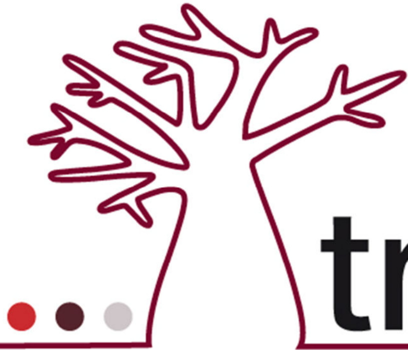

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Special economic zones and regional integration in Africa

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1. Introduction

One of the most prominent features of the global trading landscape in recent years has been the worldwide proliferation of bilateral and regional trade agreements. Africa is no exception to this pattern, and African governments have embarked on various regional integration processes with the aim of opening up regional markets and creating new opportunities for intra-regional trade and industrial development on the continent. Central in this regard have been the integration processes currently being undertaken by the continent's various regional economic communities and, more recently, an initiative to establish a Tripartite Free Trade Area (T-FTA) between the member states of the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC) and the Southern African Development Community (SADC).

Another prominent development in Africa over the last couple of decades has been the increasing use by many countries in the region of various types of special economic zones. These zones are more and more being viewed in the region as important mechanisms for attracting foreign investment, creating jobs, boosting manufacturing production and manufactured exports and contributing to much-needed industrial and economic development. This paper does not seek to provide an evaluation of the performance of the various special economic zone programmes established in Africa in recent years, but instead seeks to explore the various issues, challenges and opportunities that arise when countries – and especially developing countries – use special economic zones while simultaneously pursuing regional integration initiatives. This is a particularly important subject in the context of the COMESA-EAC-SADC T-FTA as a large number of the countries involved are actively using special economic zones or are currently in the process of establishing zone programmes.

Section 2 of this paper introduces the special economic zones concept, detailing the typical characteristics of such zones, the various forms they can take and the arguments advanced for and against their use. Section 3 then provides a brief historical overview of the evolution of special economic zones, while Section 4 examines the use and performance of special economic zones in the African context. Section 5 addresses the various challenges and opportunities that arise when special economic zone programmes are established in countries embarking on regional integration processes, before Section 6 concludes.

2. Special economic zones

The term 'special economic zone' (SEZ) is generally used to describe a geographically demarcated area within a country which functions with different – usually more liberal – administrative, regulatory and fiscal regimes to the rest of the country (Dobrogonov & Farole, 2012: 5). The different rules applied in these zones usually concern investment conditions, taxation and international trade, and are typically intended to ensure that the business environment in the zone is more liberal from a policy perspective and more efficient from an administrative perspective than that prevailing in the rest of the domestic economy (Baissac, 2011:23).

Firms which set up operations within an SEZ are generally provided with specific incentives, such as tax holidays, duty-free imports and simplified customs procedures (FIAS, 2008: 2). Not all countries provide different tax regimes within their SEZs, however, and some have even done away with the idea of geographical demarcation, instead applying the SEZ concept as a 'purely legal space' that can be applied across the entire country or at least large parts of it (Baissac, 2011: 23). The most important feature of a SEZ is that it benefits from a specific regulatory regime which differs from the rest of the economy. Another common feature of SEZs is the provision of dedicated physical infrastructure such as industrial or mixed-use parks and of transport infrastructure connecting the zone to markets, sources of inputs and major transport hubs such as ports and airports (Ibid: 24-25).

SEZs encompass a broad range of traditional commercial zones and related concepts (See Box 1 below) including free trade zones, freeports, export processing zones and trade and economic cooperation zones (UNIDO, 2009: 72). Other agglomerations such as urban enterprise zones, business incubators, industrial clusters, industrial parks, technology parks, science and research parks and petrochemical zones are also sometimes referred to as SEZs, although, strictly speaking, such agglomerations should not be classified as such unless they benefit from dedicated regulatory regimes (Baissac, 2011: 27). This plethora of terms results not only from differences in economic terminology among countries and the desire of zone promoters to differentiate their offerings from those of their competitors, but also from the fact that the many types of zones used around the world do exhibit real differences in both form and function (Ibid: 24).

Box 1: Common types of special economic zones

Free trade zones (FTZs), also known as **free zones** or **commercial free zones**, are the oldest form of SEZ and the most common. They are located at or near most ports of entry around the world and typically offer trade-related activities such as warehousing, storage, distribution, sales, re-export and exhibitions as well as light processing operations such as packaging, labelling, quality control and sorting. FTZs are relatively small areas that are usually physically segregated from the main area of the port at which they are located as they lie outside the customs territory of their host country and allow for duty- and tax-free imports of certain goods.

Export processing zones (EPZs) first appeared in the late 1950s and early 1960s as a means to promote industrialisation in developing countries. They are fenced-in industrial estates of significant size which, like FTZs, lie outside the host country's customs territory. EPZs offer industrial facilities and other incentives such as duty-free imports and simplified administrative procedures for manufacturing and related activities. Traditionally, investment in EPZs was restricted to foreign capital and manufacturing for export markets was the only activity allowed. EPZs have evolved significantly since the 1990s, however, and many are now open to a much wider range of industries and have somewhat relaxed their investment and export requirements.

Free enterprises, also referred to as **single factory EPZ schemes**, are a variation on FTZs and EPZs whereby individual enterprises are provided with incentives and other benefits without having to locate within a demarcated zone. In some countries, free enterprises coexist with Free Zones (FZs) and EPZs, while in others, FZ or EPZ status is only given to individual enterprises.

Freeports are the largest type of SEZ. They can include entire economic regions and populations and can contain or overlap political and administrative units, including both rural and urban areas. Typically, they incorporate large transport facilities such as ports and airports. Freeports also accommodate all types of economic activity, including tourism and retail sales and allow for on-site residence. They also generally provide a broad set of incentives and benefits.

Other agglomerations which are sometimes referred to as SEZs include **enterprise zones**, which are intended to encourage development in rundown urban or rural areas through the provision of fiscal incentives and grants, and specialised zones such as **science and technology parks**, **petrochemical zones** and **logistics zones**.

Sources: Farole (2011); FIAS (2008); and UNIDO (2009)

Many governments around the world have made use of SEZs as part of their overall economic growth strategies in order to spur economic transformation and improve industrial competitiveness more

rapidly and effectively than would be possible without the use of such instruments (Farole, 2011: 62). The most commonly cited goals of SEZs are to alleviate large-scale unemployment; support wider economic reform strategies; promote and diversify exports; attract foreign direct investment (FDI); and allow governments to test out new policies and approaches while maintaining the status quo for the rest of the country (FIAS, 2008: 12).

The benefits provided to firms locating in SEZs, such as import- and export-duty exemptions, simplified customs procedures, liberal foreign exchange policies, tax incentives and purpose-built production facilities and transport infrastructure are intended to boost the competitiveness of firms locating in the zone, reducing their entry and operating costs and enabling them to compete in global markets and overcome the anti-export bias of prevailing domestic trade policies (Ibid: 12). These benefits are meant to attract investment from multinational enterprises (MNEs), which in turn transfer knowledge and technology to the domestic economy (Baissac, 2011: 52). For domestic firms, locating in a SEZ also offers an opportunity to develop their capacity to produce for export markets and to access international distribution and marketing channels (UNIDO, 2009: 72-73).

In developing countries in particular, zone development is also motivated by an attempt to reap the agglomeration benefits that arise from the concentration of industries close to one another, such as the development of supply and subcontracting relationships (FIAS, 2008: 12). It has been argued, for instance, that through the concentration of infrastructure and the provision of an attractive business environment, SEZs can facilitate the development of industrial agglomerations that may enable African industries and firms to leverage economies of scale that would otherwise be very hard to attain (Baissac, 2011; 51).

Despite these potential benefits of SEZs, the use of zones as an instrument of economic development has been much debated in the literature over the last couple of decades. On one side of the debate are those that argue that SEZs offer a gradual 'alternative to neoliberal" shock therapy"' (Ibid: 52) and can promote wider economic policy reform by acting as 'demonstration areas' or 'catalysts' (FIAS, 2008: 4). On the other side are those who claim that SEZs actually delay wider policy reform by creating enclaves that allow for the continued protection of inefficient domestic industries (Baissac, 2011: 52) or 'pressure valves for unemployment' which reduce the incentive to seek more far-ranging reforms (Ibid: 4).

Those who advocate the use of SEZs stress that these instruments confer both 'static' and 'dynamic' benefits. Static benefits are those derived in the short term through the use of SEZs as tools of trade

and industrial policy. Such benefits include direct employment creation; FDI inflows; government revenue in the form of taxes paid by foreign firms establishing operations in the zone; foreign exchange generated through exports; and the creation of added economic value (Ibid: 26). Dynamic benefits, on the other hand, are 'longer term structural and developmental benefits' that SEZs can potentially generate for the domestic economy (Ibid: 26).

The supposed dynamic benefits of SEZs include indirect employment creation; industrial upgrading (FIAS, 2008: 32); skills upgrading and the transfer of skills to the domestic market through the movement of skilled workers from SEZ firms to firms outside the zone (Farole, 2011: 94); the transfer of knowledge and technology to the local economy through forward and backward linkages (Ibid: 91); the promotion of non-traditional industries, 'domestic entrepreneurialism' and 'economic openness' (Baissac, 2011: 26); regional development (FIAS, 2008: 32); and export growth and diversification (Ibid: 4). In addition, SEZs can provide a focal point for efforts to improve trade-related physical and 'soft' infrastructure and can provide a testing ground for new policies, institutions and approaches to trade promotion and facilitation (UNIDO, 2009: 8, 79). These benefits can serve to boost the overall competitiveness of a particular country or region (Baissac, 2011: 26).

However, critics of SEZs claim that zones represent a 'second best policy instrument' to correct the effects of distortive domestic policies and other factors inhibiting industrialisation or economic growth, and that the 'first best solution' would be for governments to address these distortive policies and other factors directly (Baissac, 2011: 47). In addition, these critics point out that SEZs are often used as a way to avoid tackling the underlying distortions and inefficiencies in the domestic economy (FIAS, 2008: 33). SEZs have also been criticised for hosting import-dependent activities that do not add significant value; perpetuating low-skill assembly operations; attracting FDI in low-skill, low-technology and footloose industries; suppressing labour rights; allowing poor workplace health and safety conditions; and having weak environmental controls (Ibid: 33). Zones can also be costly to develop and it is not clear whether they always represent good use of limited resources.

Studies examining SEZs – many of which have been produced by the World Bank – provide a somewhat mixed picture of their effectiveness. The general view in the literature is that zones represent 'a second best policy, whose welfare implications are often ambiguous' (Jenkins et al., 1998: 13), but some researchers note that while 'countrywide liberalization should be preferred', 'well-managed' zones can 'play a long-term dynamic role in their country's development process' (Madani, 1999: 7-8). Zones are viewed by many as effective tools for job creation, especially in 'smaller countries with populations of less than 5 million' (FIAS, 2008: 3). In particular, they have

been shown to play an important role in 'absorbing surplus labour in the early stages of industrialization' (Baissac, 2011: 52), providing significant employment opportunities for women and contributing to human capital formation (Madani, 1999: 36-43). However, zones have also been criticised for leading to 'immiserizing employment growth; that is, employment growth which is contingent upon wages falling in international purchasing power' (Kaplinsky, 1993: 1861).

For some, the employment impact of zones is moderate and 'their relative effect has been much less on jobs than on trade and investment' (Farole, 2011: 67). Indeed, in countries such as China, Mexico and the Philippines, zones have been shown to be a 'significant contributor' to FDI, while in a number of Latin American, North African and South and East Asian countries zones have been shown to contribute the vast majority of exports (Ibid: 66). Most cost-benefit analyses, however, have concluded that zones 'are of marginal value as export promotion tools' (UNIDO, 2009: 72). These apparently contrasting views on the effectiveness of zones probably reflect the fact that in terms of achieving their intended objective, SEZs have been successful in certain countries, notably in Asia and Latin America, but have been unsuccessful in many others, and particularly in least developed countries (LDCs) (Baissac, 2011: 52).

3. A brief history of special economic zones

Citywide free zones located on major international trade routes have existed for centuries, but modern zones, and, in particular, EPZs can be traced back to the late 1950s and the establishment of the Shannon Free Zone in Shannon, Ireland, which combined the attributes of an FTZ and an industrial park (Ibid: 31). Initially, EPZs based on the Shannon model were established mostly in the industrialised countries of Western Europe, but from the mid-1960s onwards, developing countries in East and Southeast Asia, Latin America and Sub-Saharan Africa (SSA) began to develop their own EPZ programmes (FIAS, 2008: 23).

In the 1960s and 1970s developing countries such as Brazil, India and Malaysia, used EPZs as a way of responding to the poor performance of their inwardly focused and highly protected domestic economies (Baissac, 2011: 41). EPZs in these countries became export-focused enclaves providing a way of absorbing surplus labour without the need for restructuring the framework of a domestic capital base geared for domestic production (Ibid: 41). In East and Southeast Asia, however, a number of countries adopted EPZ programmes as a way to support their export-oriented growth strategies and to shift from traditional to non-traditional exports (Ibid: 41). This was the case in South Korea and

Taiwan, for example. China also became a notable proponent of the use of economic zones (See Box 2 below).

Box 2: Special economic zones in China

China has undoubtedly been one of the most successful users of SEZs. The first Chinese zones were established in 1978 in order to experiment with the introduction of controlled capitalism to a centrally planned economy and, in particular, to introduce a liberal trade and investment regime into an economy that had been largely closed to the outside world since 1949. Initially, four zones were established in the country's coastal areas (three in Guangdong Province and one in Fujian), but the number of zones increased during the 1980s and 1990s to include a large number of towns and regions, some located in the interior of the country. China's SEZ strategy proved very successful as the country became the world's largest exporter of manufactured items and the leading destination for FDI in the developing world. Today, the country has over 200 zones of various types, sizes, and industrial focus. In addition, the country has started expanding its model to other parts of the globe with investments in 'economic cooperation zones' in countries in Africa and other parts of the developing world.

Source: Baissac (2011)

Despite significant changes in the global political economy, the pace of zone development increased during the 1980s. The use of zones also spread to new regions such as South Asia, Eastern and Central Europe and North Africa, and by the mid-1980s, EPZ programmes had been established in all the regions of the world (FIAS, 2008: 23). The 1980s also witnessed the beginnings of a notable trend in zone development. Whereas previously the vast majority of zones had been publicly developed, owned and operated, from the 1980s onwards, private-sector involvement in the development, ownership and operation of SEZs became increasingly common (Baissac, 2011: 37). A 2008 study found 62% of zones in developing and transition economies to be private-sector developed and operated, compared to less than 25% in the 1980s (FIAS, 2008: 2). Formal public-private partnerships also emerged as a popular option in the 1990s (Baissac, 2011: 39). The key factor behind this trend was the realisation that zones could generate a profit for their operators (FIAS, 2008: 2).

The increased participation of private-sector actors in zone development and operation has led to significant changes in the range of facilities and services on offer within zones and an 'expansion and liberalization of the core set of policies and privileges' associated with the traditional EPZ model (Ibid: 17, 21). Increasingly, the trend is towards the development of 'next generation zones' that offer

specialised facilities catering to the specific needs of higher value-added industries and provide a wider range of support services to firms operating in the zone (Ibid: 3). The development of zones is also increasingly being permitted countrywide, rather than being restricted to particular – and sometimes remote – areas or regions (Ibid: 14).

The popularity of SEZs as a mechanism to attract FDI, promote export-oriented growth and generate employment has increased enormously over the last three-and-a-half decades. In 1975 there were 79 recorded zones, operating in 25 countries (Ibid: 23). In 2006, an International Labour Organisation (ILO) database reported 3,500 zones operating in 130 countries (Farole, 2011: 17). A 2008 report, meanwhile, estimated approximately 2,300 zones operating across 119 developing and transition countries, with the majority of these clustered in Asia and the Pacific and in Latin America (FIAS, 2008: 23). Direct employment in SEZs has also increased significantly in recent decades. Altogether, SEZs directly employ between 63 and 68 million people (Baissac, 2011: 42). While Chinese zones dominate global zone employment, employing around 40 million people, SEZ employment in other developing countries has grown rapidly since the mid-1990s (Ibid: 42).

Despite these impressive numbers, many zones around the world struggle to attract firms and, in many cases, offer excessive subsidies to those firms that they do attract (UNIDO, 2009: 73). Furthermore, while zone programmes in countries such as China, Malaysia, Costa Rica, Morocco and Mauritius have played critical roles in facilitating export growth and structural transformation, many more have failed to meet such lofty objectives (Farole, 2011: 18).

4. Special economic zones in Africa

A number of African countries were pioneers in making use of SEZs as tools of economic development. Liberia and Senegal, for example, established EPZs in the early 1970s (FIAS, 2008: 31), while Mauritius established its single factory-based EPZ programme later that decade (Sawkut et al., 2009: 382). While the Mauritian programme became a notable success, most early African zone programmes failed to achieve their desired effects (Zeng, 2012). These failures were due to factors such as poor governance, the lack of adequate institutional frameworks, weak political commitment and implementation capacity and the lack of proper monitoring and evaluation mechanisms (Ibid.). The majority of African countries, however, did not establish zone programmes until the 1990s or 2000s (Farole, 2011: 67). Many of these late-adopters were inspired by the success of zone programmes in Mauritius and other developing countries, such as those in Southeast Asia and Central

America, and began to use SEZs as part of their own efforts to shift their economies from import substitution to export-led growth (Ibid: 155).

The increased interest shown in recent years by African countries towards SEZs as a developmental tool has resulted in a proliferation of zone programmes across the continent, and the majority of African countries – and most of the T-FTA countries (see Box 3 below for some examples) – have either established some form of SEZ programme, or are in the process of doing so. A 2008 study identified 114 zones in Sub-Saharan Africa, with about half of these being public zones and half private zones (FIAS, 2008). The same study also identified 53 public zones in Egypt (FIAS, 2008). The figure for SSA implies that the region accounts for approximately 4% of the world's zones, a proportion roughly in line with the region's share of global trade and investment (Farole, 2011: 68). However, roughly half of these zones were found in Kenya, and most of these are in fact single=factory units licensed as EPZ developers and housing only their own operations. This suggests that the real number of SEZs operating in SSA is much lower than 114 (Ibid: 68). Nevertheless, SEZs have been found to contribute a significant share of Africa's manufactured exports, with zones in SSA accounting for just under half of manufactured exports from the region (FIAS, 2008: 35).

Box 3: Special economic zone programmes in select T-FTA countries

Egypt: The first SEZ created under Egypt's Law 83 of 2002 on Special Economic Zones is the Northwest Suez SEZ which stretches over 20 square kilometres and is situated adjacent to the privately managed Sokhna Port, 45 kilometres southeast of Suez City, near the southern entrance of the Suez Canal. The SEZ, which serves as a model for the development of further SEZs in Egypt, offers incentives and guarantees including a 5% flat rate on personal income tax; integrated custom administration, tax administration, dispute settlement, licensing and general investor services for projects incorporated within the zones; a 10% tax rate on all activities within the SEZ; and Egyptian certificates of origin for SEZ-based exporters, allowing them to make use of Egypt's international trade agreements.

Egypt has also established nine FZs – with two more under development – and 13 Investment Zones. In order to operate inside the FZs, some of which are public and some private, enterprises must export more than 50% of their total production. In exchange, firms situated in these zones benefit from permanent exemption from all taxes and customs duties, exemption from import and export regulations, limited exemption from labour provisions and competitive utility prices. Each of the specialised Investment Zones targets a particular industry in order to establish integrated clusters, and activities in these zones are not limited to industrial activities, but also include activities such as education and scientific research.

Kenya: Kenya adopted an EPZ programme in 1990 through the enactment of CAP 517 Laws of Kenya, which also created the Export Processing Zones Authority as the official regulatory body for the programme. With production activities effectively commencing in 1993, Kenya became one of the first African countries to attempt to use economic zones as tools for industrial development. The primary motivation behind the adoption of the country's EPZ programme was to shift the Kenyan economy from import substitution to export-led growth, and the zones have been used to attract new investment, facilitate technology and skills transfer, generate employment and diversify export production.

The benefits offered to enterprises establishing in Kenyan EPZs – which are open to private developers, but which are often government run – include a 10-year corporate income tax holiday followed by a 25% tax rate for the subsequent 10 year-period, exemption from value added tax (VAT) and customs duty on inputs, exemption from payment of stamp duty on legal instruments, freedom from exchange controls, minimal bureaucracy and administrative procedures, exemption from compliance with various domestic laws, assistance from the Export Processing Zones Authority (EPZA) management in matters relating to customs and excise and dedicated physical infrastructure and infrastructural services. To date, 40 zones have been established, employing almost 40,000 workers and contributing around 10% of national exports. Over 70% of EPZ output is exported to the United States (US) under the African Growth and Opportunity Act (AGOA).

The Kenyan Ministry of Trade is in the process of reviewing the EPZ programme and establishing SEZs through the adoption of a SEZ policy and the creation of a Special Economic Zones Authority. The SEZ policy would address various shortcomings of the EPZ programme, such as infrastructural and business facilitation challenges, limitations on domestic sales and the potential World Trade Organisation's incompatibility of EPZ tax exemptions as export promotion measures. The SEZ policy would also provide regulatory and policy flexibility to allow for activities such as agro-processing, business process outsourcing and tourism services which are currently not permitted in existing EPZs. Furthermore, by allowing the government to declare any area, business or plant a special economic zone, the SEZ policy would remove the requirement for firms to be established within a gazetted region in order to enjoy zone benefits. The SEZ policy has been approved by the Kenyan Cabinet and a draft SEZ Bill is currently being debated by parliament. In addition, the terms of reference for the planning and design of three flagship SEZs have been completed. These are to be established in the strategic locations of Mombasa, Kisumu and Lamu.

South Africa: The South African Government established an Industrial Development Zone (IDZ) Programme in 2000 with the aim of attracting FDI and promoting the export of value-added commodities. IDZs were to be established close to international ports and airports and were meant to provide an investor-friendly environment characterised by good infrastructure and minimal red tape. To date, four IDZs have been designated and licensed – at Coega, East London, Richards Bay and OR Tambo International Airport

outside Johannesburg – but only the first three are fully operational. Despite some investment and job creation, the general consensus in South Africa is that the programme has not been a success. One reason given for this is the relative lack of special incentives offered to investors in the zones. Regulations in the IDZs do not deviate from the social, labour and environmental rules in force elsewhere in the country, and, in practice, firms locating in the zones receive roughly the same treatment as those s established outside the zones. This has meant that the IDZs, which are all publicly owned and operated, are, in effect, little more than glorified industrial parks.

Following a 2007 Department of Trade and Industry review of the performance of the IDZ Programme, the South African Government decided to introduce a Special Economic Zones Policy to address the shortcomings of the IDZ Programme. To this end, a Draft SEZ Bill was developed and sent to parliament in 2012. The proposed SEZ Policy seeks among other things to clarify and strengthen governance arrangement for the zones and to expand the range and quality of support measures beyond the provision of basic infrastructure. It is also envisaged that, unlike under the IDZ Programme, new zones will not be limited to designated areas adjacent to international sea ports and airports, and may be developed in any area displaying industrial potential.

Tanzania: Tanzania offers an Export Processing Zone scheme and a Special Economic Zones scheme, both of which are administered by EPZA. The EPZ programme was established in 2002 following the enactment of the Export Processing Zones Act of 2002, and aims to attract export-oriented manufacturing investment in order to promote international competitiveness for export-led economic growth. Following the rollout of the EPZ scheme, the Tanzanian government faced demands for zones in every region of the country. As a result, approximately 17 sites, representing every region of the Tanzanian mainland, have been earmarked for zone development.

Under the EPZ scheme, private actors can act as EPZ developers, EPZ operators or EPZ service providers. In order to benefit from the EPZ scheme, investors can either set up operations in a designated EPZ industrial park – the seven existing parks are Benjamin William Mkapa SEZ, Hifadhi EPZ Park, Millenium Business Park, Kisongo EPZ Park, Kamal Industrial Park EPZ, Global Industrial Park and Kigomo SEZ – where they share infrastructure and utilities with other investors – or they can establish single factory units at any geographical location in Tanzania and have these declared stand-alone EPZs by the EPZA. The incentives provided to EPZ operators include a 10-year corporate tax holiday, exemption from customs duties and other taxes on raw materials and capital goods, exemption from local government taxes, access to an export credit guarantee scheme, exemption from preshipment inspection requirements, on-site goods inspections, access to competitive and reliable services within the zones, unconditional transferability of profits, dividends and loyalties and lower port charges. EPZ operators are required to export at least 80% of the goods they produce or process.

The SEZ scheme, which was established in 2006 following the enactment of Special Economic Zones Act of 2006, aims to attract investment in industries targeting both domestic and foreign markets. While SEZ operators are not expected to export a specific proportion of their production, they are required to be located within a designated SEZ area in order to benefit from the SEZ incentives, which are essentially the same as those for EPZ operators. A further difference between the two schemes is that the SEZ scheme covers a wider range of eligible activities, including tourism, forestry, banking and financial services, and agricultural activities.

Most firms operating in Tanzania's zones target the regional African market. This is due to the fact that Tanzania is a member of various African trading blocs and the fact that the country is a transport and logistics hub for East Africa. Nonetheless, the performance of Tanzania's zone programmes have been negatively affected by an initial lack of awareness of the programmes, their duty-free arrangements, lack of capacity, and poor performance of the country's main port at Dar es Salaam. Tanzania was also unfortunate that the launch of its zone programmes coincided with the phasing out of the Multi-Fibre Arrangement, as numerous garment manufacturers that had committed to investing in the zones later pulled out or closed down.

Sources: General Authority for Investment (http://www.gafinet.org/English/Pages/default.aspx); Kenya Vision 2030 (http://www.vision2030.go.ke/index.php/pillars/project/Economic/36); Export Processing Zones Authority (http://www.epzakenya.com/); CDE (2012); DTI (2012); The United Republic of Tanzania Export Processing Zones Authority (http://www.epza.co.tz/); Farole (2011)

In terms of employment, ILO data from 2006 suggests that the contribution of SEZ programmes to employment in African countries has been, with a few exceptions, somewhat limited. As of 2006, African zones employed just over a million workers, with around half of this total accounted for by South Africa (Ibid: 69). Aside from South Africa, the only African countries found to generate significant SEZ employment were Mauritius, Lesotho, Kenya, Nigeria and Madagascar (Stein, 2008: 2). Anecdotal evidence, meanwhile, suggests that wages and benefits received by workers in African SEZs are generally equal to, or higher than, those for similar jobs outside these zones (Farole, 2011: 98). In addition, African zones have been found to make significant use of temporary labour and to be heavily reliant on foreign management (Ibid: 99, 95).

Investment in African zones is dispersed across a relatively broad range of economic activities, with agro-processing and other natural-resource-based production and processing being fairly typical of zone activity in the region (Farole, 2011). African zones also source investment from a wide variety of locations. A particularly notable development in recent years has been the establishment of Chinese

economic and trade cooperation zones in Egypt, Ethiopia, Zambia, Nigeria and Mauritius (Brautigam & Xiaoyang, 2011). The development of these SEZs has been undertaken by Chinese enterprises, with support from China's Ministry of Commerce (MOFCOM) (Ibid). In Ethiopia and Mauritius the SEZs are a 100% Chinese owned, but in other countries, national or local governments have partnered with the Chinese enterprises developing the zones (Ibid: 31). Chinese enterprises have also established numerous industrial parks outside the official MOFCOM programme (Ibid: 28), while investors from Turkey, India and the United Arab Emirates have also been involved in zone development in various African countries (Farole, 2011: 196, 255).

Previous research has shown that only a few African countries, such as Mauritius and Kenya, have generated significant positive benefits from the use of economic zones. It has also been shown that, while the performances of zones have varied from country to country, African zones have generally underperformed, especially in relation to zones in Asian countries (Ibid.). Moreover, this underperformance has occurred in the case of both private and public zones (Ibid: 192). African zones have largely failed to generate high levels of investment, exports and employment, and have shown little evidence of promoting the dynamic benefits associated with SEZs, such as diversification, technological upgrading and structural transformation of the economy (Ibid: 239).

African zones appear to have struggled for a variety of reasons. Some of these factors are particular to specific zones or specific countries, but many of them are common to zone programmes across the continent. Factors that have been identified as inhibiting zone performance in Africa include poor quality infrastructure and inadequate provision of water and electricity; poor programme planning and management; insufficient attention to trade facilitation; weak governance; challenges relating to a lack of institutional coordination; a failure to integrate zone programmes into broader trade and industrialisation strategies; remoteness from markets; a reliance on single-end markets; and policy unpredictability (Ibid.). Many African zone programmes have also followed the EPZ model, which has proved somewhat inflexible in the face of recent trends such as growth in services trade, deeper regional trade integration and the increased importance of industrial clustering (Ibid: 166). The EPZ model used by many African countries has also failed to leverage comprehensive forward and backward linkages between firms inside and those outside the zones (Stein, 2008: 14).

While zone programmes in African countries have generally performed below expectation, many of them are still in relatively early stages of development and some signs of progress are evident (Farole, 2011: 103). Nonetheless, the fact that African zones have performed so poorly despite offering environments that are more business friendly than in the rest of their domestic economies, and despite

contributing similar proportions of national investments and exports to zones from other regions, suggests that the poor performance of many African zones relates to wider national competitiveness issues in their domestic economies, especially competitiveness deficiencies in manufacturing sectors (Ibid.).

5. Special economic zones and regional integration in Africa

Like SEZs, regional trade arrangements (RTAs) have proliferated in Africa in recent decades, as African governments have sought ways to circumvent the developmental limitations associated with small domestic markets and to boost domestic industrialisation efforts through increased intraregional trade. Regional economic communities (RECs) such as COMESA, the EAC and SADC have led the way by establishing Free Trade Areas (FTAs) and – in the case of the EAC, a customs union – between their member states. More recently, an initiative to establish a Tripartite Free Trade Area between the member states of COMESA, the EAC and SADC has been launched, while the African Union (AU) has recently begun championing the establishment of a Continental Free Trade Area (C-FTA).

As the establishment of RTAs and SEZs have been two of the more prominent trade and development-related trends in Africa in recent years, it is worthwhile examining the interplay between these two mechanisms, both of which are said to play a positive role in promoting industrialisation and economic development on the continent.

At the outset, it is important to note that the relationship between RTAs and SEZs is potentially quite complex, as the establishment of RTAs affects the possibilities for zone creation within RTA member states and significantly alters the trading environment in which SEZ enterprises operate, while the existence of SEZs in potential RTA member states can create both challenges and potential synergies for RTA initiatives. The impact of RTAs on SEZs – and of SEZs on RTAs – can also differ quite substantially between RTAs, involving only developing countries and those involving at least one developed country member. While some commentators have argued that developing countries should avoid adopting economic zone programmes given their 'negative impact on regional integration,' (Baissac, 2011: 49) it is probably fairer to say that the simultaneous use of regional integration and SEZ programmes can create significant challenges for developing countries due to the fact that RTAs and SEZs – particularly in their EPZ form – are typically driven by 'somewhat inconsistent economic rationales' (Sargent & Matthews, 2001: 1739).

For instance, the use of SEZ incentives to attract investment can result in a 'race to the bottom' between neighbouring countries, potentially jeopardising regional integration processes (Farole, 2011: 174). This is considered particularly likely in developing regions such as Sub-Saharan Africa, where attracting foreign investment is generally considered a developmental imperative, and where fiscal and other investment incentives are widely used to compensate for the underlying competitiveness shortcomings of SEZs and domestic economies as a whole (Ibid: 261). In practice, such incentives are hard to remove and 'prone to inflation' as public authorities are pressured to extend and increase the incentives on offer (Ibid: 261).

Furthermore, as Farole (2011), among others, has highlighted, the issue of an 'investment incentive arms race' between neighbouring countries is a classic example of a prisoner's dilemma, whereby these countries would 'be better off by cooperating to eliminate or regulate the provision of tax incentives to foreign investors, but each might benefit most from offering incentives while their neighbour does not' (Ibid: 179). Without the ability to determine each other's actions, countries are likely to act in their own self-interest and offer investment incentives, such as those associated with SEZs. However, if all countries in a region do so, they partially negate the effectiveness of these incentives and, in effect, simply end up transferring rents to foreign investors.

Given that significant fiscal and other incentives are common features of SEZ programmes in Sub-Saharan Africa, the potential for such collective action problems is more than just a theoretical possibility. Countries in the region are unlikely to unilaterally abandon their SEZ incentives given the pressure many of their governments are under to attract investment and promote domestic employment and economic growth. Similarly, if all their neighbours are offering significant investment incentives as part of their zone packages, it would be illogical for a country in the region to establish its own zone programme without offering at least some similar sort of incentives.

The problem with this is that international investors typically only look at investment incentives once they have decided on a region in which to invest (Ibid: 182). Thus, 'incentive-based bidding wars' at the regional level are unlikely to result in the region as a whole benefiting from significantly higher levels of investment (Ibid: 182). Instead, such bidding wars are a waste of regional resources and have the potential to aggravate economic tensions between regional neighbours, thereby jeopardising regional integration processes. In this way, SEZ programmes in African countries, like other forms of national investment incentives, could serve to undermine regional integration processes that are motivated, at least partly, by a desire to boost foreign investment in the region.

Another important point about SEZs and regional integration is that where SEZs, and, in particular, EPZs, have been established, regional integration processes such as the establishment of Free Trade Agreements or customs unions must take into consideration certain issues. These include customs duty deferrals or drawbacks on inputs offered as part of the incentive packages for manufacturers situated in these SEZs; preferential rules of origin relating to goods produced in the SEZs; and whether or not such goods can be sold in domestic and regional markets. For instance, under the North American Free Trade Agreement (NAFTA), firms operating in Mexico's *maquiladora*[1] EPZs no longer benefit from duty drawbacks on non-regional inputs as they had done prior to Mexico signing the NAFTA (Sargent & Matthews, 2001: 1741). In particular, Article 303 of NAFTA requires that nonregional inputs used by *maquiladora* firms be subject to Mexico's external tariff (Ibid: 1741). Provisions such as these are designed to ensure that the trade-creating benefits of Free Trade Agreements and other integration initiatives accrue to the region's firms and industries and not to nonregional suppliers, but they also have significant implications for the competitiveness of firms operating in SEZs, especially if these firms produce for the regional market.

These issues have been recognised in the African context, and the EAC has developed regional regulations governing the use of EPZs by its member states. Of the five EAC member states, Kenya is the most prominent user of SEZs, having enacted EPZ legislation in 1990 to support its Export Development Programme (Hitimana, 2012). Tanzania enacted its EPZ Act in 2002, but its EPZ programme has thus far been somewhat less successful than Kenya's in attracting investment, largely due to poor infrastructure, bureaucracy and corruption (Ibid.). The Ugandan Government, meanwhile, is in the process of developing a number of industrial and business parks, while the Rwandan Government has apparently shifted its focus from developing an EPZ to establishing an SEZ instead (Hitimana, 2012). According to the United Nations Conference on Trade and Development, Burundi's free zone regime is 'not used in practice' (UNCTAD, 2010: 4).

The EAC Customs Union Protocol, which came into effect in July 2009, contains provisions relating to export promotions schemes (Article 25), duty drawback schemes (Article 26), tax remission schemes (Article 27), export processing zones (Article 29), freeports (Article 31) and exemption regimes (Article 33). Annex VII to the Protocol contains the EAC Export Processing Zone Regulations, which aim to ensure that EAC member states establish EPZs in a uniform fashion and that the processes involved are 'transparent, accountable, fair and predictable'. Under these regulations, existing national legislation on EPZs must be aligned with the provisions of the EAC

[1] The Mexican name for manufacturing operations in a free trade zone.

regulations, and sales by EPZ firms to the EAC market are limited to 20% of annual production. To further promote uniformity, the EAC states are to 'develop an East African Community Model Export Processing Zones Operational Manual'.

The establishment of the East African Customs Union has been used to attempt to impose a necessary level of harmonisation in the region's various SEZ schemes. While it is not yet entirely clear to what degree this approach has been successful in promoting a unified regional approach to economic zones, the EAC experience does at least highlight one way in which regional institutions can play a beneficial role in facilitating institutional convergence and establishing regional frameworks for the provision of incentives in economic zones, thereby addressing the collective action problems associated with the use of national level incentives schemes (Farole, 2011: 17).

While SEZs in general, and EPZs in particular, are often perceived as posing challenges to regional integration processes for the reasons highlighted above, the simultaneous pursuit of regional integration and economic zone-based industrial development strategies also presents potential synergies to be exploited by developing countries. For instance, economic zones can be used as a component of a regional industrial policy to facilitate regional production scale and to integrate and promote regional value chains (Ibid: 8). Given the difficulties many African countries face in terms of scaling up domestically manufactured production and exports, SEZs have the potential to be used as platforms for production for regional and subregional markets – provided, that is, that domestic and regional regulations allow for SEZ firms to sell to these markets (Ibid: 254). In addition, SEZs could also serve as locations from which to source particular regional inputs for both global and regional value chains (Ibid: 255). Regional trade through economic zones might also provide good indications of regional and subregional comparative advantage, highlighting activities and products on which industrial development initiatives should be focused (Ibid: 255).

Indeed, the United Nations Industrial Development Organisation (UNIDO) has suggested that 'SEZs may be more relevant as spatial tools for industrial development than as tools of trade policy reform' (UNIDO, 2009: 73). This is because SEZs provide a 'clear focus for government investments and institutional reforms', and because firms situated in SEZs, and, in particular, those EPZ-type zones which are focused on producing for export, are subject to the 'efficiency test' of having to be able to export (Ibid: 73). This fairly straightforward performance criterion ensures that firms producing in these zones are relatively efficient and are not merely surviving on the basis of protection rents accruing from industrial policies running counter to market incentives (Ibid: 73).

In theory, the use of SEZs as a tool of spatial industry policy might be as viable at the regional or subregional level as it is at the national level. As in the case of the national level, however, this form of spatial industrial policy is not likely to be successful if zones are used as a mechanism to attempt to attract investment to economically isolated areas within a given region. Instead, zones should be located in urban industrial areas or close to airports, sea ports or other naturally favoured locations, so as to benefit from 'thicker labour markets' and better infrastructure (Ibid: 73). In this way, zones are most likely to facilitate beneficial spillover effects for the region in question.

In the context of the COMESA-EAC-SADC T-FTA, economic zones could be established at or near major ports serving the region (as many already have been), or, alternatively, on or close to one of the designated 'transport corridors' in the region. SEZs established along the North-South Corridor, for instance, would benefit from the various initiatives and infrastructure developments associated with the North-South Corridor Programme of the COMESA-EAC-SADC T-FTA, which aims to facilitate trade along this network of roads and railroads that passes through eight T-FTA countries. Provided that firms located in these zones were permitted to export to the region, these SEZs could provide excellent platforms for boosting intraregional trade and promoting regional value chains and closer economic ties between the member states of the T-FTA.

6. Conclusion

While this chapter has not provided an in-depth analysis of the performance of SEZs in Africa, it has, based on evidence surveyed, suggested that their performance has been somewhat below expectations. It does not follow, however, that the concept should be binned entirely, and, indeed, it does not appear that African governments are likely to do so anytime soon. What the chapter has tried to do, though, is to highlight the fact that particular challenges are likely to arise as more and more countries in the region establish and expand their SEZ programmes while simultaneously trying to promote deeper integration with their neighbouring countries under initiatives such as the COMESA-EAC-SADC T-FTA.

These challenges are not insurmountable, however, and, as demonstrated by the EAC Customs Union Protocol and the EAC Export Processing Zones Regulations annexed to the Protocol, there are potentially ways in which regional cooperation and regional institutions can be used to provide a framework to ensure some level of coordination between individual countries in terms of the establishment and administration of economic zones. Furthermore, there may also be potential for

economic zones to be more fully placed at the heart of regional integration processes through, for example, the establishment of shared (geographical or administrative) economic zones or stronger regional regulation governing the establishment and administration of zones in the region.

Indeed, in the African context in general, and within the T-FTA in particular, SEZs may prove to be useful tools of regional industrial policy and could serve as important platforms for scaling up regional production and exports, for boosting intraregional trade, for promoting greater competitiveness in regional manufacturing industries and for demonstrating the benefits and viability of various forms of regulatory changes. However, as in the case of using economic zones as tools of spatial industrial policy at the national level, the political challenge of ensuring a relatively equitable sharing of the spillover benefits from such zones remains. In the context of the T-FTA, for instance, it would be politically important to ensure that the benefits of agglomeration provided by well-functioning economic zones are enjoyed by all member countries. Exactly how this could be achieved is not entirely clear, and more work probably needs to be done in terms of identifying possible solutions, such as the use of regional transport corridors as location anchors for the development of SEZs.

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