving a large pool of stakeholders, such as high-level government representatives, the SEZ authority and the SEZ operator (ASEAN, 2016). Some more successful cases of SEZs – as, for example, Costa Rica – coordinated their investment promotion initiatives with their national IPA, especially when attracting large foreign investors. In some countries, such coordination has been operationalized by formal institutional links, such as placing representatives of the national and regional IPAs on the non-executive boards of directors of SEZs. In Morocco, for instance, the head of the regional IPA – the Agency for the Promotion and Development of the North – sits on the supervisory boards of SEZs located within its jurisdiction (Tanger Med, 2021). In this way, IPAs can be strategic partners not only in targeting anchor investors, but also in supporting companies in their decision-making phase, coordinating contacts with other government agencies and assisting in investment facilitation and aftercare. This cross-cutting coordination also facilitates SEZs' smooth integration into national investment promotion strategies. In conclusion, policymakers need to formulate an attractive narrative for potential investors, building on the strengths and opportunities of the national SEZ programme, while sponsoring a body-and-soul kind of engagement across different institutional layers to promote such narrative.

Lesson D4: Grant appropriate financial and administrative autonomy to the SEZ authority.

Many SEZ authorities in public and hybrid governance models are State entities, yet they often lack the financial and administrative autonomy to deliver on their mandate. Lack of autonomy often means that SEZ authorities are institutionally and operationally weak, heavily affecting their ability to carry out their responsibilities effectively. Best practice suggests that the SEZ authority should be an independent regulator governed by a board of directors with representatives from both the public and the private sectors (Farole & Kweka, 2011). Good examples of board structures come from the Dominican Republic, Ghana and Singapore, where the SEZ authority's boards include a balanced combination of public officials and private sector representatives (Farole & Kweka, 2011).

The composition of the board and the exact proportions of private and public members will depend on the specific institutional set-up of the SEZ programme. In all programmes, however, the board should be equipped with appropriate financial and administrative autonomy to shield it from political pressures as well as equip it with sufficient resources (OECD, 2009). Examples of autonomous SEZ authorities include the Philippines Economic Zone Authority, the Industrial Estate Authority in Thailand and the Ghana Free Zones Authority. Such authorities have been found to be relatively shielded from excessive political interests (Mangal, 2019). The budget should allow the zone to implement infrastructure development projects, execute land development projects and provide adequate services as needed by investors. The budget granted by the central government should also be predictable (Mangal, 2019). Predictable budgets allow the SEZ authority to plan ahead and instil some certainty when engaging with investors. Good practice also suggests that the regulatory budget can be linked to zone revenues: although they may not be enough to cover the full budget of the regulatory authority, income from sources in the SEZ, such as corporate taxes and land rents, can enhance the authority's political independence and incentivize efficient management of the zone (ASEAN, 2016). Empowering the SEZ authority with adequate financial resources not only boosts its implementation capacity, but also shields it from political interests (COMCEC, 2017).

Moreover, administrative and operational autonomy is also crucial. Ideally, the SEZ authority should be conferred freedom in setting labour policies within SEZs – such as hiring, setting salaries and laying off workers. Taxation matters, such as establishing incentive packages, should also be delegated to the SEZ authority, if not provided in the SEZ law (Mangal, 2019). As shown in chapter 4, the TMSA, which regulates Morocco's TMZ, among others, has been endowed with a considerable degree of autonomy when it comes to internal human resources decisions, including hiring new staff and setting remuneration packages. For those responsibilities for which complete delegation to the SEZ authority is not feasible, for both political and practical reasons, interagency coordination committees should be set up to, at a minimum, ensure that SEZ stakeholders are involved in decisions (Zeng, 2016b). This can be the case for customs rules, immigration policies and environmental standards.

Lesson D5: Tailor the governance model to the country's institutional capacity.

The involvement of the private sector in the institutional set-up of SEZs has long been encouraged, on the basis of claims related to increased dynamism and market knowledge (Watson, 2001; FIAS, 2008; OECD, 2009; Farole & Kweka, 2011). However, empirical evidence portrays a multifaceted picture, in which both private and public governance models succeed and fail equally. Research also shows that zone performance may be rather uncorrelated with the sector that runs the SEZ – whether private or public (Frick et al., 2019; Farole, 2011). More importantly, the extent of private sector involvement should be determined according to the institutional capacity of the country and the level of risk that the government is willing to undertake. In countries with strong institutions and a long trajectory of and experience in implementing integrated policies, a public governance model for SEZs could be as successful, if not more so, than a private model (Mangal, 2019). Nevertheless, African countries may not be willing or able to undertake the significant economic risks associated with SEZ programmes; hence they could shield their investment by encouraging the private sector to co-invest.

Finally, even when a public institutional set-up is deemed to be the best way forward, private sector participation can come in different forms, according to the needs of countries. For instance, private sector representatives could be included on the non-executive board of directors or coordination committees could be set up to ensure private stakeholders have a platform to share market knowledge. Some of these practices have been adopted by successful zones both in Africa and elsewhere. In Morocco, private sector representatives sit on the TMSA's non-executive board of directors, supervising all SEZs in the Tangier hinterland (Tanger Med, 2021). Similarly, Singapore's acclaimed EDB includes 18 board members, half of them from the private sector (EDB, 2021a). These examples show the importance of going beyond ideological considerations when designing the governance model of SEZ programmes. Policymakers need to conceive of an institutional model that sensibly reflects the strengths and weaknesses of their country.

5.4 CONCLUSION

This chapter has provided an account of the various steps involved in setting up SEZs, and it has offered a set of actionable lessons extracted from research on SEZs and international best practice. Although the path towards the development of growth-oriented and sustainable SEZs is arduous, the long-standing global experience in establishing SEZs provides policymakers with excellent examples of the modalities through which opportunities can be harnessed and threats minimized.

The development of SEZs indeed requires an across-the-board commitment by governments in order to progressively address the four steps outlined in the first half of this chapter. The strategic country assessment, the SEZ policy design, the zone-specific design and cross-cutting institutional considerations can be thought as a phased approach to the development of SEZs. The progressive nature of such an approach has demonstrated its effectiveness in a variety of countries, including Jamaica, Jordan, the Republic of Korea and Malaysia, among others. These are places where the SEZ development strategy and relevant laws and regulations were already in place when the first zones were launched (Zeng, 2016b). In contrast, when these steps are not followed in an orderly manner and zones become operational before governments define a clear strategic focus or set up broader regulatory and institutional frameworks, the risk is that of putting the cart before the horse. A lack of strategic focus is only likely to generate confusion among investors and could eventually become a deterrent to the attraction of FDI (Zeng, 2012).

The process of designing a strategic focus for SEZs is complex, and governments can stumble into several pitfalls along the way. Such complexity often stems from three aspects related to the development of SEZs.

First, a multi-agent, cross-institutional and coordinated approach is required for SEZ development, which inevitably puts countries with greater institutional quality and more consolidated governance practices in an advantageous situation. The lessons learned from experiences of other SEZs have highlighted the need for a 360-degree strategy when designing SEZs. This strategy is likely to involve several stakeholders: from various entities of governments – such as the office of prime ministers or presidents, the SEZ authority, several line ministries, national IPAs, and local and regional governments – to private sector players, including foreign investors, domestic SMEs and industry associations. Each stakeholder possesses specialized knowledge crucial for successful implementation of the SEZ strategies. The difficulty lies in leveraging this expertise into a force for the success of zones.

Second, further complexity derives from the mutability of the investment climate, which frequently requires policymakers to continuously assess the business case for and overall profitability of individual SEZs. As illustrated in this chapter, the reasons for the changing nature of SEZs' operating environment relate to both external factors – i.e. changes in trade preferences and the reshuffling of GVCs – and internal factors – i.e. changes in the national skills set and infrastructure endowments. This implies that setting up SEZ strategies cannot be regarded as a one-time Herculean effort. Its success hinges on a long-lasting commitment by governments to constantly assess and improve the conditions in which SEZs operate and the services provided under relevant policies.

Third, the context dependency of the elements that often characterize SEZ policies adds to the complexity. Indeed, a successful SEZ model from one region may inspire what is pursued elsewhere. But it has to be borne in mind that strategies transferred from successful cases most the time do not work: what has been successfully designed and implemented in one region, more often than not, fails to deliver when transported without adaptation to another. When pursuing the development of SEZs countries need to juggle general theory and best practices with local conditions and policies that reflect both the national and the local comparative advantages and the intended aims and objectives of the SEZs. This implies putting in place sensitive interventions, which require a clear vision and careful planning and are not always easy to achieve.

Even so, these challenges cannot be considered insurmountable. Today's African policymakers have at their disposal a vast array of global experiences to tap into. From the early zones in the developed world or in China, the Republic of Korea and Taiwan Province of China to the more recent developments in South-East Asia, Central America and the Middle East, examples of good practice can be singled out and adapted to local contexts, conditions and challenges. If on one hand the global proliferation of SEZs of the last decades resulted in only a handful of successful champions with well-functioning programmes, on the other it offers important insights on what works – and what does not – when it comes to the establishment of SEZs. For each of the four elements of SEZ development there are actionable lessons learned that span from the preliminary strategic assessment of countries' comparative advantage and growth constraints to the more last-mile aspects of the implementation of specific type of zones. Finally, important lessons also come from research that can assist decision makers in identifying those practices – avoiding an overreliance on fiscal incentives, thinking through locational advantages and adapting SEZs to the local context – that are the most likely way to deliver SEZs that not only generate employment and wealth, but also the knowledge spillovers and local networks that can benefit the areas and countries where they are established.

NOTES

[1] For further guidance on what a profit and loss statement should include, refer to the *World Investment Report 2019* (UNCTAD, 2019c, p. 178).

CHAPTER 6
CONCLUDING REMARKS

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Growth-oriented and future-proof SEZs increasingly require the adoption of strategies that are holistic, sustainable and adaptive. These attributes will be crucial to ensure that new SEZ programmes can withstand external stocks and leverage emerging opportunities originating from megatrends such as the heightened focus on sustainability and the changing pattern of international production. Such an approach to SEZ development warrants that SEZ policies not remain stand-alone interventions but instead become the means for diffusion of greater innovation and knowledge in hosting regions. Ultimately, whether or not African SEZs emerge as important hubs for the productive activity of African economies will depend on the ability of policymakers to create consensus and buy-in from the various layers of society and economic stakeholders involved in the different stages of the development of zones.

6.1 OVERVIEW OF THE HANDBOOK

The primary focus of this Handbook has centred on the momentum of SEZs in the African context and how to make sure that this type of development intervention yields the greatest returns while minimizing the potential risks. The Handbook has provided both a detailed account of the current state of play of SEZs, drawing from practices in Africa and elsewhere in the world, and a set of future scenarios and recommendations to elevate zones to the role of effective drivers of economic development beyond their gates. More generally, the Handbook has presented a pragmatic guide covering the various steps – and barriers – that policymakers usually encounter in the process of setting up SEZ programmes. Although the evidence presented here may serve as a valid reference point for SEZs in developing and emerging countries anywhere in the world, the Handbook has specifically drawn on the Africa-specific opportunities and challenges that have influenced, and continue to influence, the trajectory of zones in the continent.

Chapter 1 set the bigger picture against which the development of African SEZs takes place. In particular, it highlighted a number of trends that could influence the future trajectory of SEZs on the continent. With the emergence of trends such as sustainability, the new industrial revolution and regionalization of international production, African SEZs need to adapt constantly to changes in the environment to ensure that their value propositions are not eroded. The chapter also introduced the aim and structure of the Handbook.

Chapter 2 set the scene with a systematic overview of African SEZs, outlining their main characterizing features, from their evolution in the last decades to the extent of their employment contributions and the key traits of SEZ programmes. The analysis detailed the growing importance and significance of SEZs as an economic development tool among African countries in recent years. In particular, since the 2000s SEZs have become a more and more

popular tool for economic development. During this period, the continent has experienced an unprecedented proliferation of zones undertaken both by countries at higher levels of development and by LDCs.

Several trends can be singled out. First, African zones are progressively moving towards wide-area SEZs and more integrated models, shifting away from the more traditional enclave-like model that dominated the early stages of their implementation. This gradual transition is still at an early stage and, although countries such as Egypt, Kenya and South Africa have established new SEZ regimes in parallel with pre-existing EPZ regimes, the dominant approach to zone development – i.e. based on EPZs – remains prevalent across Africa. Second, and with the exception of a limited number of countries, the role of African zones as drivers of national employment and industrial activity has so far fallen short of expectations. When compared with their Asian and Central American counterparts, African SEZs account, on average, for a smaller share of national employment. In addition, African zones usually host a smaller number of firms than zones elsewhere in the developing and emerging worlds. Third, African SEZs tend to rely more on establishment and operation requirements. Such an approach may be self-harming given that it erects significant barriers to the development of forward and backward linkages between SEZ-based firms and the host economy. Ultimately, the evidence stemming from the overview of African SEZs, together with previous evidence of underperformance (e.g. Farole, 2011), raises doubt about the impact of zones in the continent. It also calls for an analysis of what is working – and what could be done to work better – in order to boost the performance of SEZs and ensure that their socioeconomic benefits spill over to the surrounding economies – in other words, to make sure that SEZs in Africa become what they should be: a source of innovation, productivity, employment and economic dynamism for the regions where they are located.

Chapter 3 discussed the intertwined relationship between African SEZs and the introduction of RTAs, with a particular focus on the AfCFTA. The chapter emphasized the implications, both positive and negative, that may arise from the simultaneous pursuit of regional integration under FTAs and SEZ-based developmental strategies. It also noted the enduring complexity caused by the intricate web of SEZ laws at different governance levels, namely the national, regional and international ones. Understanding how regional trade integration in Africa is likely to affect the arena of SEZ operations is critical to capitalize on the emerging opportunities that greater trade will bring for SEZ stakeholders. In this regard, the ability to leverage regional differences and complementarities, through, for instance, border and cross-border SEZs, will increasingly determine the fortunes of African zones.

Chapter 4 focused on six thematic areas related to SEZ development, namely (i) the strategic focus, (ii) the role of investment promotion and institutional collaboration, (iii) the local context, (iv) international partnerships, (v) ESG standards within zones and (vi) the indirect dynamic gains that SEZs can, in theory, offer. The relevance of these policy areas derives both from current trends across the continent and from the latest research, which describes those areas as paramount to zone success. From the more successful zones in Mauritius and Morocco to the newly established zones in East and West Africa, the chapter presents a number of case studies, analysing African practices and singling out the key lessons learned. The inclusion of non-African cases further allows the identification of best practices from zones that have had a longer trajectory than most African SEZs and are, therefore, better suited for the extraction of best practices that can be adapted to the development of new zones or the improvement of existing ones.

The case studies illustrate the potential of successful practices worth exploration by policymakers who are aiming to make the most out of zones, while providing evidence and recommendations about the pitfalls in development and implementation of zones that are best avoided. For instance, international partnerships may well serve as a launching pad for long-term success, as attested to by the China–Singapore SIP. But even in the most successful cases of international partnerships, there is a need to monitor processes to minimize the risk of coordination problems and misalignment between the stakeholders involved in implementing the zone. This often calls for the establishment of coordination committees and other institutional mechanisms. Dynamic benefits, essential for measuring zone success, need to be looked after proactively, as demonstrated by business incubators in Kenya. Likewise, conceptualizing better ESG standards within a framework of enhanced competitiveness at the firm level may indeed prove a winning strategy to foster environmental and social protection efforts, as shown by the evidence from South Africa and Viet Nam. Finally, one cogent takeaway emerges from the collection of case studies: the zones that enjoy greater and long-lasting returns are those characterized by a proactive, concerted and demand-driven effort involving the private sector (often represented by the firms in zone) and different levels of government to address the constraining bottlenecks as they form.

Chapter 5 sought to pull the main themes of the Handbook together and present a set of actionable lessons learned and policy recommendations stemming from both international best practice and the latest research. The guidelines that have been introduced emphasize the context-specific nature of SEZ development and its trajectories, therefore stressing the role of place-sensitive policy interventions vis-à-vis place-blind and blanket policies. Rather than providing definitive and simplistic axioms, the lessons learned require further discussion and adaptation in light of external and internal opportunities and constraints that evolve over time in particular regions and countries. From the governance model to the type of SEZ, each option is likely to be better suited for certain countries over others and at precise points in time. More generally, the chapter reflects on the importance of gradual specialization and upgrading – in terms of target sectors and type of zone, for instance – along the SEZ development ladder, as already emphasized by UNCTAD in the 2019 *World Investment Report*. That said, it is possible to single out some features that have been recognized as generally more conducive to success, such as a strategic location of the zone and the autonomy of its authority. Among the critical success factors are highlighted the locational choice, business and investment facilitation measures, the infrastructure and services provided, and political commitment. A viable and profitable business case is also key to long-term success. The multilevel and multifaceted nature of zone development often determines the low returns of off-the shelf or one-size-fits-all strategies, so policymakers may find the guidelines here a useful tool when establishing new zones or revamping existing ones.

6.2 TOWARDS MORE SUSTAINABLE AND MORE IMPACTFUL SEZs

SEZs have traditionally been sold as a panacea for economic development. The success of a relatively small number of zones – mostly located in East Asian countries – in transforming lagging regions into “windows to the world” has been lauded around the world by researchers and practitioners alike. The trajectory of Shenzhen, a sleepy fishing village turned economic juggernaut, elicited great interest among policymakers. They have been galvanized by what

SEZs can achieve and by the pace of territorial transformation prompted by zone-based developmental strategies, in the most successful cases. Consequently and unsurprisingly, many countries in the developing world, including across Africa, have embraced zones as a vehicle for changing and revamping their economies. The establishment of zones, the argument goes, offers a win-win scenario on a silver platter: governments may be able to dynamize whole regions by enacting growth-inducing reforms in the confined land area of zones.

As is often the case when development strategies face the test of implementation, the performance of a growing tally of SEZ policies has tended to fall short of expectations. The results in Africa in particular – notwithstanding a few exceptions – have, so far, left a lot to be desired. As discussed throughout the Handbook, African zones have underperformed not only in terms of the promised economic gains, such as increasing exports, FDI and employment, but also when it comes to generating the more dynamic benefits expected by local communities and the country as a whole, where their track record has not met their initial prospects. Far from being springboards to improved economic dynamism, many African zones have remained isolated enclaves, with limited connection to the local or national economy. The reasons for such failure are related to a broad array of challenges and bottlenecks that are endemic in several African countries and, more generally, in developing economies. In this sense, SEZ interventions have not been spared the fate of other development strategies implemented previously, policy initiatives that were also frequently presented as magic bullets for development on paper but that did not deliver on their objectives when confronted with the constraints of reality of many African regions.

Underperforming SEZs have implications that go beyond the mere failure to meet expectations. First, without solid evidence of a transformative impact of zones, resentment may arise in regard to the incentives and privileges that SEZ-based firms enjoy vis-à-vis companies operating outside zones. Claims of unfair competition can inflame national – and increasingly regional, as seen in the case of the AfCFTA – policy debates on the economic rationale behind the provisions of such favoured trade conditions. When the evidence on the ground fails to justify generous policy interventions, discontent may spread, eroding the business case behind the establishment of new zones and the support for existing ones.

Second, underperforming SEZs represent a serious opportunity cost, as the considerable resources devoted to the design, establishment and implementation of the zones deflect much-needed funds from other fields of development. This Handbook has repeatedly highlighted the magnitude of the investments needed for the realization of zones. Setting up new zones usually implies pursuing multimillion-dollar investments and, at times, incurring additional debt that puts an extra burden on public finances. At the same time, other policy areas, ranging from education to health, demand the same sort of capital expenditures to build capacity and boost standards of living. Again, the lack of any sign of the impactful presence of SEZs may call into question the underlying logic of granting bounteous preferential treatments to a limited number of firms active in specific industries.

In order to justify non-negligible capital expenditures for the establishment of zones, policymakers need to rethink the ways they have been designed and implemented, while also ensuring they deliver greater innovation, productivity and employment as well as sustainable economic growth. Attempts to realize the full potential of SEZs need to transcend the attainment of the most basic objectives that have so far characterized many SEZ interventions, such as surges in exports and FDI – often short-lived. Instead, elevating the performance of SEZs

implies making sure firms in the zones branch out to local and national firms as well as to other firms across the whole of Africa. This implies creating local networks and contributing to upgrade the innovation capacity of local firms while, simultaneously, facilitating their insertion in global and regional value chains.

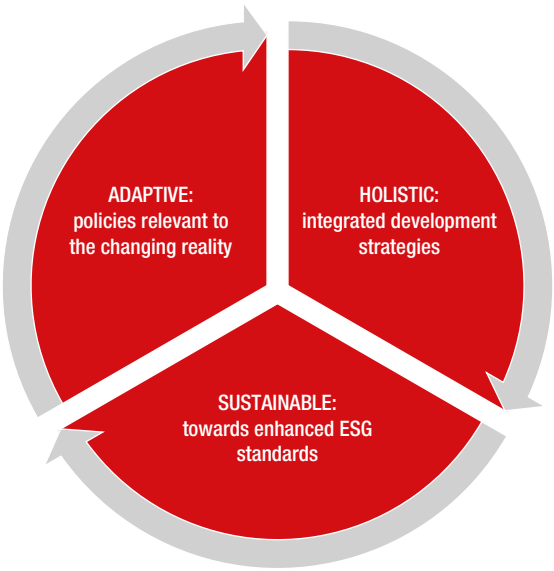
Realistically, such wide-ranging objectives are unlikely to be met by SEZ policies in isolation. Stand-alone policies can only achieve so much, as illustrated throughout this Handbook. When a zone underperforms for years, if not decades, it is not solely a consequence of the sort of fiscal incentives offered by the SEZ programme, the scope of subsidies on rents and utilities granted to firms, or of the management model of the SEZ. What can often turn around underperforming zones lies in the ability of policy interventions to improve the conditions of economic stakeholders where the zones operate. This may imply, in some cases, putting in place complementary policies aimed at improving the skills, competitiveness and accessibility of firms where SEZs are located. In this regard, as documented by various examples in the Handbook, policy actions that address skills shortages and/or underdevelopment of human capital, insufficient transport infrastructure and regulatory bottlenecks can go a long way towards boosting economic dynamism inside and outside SEZs. However, even the evidence presented by the Handbook of developments elsewhere in the emerging world – for instance, the interventions implemented by zones in Colombia, in Honduras and in Asian countries – illustrates mostly piecemeal initiatives. In making the most of the potential of SEZs, substantial margins for improvement remain.

Furthermore, the institutional dimension – frequently overlooked by many development strategies – needs to be incorporated in the design and implementation of such comprehensive policy interventions. In addition to shortages or deficiencies in human capital and infrastructure endowments, institutional bottlenecks and barriers can limit and discourage the innovative capacity of local economic stakeholders. Institutions act as a mediating factor that influences the effectiveness of any development strategy. Therefore, it becomes essential to tackle specific institutional arrangements – the policies, systems and processes at organizations' disposal to legislate, plan and manage their activities efficiently and to coordinate effectively with others in order to fulfil their mandate – that can derail the capacity to transform territories from innovation-averse to innovation-prone places.

Alongside the need to create comprehensive development strategies that act upon the multifaceted reality of a territory's socioeconomic ecosystem to augment zone performance, next-generation SEZ policies ought to be equipped with future-proof attributes that are capable of withstanding shocks in GVCs, consumer consumption and regulatory frameworks. Rapid technological advancements, a renewed focus on environmental protection and climate change, changing patterns in agglomeration, and the threat of trade wars and international rivalries may indeed gradually render SEZs' value propositions outdated, with the undesired consequence that low labour costs, weak ESG compliance and high reliance on trade preferences make SEZs lose their appeal in the eyes of investors.

In order to develop all-encompassing strategies capable of boosting zone performance and avoiding the deterioration of SEZs' commercial terms, there is a compelling case to adopt a new approach to zone development, as part of which SEZ-based policy interventions are articulated along three dimensions: a holistic one, a sustainable one and an adaptive one (figure 43).

Figure 43. The three key dimensions of future-proof and growth-oriented SEZs



Source: UNCTAD.

Holistic interventions see SEZs as part of broader integrated strategies. As discussed at various points of the Handbook, SEZs do not operate in a void, and it is often the case that contextual government-induced factors shape the fortunes of specific zones. The value proposition of a zone that lacks infrastructure endowments – not only within its boundaries but also in the surrounding region – will likely be severely weakened by the high trade costs induced by long delivery times. A zone that is short of adequate skills endowments in its local and regional economy may even fail to attract investors in the first place, as investors may find it difficult to source the right human resources. A zone surrounded by a politically unstable environment may fail to sufficiently reassure foreign investors solely through the use of investment protection measures; similarly, a zone located in a region under the spotlight for environmental and labour degradation may see investors flee, driven by fears stemming from reputational risk. At the institutional level, such a holistic approach can be operationalized by expanding the operating perimeter of SEZ interventions, hence including adjacent policy areas and the respective ministries and stakeholders in the design and implementation stages. In the end, SEZs benefit when transportation, education, institutional, social and environmental policies are well aligned and mutually reinforce each other towards shared objectives.

The sustainable dimension of SEZ policies unfolds along at least two axes: one economic and one socio-environmental. These two axes are intertwined but do not necessarily clash or represent alternatives. On the economic side, it is paramount to ensure the commercial and financial viability of zones from the beginning of their operations. As shown in the previous chapters, underperforming zones may cause misallocation of public resources, could be met with unenthusiastic support by local communities and could fail to achieve economic sustainability in the long run. On the socio-environmental side, environmental sustainability and, more broadly, growth models informed by the SDGs will gain more and more relevance, given the recent shifts in MNEs' strategic decisions driven by renewed international cooperation to contain climate change. Against this backdrop, a business model based on neglecting both

environmental and employment sustainability is unlikely to deliver in the near future. In this regard, the Handbook, with its examples of the EIPs, provides solid illustrative evidence of how a synthesis can be found between the economic and the socio-environmental rationales. A focus on the SDGs will see zones refocusing towards the manufacturing of inputs necessary for the production of renewable energy and other traditionally green sectors. It will see zones in any target sector, even the most polluting ones, implementing stricter ESG standards and improving their capacity to monitor and evaluate ESG performance. Catalysing green and impact investment may prove extremely fruitful in the next decades as international investors seek to combine returns with positive impact.

Finally, an adaptive and flexible SEZ programme takes into account the mutability of today's reality, which in turn affects the marginal competitive edges that SEZs can obtain. In this sense, SEZs become a continuous work in progress, as part of which incentives, services and other trade and investment facilitation tools are made relevant to the changing circumstances. As discussed in chapter 5, the older an SEZ grows, the more effort is required to ensure that it effectively vitalizes the surrounding economy. In addition, the type of investors and the overall target sector of SEZs are likely to fluctuate over time following changing patterns in GVCs, the adoption of digital technologies, trends in regional integration and, as mentioned, the sustainable development imperative. As a result, those zones that come prepared to adapt to all these changes are more likely to succeed. In practice, this may entail continuously assessing the performance of the SEZ programme and strengthening monitoring and assessment indicators, upgrading to more high-tech industries when the time is ripe or, as shown in chapter 4, rethinking the underlying rationale of zones so to leverage opportunities stemming from the consolidation of RVCs.

Developing holistic, sustainable and adaptive SEZ programmes is by no means a straightforward undertaking. Such a vision is beset by important challenges, originating above all from the complexity of SEZ development. Overcoming those hurdles can be achieved only with a strong will in all layers of society to make the zones a success. In this sense, the development of SEZ policies boils down to a pluri-stakeholder course of action as part of which each stakeholder – be it the public sector, private firms or civil society as a whole – can play a pivotal role in not only creating public consensus and support for the establishment of zones, but also safeguarding the overall success of what often are costly interventions. In this process, a concerted effort by decision-makers in the whole of society is key to guarantee that the establishment of SEZs is not another development tool for the benefit of a few, but a genuine source of knowledge, new ideas and new practices that start spilling over across Africa for more economically, socially and environmentally sustainable and resilient development.

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