



Africa Free Zones Organization Webinar, 25 July 2019

# SEZ in Theory and Practice

With a Special Focus on the African Experience

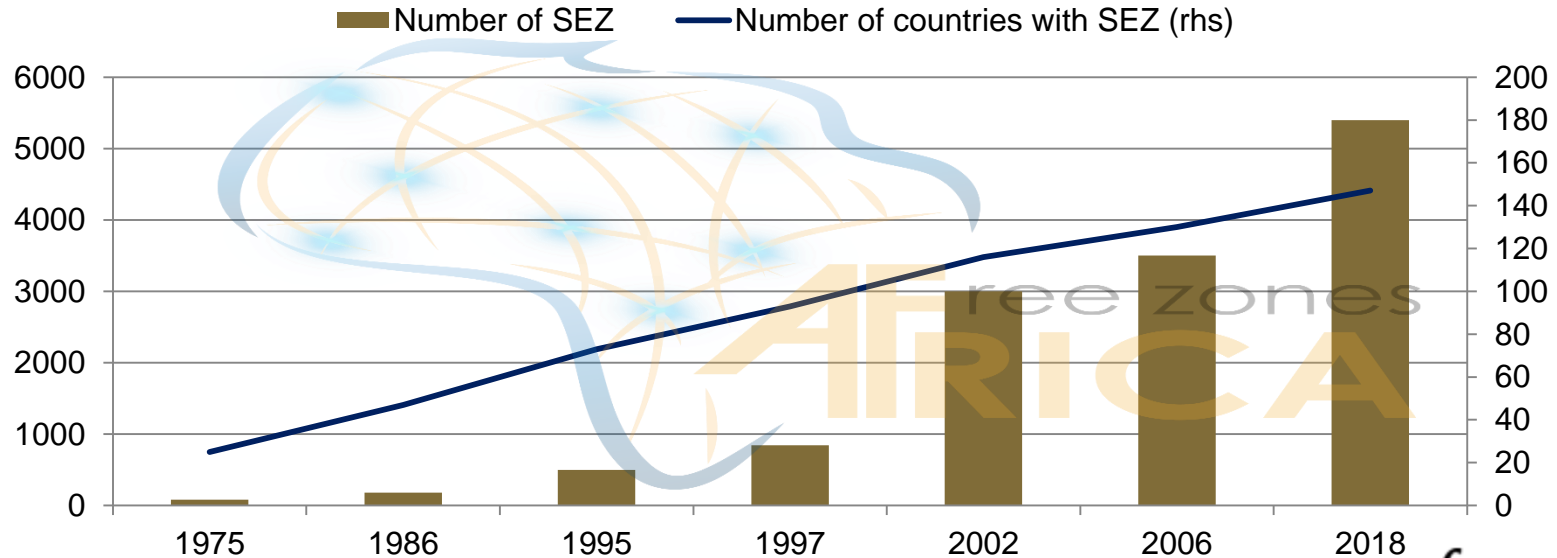
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This presentation is based on a Möhle and Hachmeier (2019), a study jointly conducted by World FZO and the Kiel Institute for the World Economy on behalf of GIZ, a German development cooperation agency.



## The number of SEZs has increased substantially and so has their relevance for the global economy



## Outline

- The Potential of Special Economic Zones
- Special Economic Zones in Africa
- Risk and Success Factors for Special Economic Zones

# The Potential of Special Economic Zones

## Research on Special Economic Zones: Status-Quo

- Studies on Free Zones comparatively rare:

- Individual countries
- Case studies

- Main challenges for researchers:

- Lack of data
- Causal links difficult to establish

## Direct or “Static” Economic Effects of SEZs

### Objectives

Foreign Direct Investment

Exports

Export diversification

Employment & income

Largely positive effects

## Indirect or “Dynamic” Economic Effects of SEZs

### Objectives

Linkages with the local economy

Technology & knowledge spillovers

Industrial upgrading

“Testing ground” for broader economic reforms

### Mixed performance

Experiences from some countries show that targeted measures can encourage dynamic effects

## Socio-Economic Effects of SEZs

Labor rights and  
conditions

Environmental effects

**Mixed performance**  
SEZ-specific problem?



# Special Economic Zones in Africa

## SEZs in Africa: An Overview

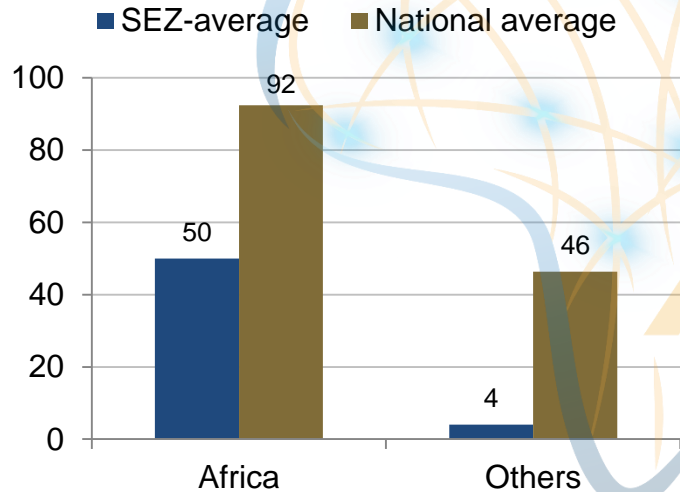
- SEZ -“boom” since the 1990s
  - By now, the majority of countries in Africa have or plan SEZ-programs
- So far, the success of Sub-Saharan African countries to replicate the SEZ-driven growth of East Asia has been limited
  - However, relative investment and export performance is often similar to other world regions
  - Successful examples: Mauritius, Morocco
- More recently, increasingly positive reports from SEZs in Africa
  - Examples: Ruanda, Ethiopia

## SEZs in Africa: Challenges

- At the global and regional level:
    - Fierce and established competition from other world regions
    - Limited regional integration → Potential benefits from AfCFTA
  - At the national level:
    - Overall national competitiveness
    - Thorough **planning and implementation** of SEZ programs
- Scope for knowledge sharing and international cooperation

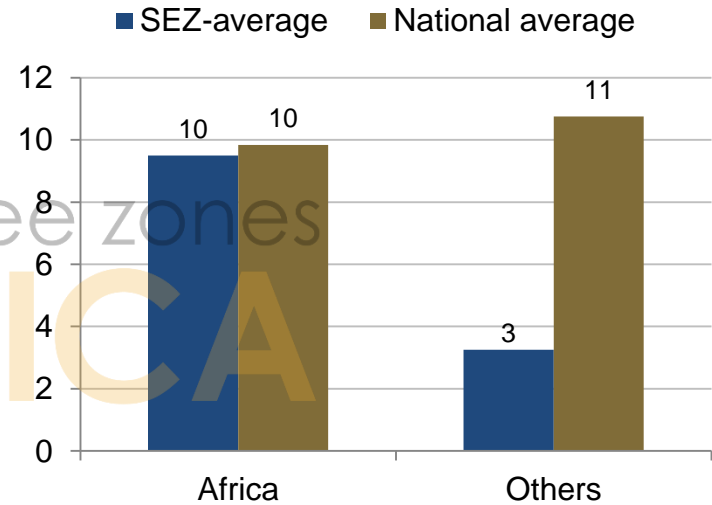
## Many SEZs in Africa improved the business environment substantially but continued to lag behind Free Zones elsewhere

Average monthly downtime due to power outages (in hours)



Source: Own figure based on Farole (2011).

Average time needed for customs clearance of imports through main seaport (in days)



Source: Own figure based on Farole (2011).

# Success and Risk Factors for SEZs

## Success Factors for SEZs

- Integration into the national development strategy and the local economy
- Flexibility and openness to various sectors
- Central and high level government authority as the responsible entity and clear separation of the regulatory authority from the developer and operator of the zone

## Risk Factors for SEZs

- Barriers to investment and uncompetitive incentive structures
- Compatibility with WTO regulation and regional trade agreements
- High costs and financial risks for public finances
- Inadequate structures and insufficient administrative capacities of national authorities



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