

FDI Within Special Economic Zones as an Instrument for Economic Diversification in Africa

Charles Ughele

Chief Representative &
Advisor West Africa
GDP Global Development
M: +234 802 052 3582
www.gdpglobal.com

- **Concepts of special economic zones**
- **Perspectives on African economy**
- **SEZs in Africa**
- **How SEZs can help African economies**
- **What African governments should do – and to avoid**
- **Visioning SEZs**
- **SEZs and industrialisation**
- **Conclusion**

A large, stylized graphic of the African continent in light blue and yellow, overlaid with a network of orange and blue lines. The text 'AFree zones' is in a grey font above 'AFRICA' in a large, bold, yellow font.

Concepts of special economic zones

Special Economic Zone

"A **special economic zone (SEZ)** is an area (designated) in which the business and trade laws are different from the rest of the country" (Wikipedia)

"Special Economic Zones (SEZs)...an industrial infrastructure and a services provider to attract and facilitate foreign investment, integrate local firms into global value chains, promote export-oriented growth and generate employment"

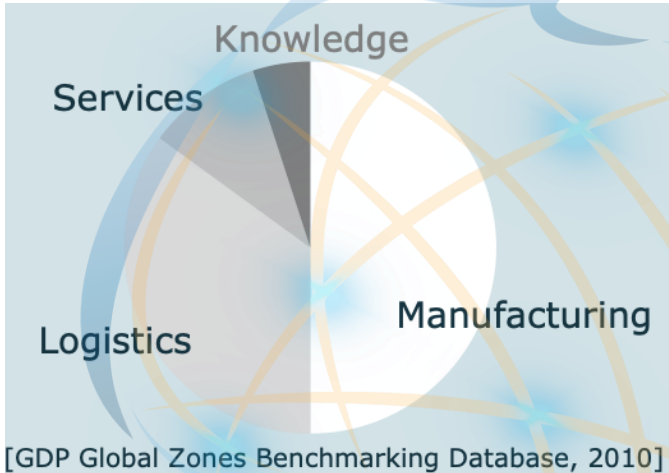
(World Economic Forum 2018).

Free Trade Zones

Free Trade Zones are a class of SEZs, fenced-in, duty-free areas, offering warehousing, storage, and distribution facilities for trade, transshipment, and re-export operations, without the intervention of the customs authorities.

"The creation of special economic zones by the host country may be motivated by the desire to attract foreign direct investment (FDI)."

(Woolfrey, Sean (2013) "Special economic zones and regional integration in Africa", Trade Law Center, 25 May 2014).



Free Trade Zone
Export Processing Zone
Specialized Zones

Single factory
Industrial Estates
Enterprise Zones

New / emerging zones



- Regional HQs
- Global manufacturing centres
- Value added logistics
- Business & financial services

New approaches



- Services
- Branding
- Zone development finance

Traditional / mature



- Trade based
- Low cost assembly
- Manufacturing
- Logistics

Why economic zones?



- 
- Poor economy – primary products
 - Budgetary constraints
 - Low industrialisation/technology
 - Unattractive regulatory environment
 - Infrastructure issues
 - Taxes – customs duties, VAT, export
 - Growing unemployment
 - Untapped natural resources

Perspectives on African economy

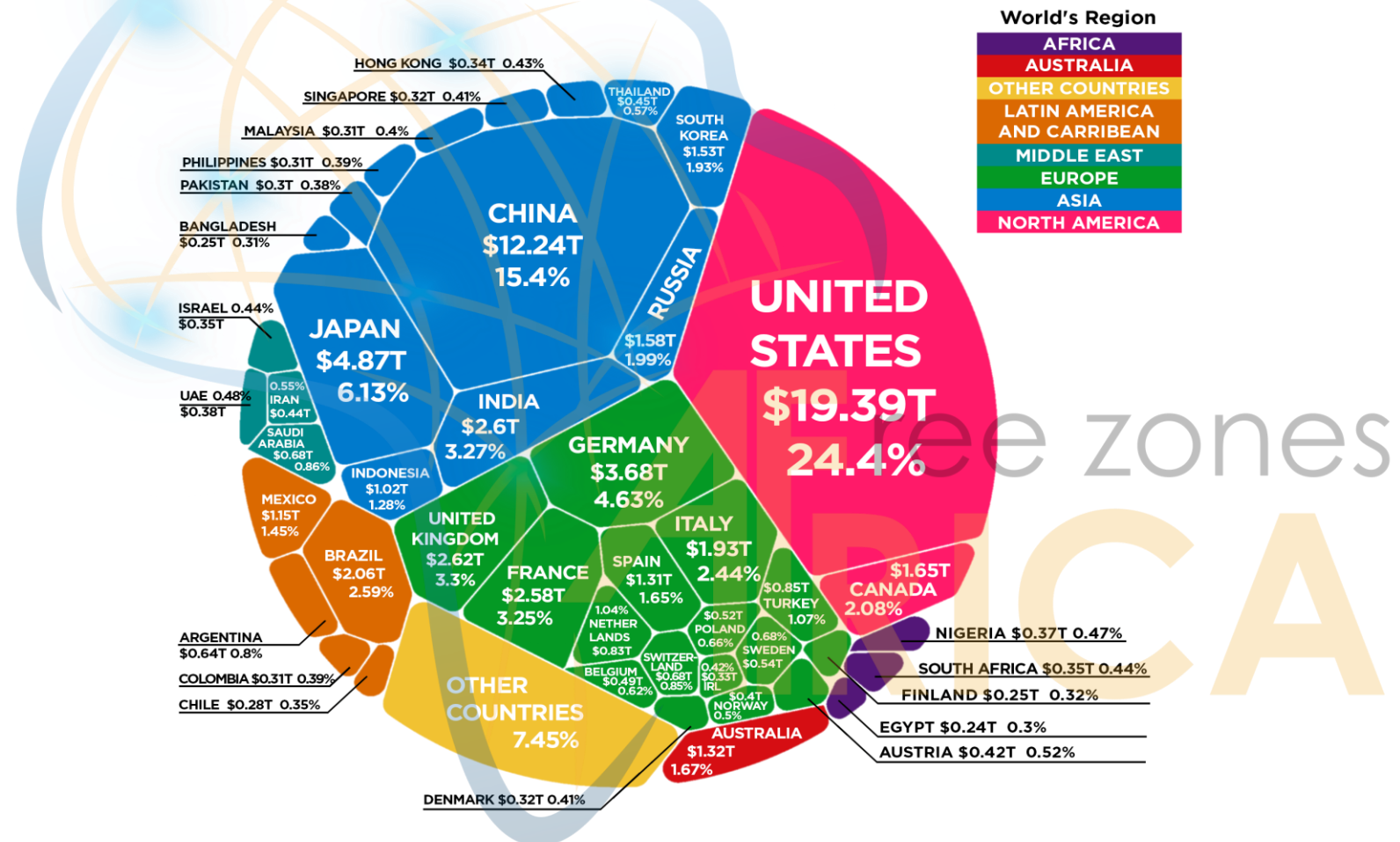
**“If Africa builds nests, will the birds come?”
- UNDP**





The World Economy

Gross Domestic Product (GDP) by Country 2017

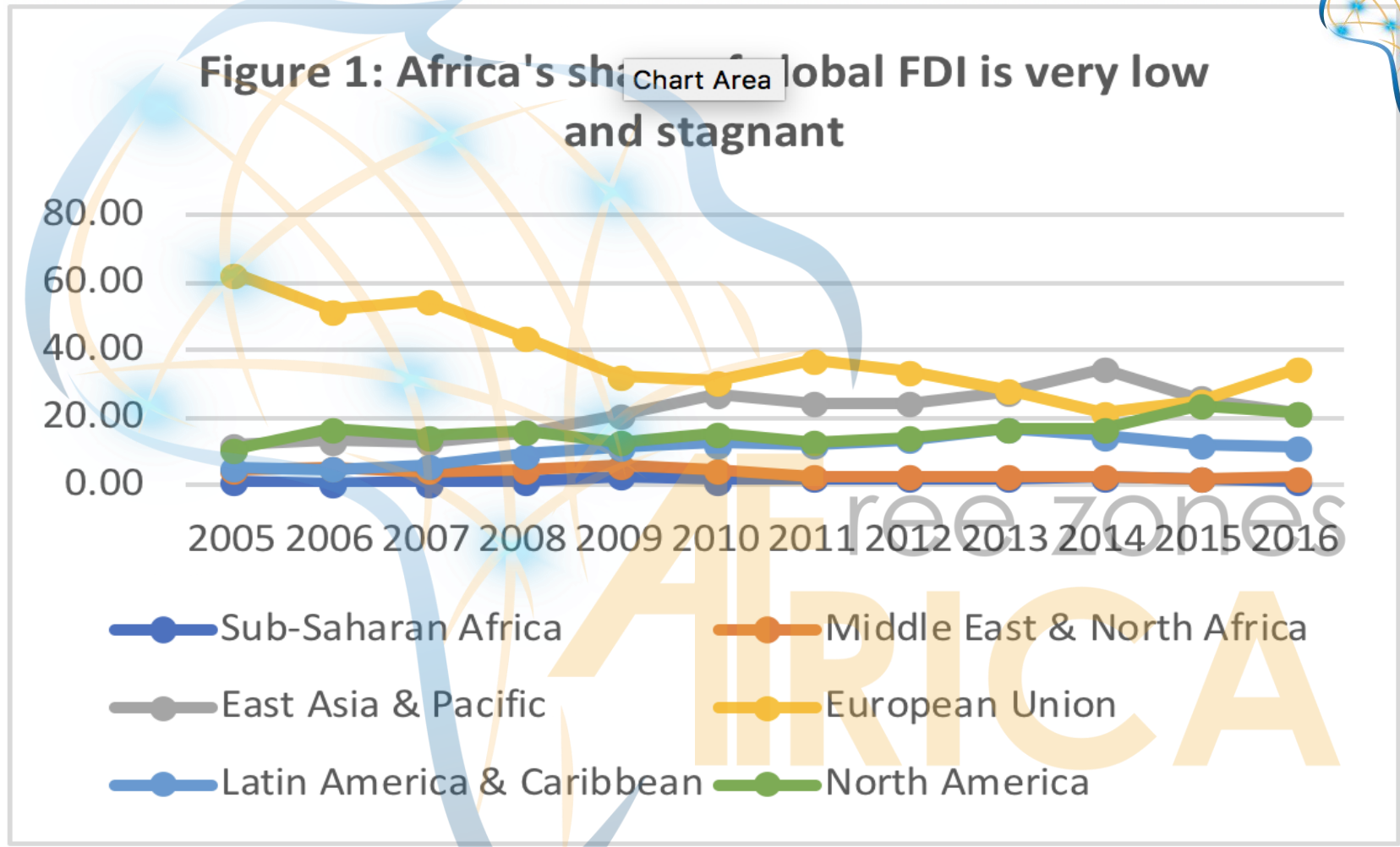


Article and Sources:
<https://howmuch.net/articles/the-world-economy-2017>
<http://databank.worldbank.org/data/download/GDP.pdf>



- **Main components:**
 - Agriculture
 - Trade
 - Industry
 - Human resources
 - Resource-rich continent.
- **GDP growth:** 2.3% for 2018 (down from 2.5% in 2017) but up to 6% in smaller, non-resource intense countries (Kenya, Rwanda, Niger, Ghana, Burkina Faso, Cote d'Ivoire, Ethiopia, Senegal, Tanzania, and Uganda).
- **GDP per capita:** \$1,720 (2017; 6th)
- **GDP:** \$2.19 trillion (Nominal; 2017); \$6.36 trillion (PPP; 2017)
- **Population:** 1.307 billion (16%; 2019) in 54 different countries (projected 2.5bn (26%) by 2050, and 4.5bn (40%) by 2100!
- **Millionaires (US\$):** 140,000 (0.011%)

Africa's share of global FDI



Source: Africa Renewal Online, 6 June 2018

Africa SEZs by decade of launch

Year of Launch	*Countries
1970s	Liberia, Senegal, Mauritius
1980s	Djibouti, Togo
1990s	Burundi, Cameroon, Cape Verde, Equatorial Guinea, Ghana, Kenya, Madagascar, Malawi, Morocco, Mozambique, Namibia, Nigeria, Rwanda, Seychelles, Sudan, Uganda, Zimbabwe
2000s	Gabon, Gambia, Mali, South Africa, Botswana, Zambia, Eritrea, Mauritania, DRC Congo, Tanzania, Ethiopia

*List not exhaustive

Source: FIAS (2008) with author's amendments, cited in Douglas Zhihua Zeng "Global Experiences with Special Economic Zones With a Focus on China and Africa", The World Bank Trade and Competitiveness Global Practice, February 2015].

Africa SEZs in action



▪ Garment factory, Bole Lemi Industrial Zone, Ethiopia



▪ Construction vehicles for rent at Chambishi EZ, Zambia



▪ Automobile Plant, Tangier Industrial Zones, Morocco



▪ TradePort, Kenya



▪ Dangote Cement Plant, Ibese, Nigeria



▪ Dube Metallurgical Centre, South Africa



▪ Chinese investment in Mauritius SEZ



▪ Kigali Special Economic Zone, Rwanda



▪ Apollonia Business Park, Ghana

A brief assessment of SEZs impact



- Much support from:
 - USA: African Growth and Opportunity Act (AGOA) 2000 extended till 2025;
 - China: Forum on China-Africa Cooperation (FOCAC) Johannesburg Action Plan (2016-2018) adopted in December 2015; initial pledge of USD10 billion.
- Africa industrial development largely limited, despite its relative growth of 3.5% from 2005 to 2014.
- Manufacturing Value Add (MVA) and manufacturing export dip behind the rest of the world.
- In 2017, Sub-Saharan Africa's MVA to GDP only about \$145 billion dollars (under 10%) versus developing countries in East Asia and OECD members.
- Significant room for growth.

[Signé, Landry and Chelsea Johnson (2018) "The Potential of Manufacturing and Industrialisation in Africa", Africa Growth Initiative, at the Brookings]



Legal, regulatory and institutional framework

Poor business environment

Lack of strategic planning and demand-driven approach

Inadequate infrastructure

Zone management and operational know-how

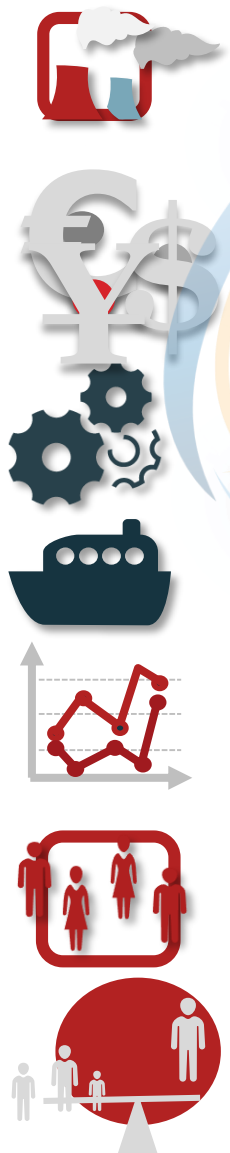
Host government ownership & policy consistency

Resettlement issues

China factor: supporter versus competitor

Public-Private Partnerships

How SEZs can help African countries



- Host local transformation
- Attract foreign investment
- Develop new technologies
- Diversify the industrial base
- Achieve diversified export
- Contribute to GDP
- Create local employment
- Overcome regional inequality

Examples

Nigeria (Lekki int'l airport, Eko Atlantic City), Egypt (new capital city)

Mauritius (tourism), Nigeria (oil and gas), Cameroon (cement)

Morocco (automobile), Nigeria (ICT)

Mozambique, Namibia, South Africa and Zambia (automotive, aluminium, mining)

Mauritius (agriculture); Ethiopia (textile, leather, cement)

Morocco, Nigeria, Ethiopia, Zambia, Rwanda, Kenya, etc (tourism, ICT)

Work in progress: – AGOA, AfCFTA, etc

Visioning Special Economic Zones



Global competitiveness will depend on sound government policies that also appeal to business:

- 1 **What's the real economic objective?**
- 2 **What's the vision?**
- 3 **Anticipate competition, create USP**
- 4 **Think beyond the standard model**
- 5 **Large may be the solution, or small may be better**
- 6 **Marketing, services and branding**

Successful SEZs



- Demand-driven and respond to market requirements:
 - Identify target sectors for investment
 - Determine investors' critical investment drivers and constraints
- Two approaches:
 - Diversified with scale
 - Highly specialized

Investor location selection criteria for African countries – in priority order

16



- 1. Cost and quality of utilities**
- 2. Access to transportation infrastructure**
- 3. Business regulatory environment**
- 4. Access to technology**
- 5. Tariffs, duties, rules of origin**
- 6. Level of corporate taxes**
- 7. Access to high-skilled labour**
- 8. Access to suppliers**
- 9. Access to low-cost labour**
- 10. Availability/cost of land and buildings**
- 11. Access to local and regional markets**

What African Governments should do



- **Ensure high-level political commitment and support for effective cross-ministerial collaboration;**
- **Integrate SEZ programmes into national development plans and strategies;**
- **Support all industries that have a comparative advantage through SEZ development;**
- **Ensure sufficient funding for infrastructure development within and availability of good infrastructure outside the SEZ, prior to the SEZ approval;**
- **Provide incentives for the creation of joint ventures between foreign SEZ companies and local companies;**
- **Respond to SEZ labour requirements by aligning curricula of universities and Technical Vocational Education and Training (TVET) institutions;**
- **Set high environmental standards in line with the UNIDO's Guidelines for Green Industry Parks and put a system in place to ensure their enforcement; and**
- **Establish low minimum SEZ investment thresholds for established local companies.**

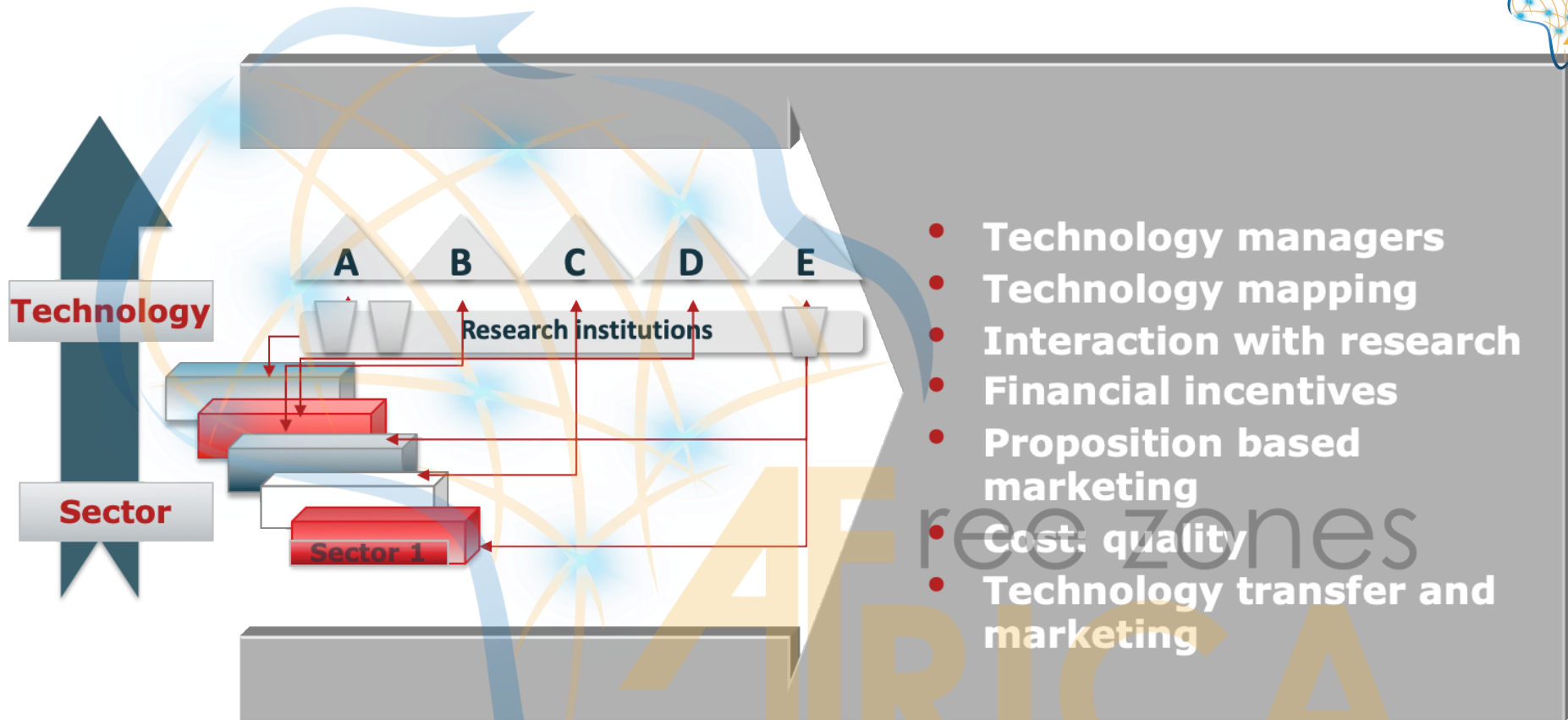
[Source: "Comparative Study on Special Economic Zones in Africa and China", UNDP Working Papers series NO.06.2015]

What to avoid



- **Political interference in SEZs programmes/operations.**
- **Approval of SEZs without strong business cases;**
- **Lack of institutional capacity to administer and support SEZ development and enforcement of SEZ regulations;**
- **Approval of too many competing SEZs within a region; and**
- **Incentives for local companies to export their goods rather than building local supply chains.**

Industrialisation promotes international technology competences

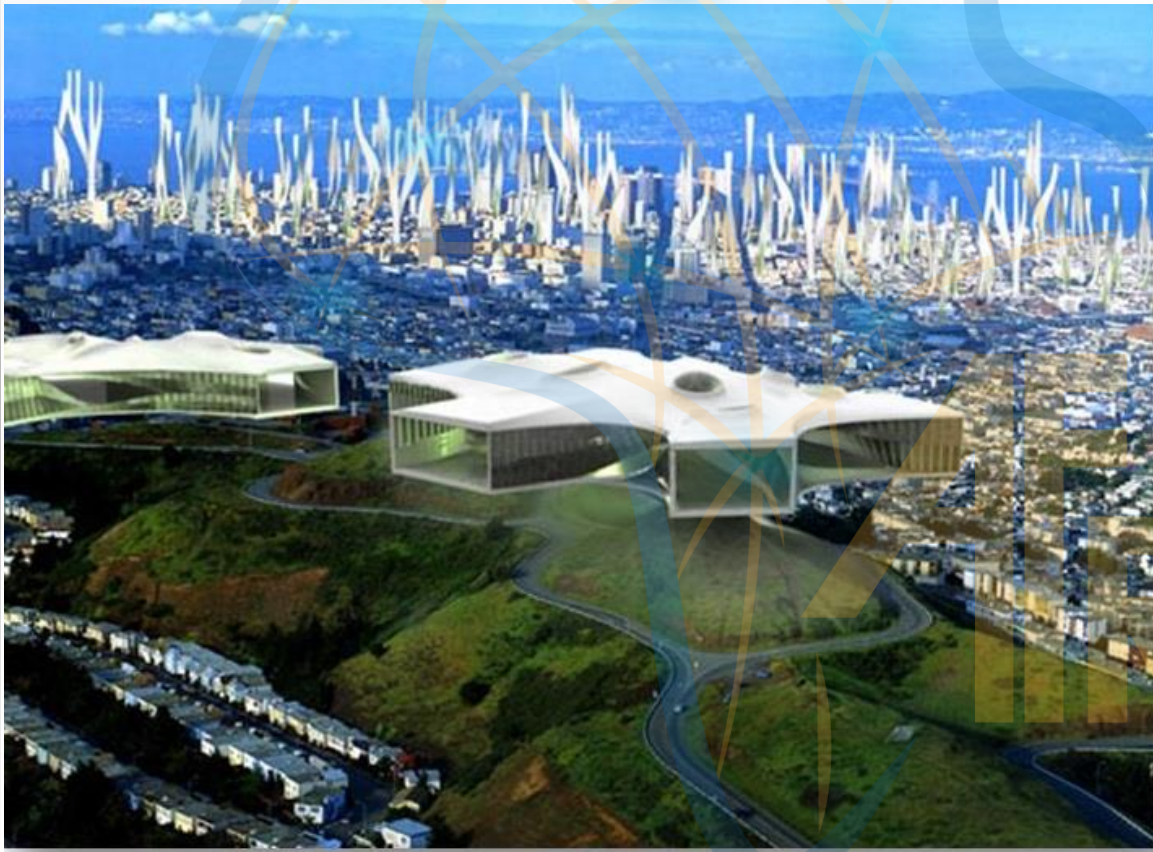


- Technology managers
- Technology mapping
- Interaction with research
- Financial incentives
- Proposition based marketing
- Cost: quality
- Technology transfer and marketing

Competition: market access and selective technology areas

Future Zone Development

From zones to clusters?



Up/downstream integration



Innovation



Networks



Enterprise development



Integration with the local economy, or the preserve of foreign investors?

Key success factors of SEZ



KEY SUCCESS FACTORS OF SPECIAL ECONOMIC ZONES



Source: Cheong, Teo Eng (2018) "The Key Success Factors of Special Economic Zones", Surbana Jurong Academy

Conclusion

- Africa lag in economic development and global share of FDI.
- Special Economic Zones hold huge potential for the continent.
- Imperative to address the attendant challenges.
- The investment environment must be right – competitive.
- Requires good vision, stronger commitment and new strategies.





Charles Ughele

Chief Representative & Advisor West Africa

GDP Global Development

M: +234 802 052 3582

www.gdpglobal.com