

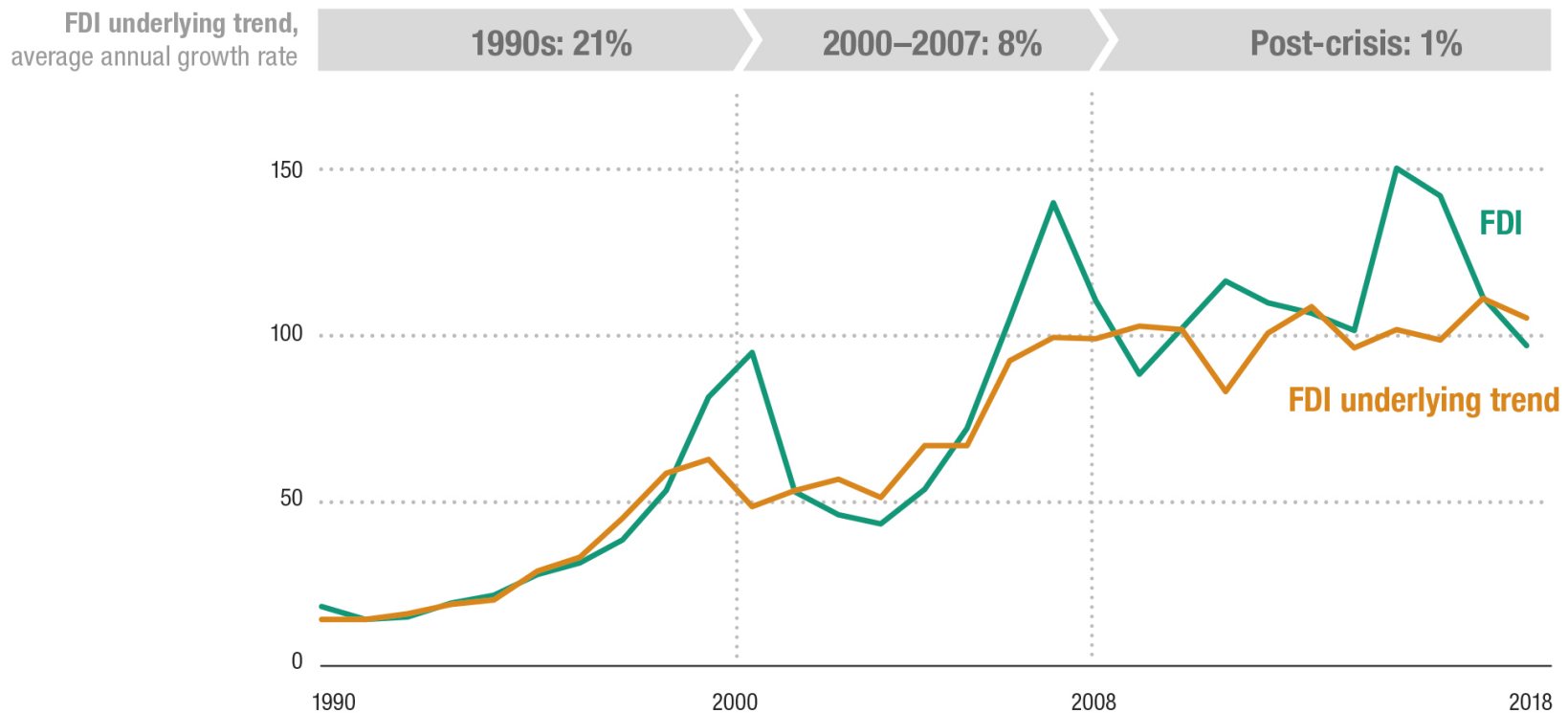
# UNCTAD Policy Briefing on Industrial Development and SEZs in Africa: Challenges and Policy Trends

- **Ricard Bolwijn**
- Head of Investment Research
- UNCTAD

# Global FDI was down by 13% in 2018 – the underlying trend has been anemic since 2008

FDI inflows and the underlying trend, 1990–2018

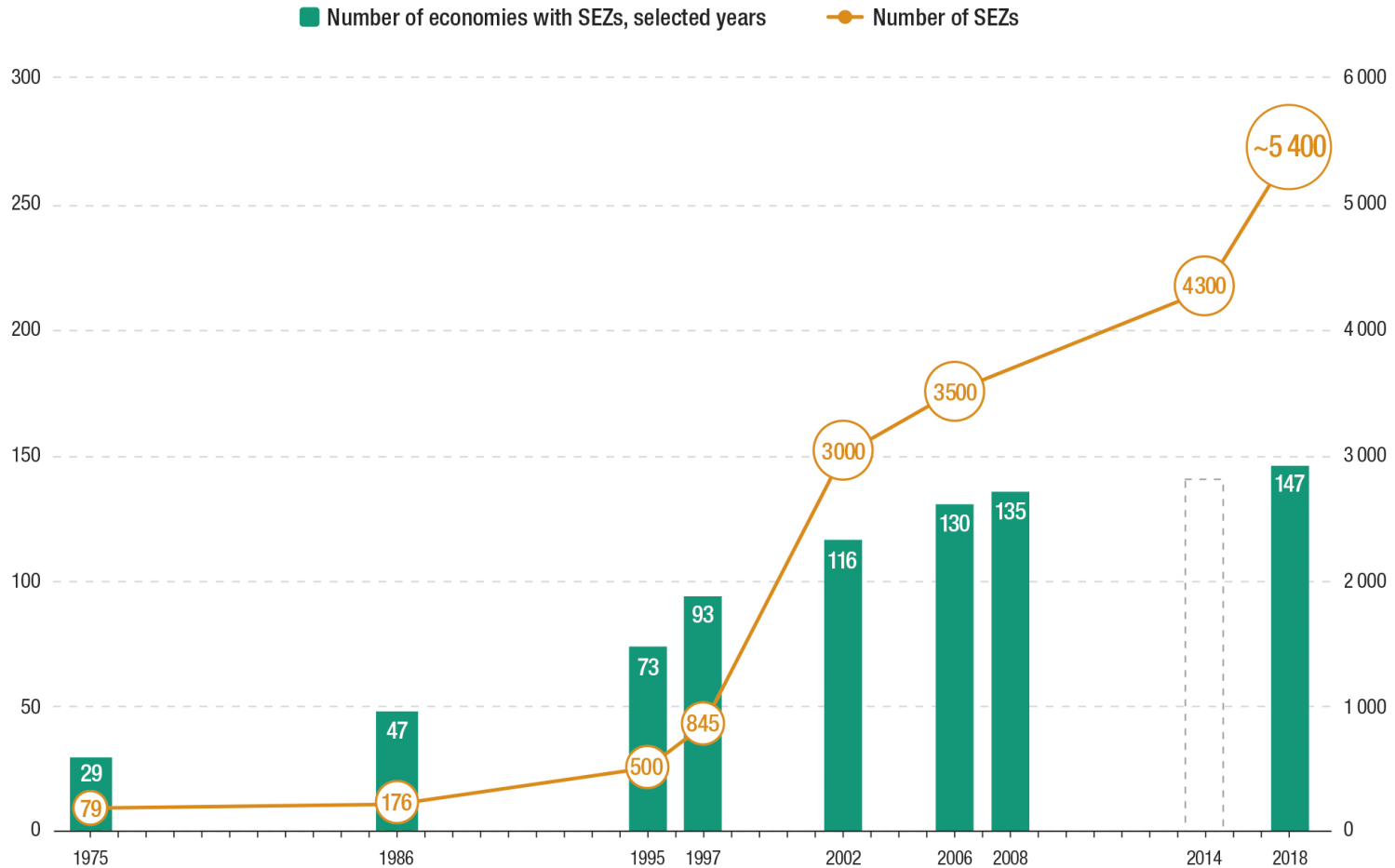
(Indexed, 2010 = 100)



# Competition for scarce FDI is leading to a new boom in SEZs

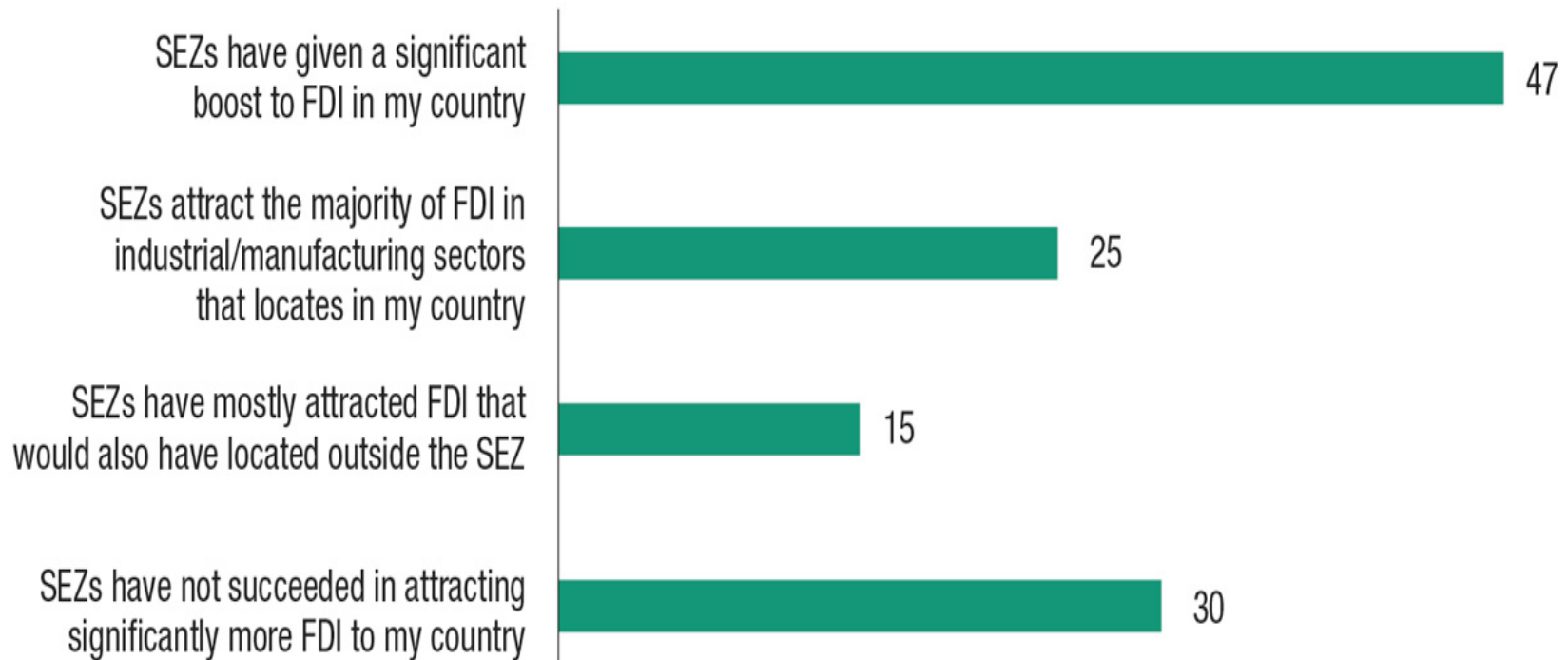
## Historical trend in SEZs

(Numbers of countries and SEZs)



# SEZs are an important tool for investment promotion in most countries, but not successful everywhere

Survey of investment promotion agencies in 110 economies  
(Percentage of respondents)



# Zone types follow an SEZ development ladder

	Zone policy objectives	Prevalent zone types
<b>High-income economies</b>	<ul style="list-style-type: none"> <li>• Provide an efficient platform for complex cross-border supply chains</li> <li>• Focus on avoiding distortions in the economy</li> </ul>	<ul style="list-style-type: none"> <li>• Logistics hubs free zones only (not industrial free zones)</li> <li>• Innovation and new industrial revolution objectives pursued through science parks without separate regulatory framework, or though incentives not linked to zones</li> </ul>
<b>Upper-middle-income economies</b>	<ul style="list-style-type: none"> <li>• Support transition to services economy</li> <li>• Attract new high-tech industries</li> <li>• Focus on upgrading innovation capabilities</li> </ul>	<ul style="list-style-type: none"> <li>• Technology-based zones (e.g. R&amp;D, high-tech, biotech)</li> <li>• Specialized zones aimed at high value added industries or value chain segments</li> <li>• Services zones (e.g. financial services)</li> </ul>
<b>Middle-income economies</b>	<ul style="list-style-type: none"> <li>• Support industrial upgrading</li> <li>• Promote GVC integration and upgrading</li> <li>• Focus on technology dissemination and spillovers</li> </ul>	<ul style="list-style-type: none"> <li>• Specialized zones focused on GVC-intense industries (e.g. automotive, electronics)</li> <li>• Services zones (e.g. business process outsourcing, call centres)</li> </ul>
<b>Low-income economies</b>	<ul style="list-style-type: none"> <li>• Stimulate industrial development and diversification</li> <li>• Offset weaknesses in investment climate</li> <li>• Implement or pilot business reforms in a limited area</li> <li>• Concentrate investment in infrastructure in a limited area</li> <li>• Focus on direct employment and export benefits</li> </ul>	<ul style="list-style-type: none"> <li>• Multi-activity zones</li> <li>• Resource-based zones aimed at attracting processing industries</li> </ul>

Source: UNCTAD.

# Lessons for modern zone development

Areas	Lessons learned
Programme design	<ul style="list-style-type: none"><li>• Integrate SEZs dynamically in development strategy</li><li>• Complement existing competitive advantages</li><li>• Take into account the national investment climate and governance capabilities</li><li>• Design zones to be self-financing</li></ul>
Operations	<ul style="list-style-type: none"><li>• Get the basics right: business facilitation, infrastructure, labour pool</li><li>• Promote clusters and linkages</li><li>• Ensure strong institutions and good governance</li><li>• Coordinated investment promotion</li></ul>
Development impact	<ul style="list-style-type: none"><li>• Set clear goals and performance metrics for economic and ESG contributions</li><li>• Conduct effective monitoring and evaluation, with consequence management</li><li>• Maximize synergies between institutions and levels of government</li></ul>

# Comprehensive monitoring and evaluation essential

## SEZ sustainable development “profit and loss statement”

Cost-benefit areas	Key elements
<b>Direct economic contributions</b>	<ul style="list-style-type: none"> <li>• Attraction of FDI</li> <li>• Job creation</li> <li>• Export growth</li> <li>• Foreign exchange earnings</li> </ul>
+	
<b>Indirect economic contributions</b>	<ul style="list-style-type: none"> <li>• Supplier linkages beyond the zones</li> <li>• Indirect and induced job creation</li> </ul>
=	
<b>Combined economic impact</b>	<ul style="list-style-type: none"> <li>• <i>Additional GDP growth</i></li> </ul>
+/-	
<b>Net cost of/revenue from zones</b>	<ul style="list-style-type: none"> <li>• Investment expenditures</li> <li>• Operating costs</li> <li>• Foregone revenues and subsidies</li> <li>• Income from zones</li> </ul>
=	
<b>Fiscal/financial viability of zones</b>	<ul style="list-style-type: none"> <li>• <i>Payback time of zone investment</i></li> <li>• <i>Fiscal burden</i></li> </ul>

Cost-benefit areas	Key elements
+	
<b>Dynamic economic contributions</b>	<ul style="list-style-type: none"> <li>• Technology dissemination</li> <li>• Skills and know-how transfers</li> <li>• Industrial diversification and upgrading</li> <li>• Enhanced regional economic cooperation</li> </ul>
+/-	
<b>Social and environmental impacts and externalities</b>	<ul style="list-style-type: none"> <li>• Labour conditions</li> <li>• Environmental impact</li> <li>• Appropriation or misuse of land</li> <li>• Illicit flows</li> </ul>
+/-	
<b>Policy learning and broader reform impact</b>	<ul style="list-style-type: none"> <li>• Pilot function of zones</li> <li>• Catalyst function for reforms</li> <li>• Reduced motivation to reform</li> </ul>
=	
<b>Overall sustainable development impact</b>	<ul style="list-style-type: none"> <li>• <i>Evolution of the role of zones in the economy</i></li> <li>• <i>Long-term zone transformations</i></li> </ul>

Source: UNCTAD.

# Looking ahead, SEZs face a triple challenge

Policies/standards	Sustainable development imperative	New industrial revolution and the digital economy	Changing patterns of international production
<b>Strategic reorientation</b>	<ul style="list-style-type: none"> <li>Integrate sustainable development indicators in SEZ programme design</li> <li>Explore new SEZ models focused on incubating business activities that promote sustainable development</li> </ul>	<ul style="list-style-type: none"> <li>Modernize SEZ service provision by integrating digital technologies</li> <li>Promote investment in business activities of digital firms</li> <li>Partner with global platform providers to enhance SEZ competitiveness</li> </ul>	<ul style="list-style-type: none"> <li>Focus specialized SEZs on services and manufacturing activities in line with global industrial restructuring</li> <li>Link SEZ development to regional integration, including through new international cooperation models</li> </ul>
<b>Regulatory reform</b>	<ul style="list-style-type: none"> <li>Establish, monitor and enforce ESG performance indicators for SEZ investors</li> <li>Promote global standards in SEZs</li> </ul>	<ul style="list-style-type: none"> <li>Consider the interaction between the policy framework for SEZs and the national regulatory regime for the digital economy</li> </ul>	<ul style="list-style-type: none"> <li>Adapt facilitation and regulations to new forms of investment (non-equity modes of international production)</li> <li>Anticipate shifts in international rules and trade preferences, and regional integration efforts</li> </ul>
<b>Repackaging of the value proposition</b>	<ul style="list-style-type: none"> <li>Provide supporting services and training programmes in ESG factors</li> <li>Reorient incentive schemes towards sustainable development contributions</li> </ul>	<ul style="list-style-type: none"> <li>Provide adequate digital infrastructure within zones</li> <li>Facilitate digital start-ups through focused clustering and linkages programmes</li> <li>Adjust HRD programmes to include digital skills</li> </ul>	<ul style="list-style-type: none"> <li>Incentivize upgrading and diversify exports</li> <li>Strengthen entrepreneurship policies and mobilize dynamic local entrepreneurs to catalyze FDI in SEZs</li> <li>Provide on demand or shared manufacturing, design or testing spaces or services</li> </ul>



# List of experts for panel discussion

- **Mr. Banji Oyelaran-Oyeyinka, Senior Special Adviser on Industrialisation, Afdb**
- **Ms. Inge Baumgarten, Director, GIZ African Union Liaison Office**
- **Ms. Edlam Yemeru, Chief, Urbanization Section, UNECA**
- **Mr. Moubarack Lo, Chief Economist and CEO, Prospective Economic Office of Senegal**

**For further information on the work on foreign direct investment and multinational enterprises, please address inquiries to:**

**Division on Investment and Enterprise  
United Nations Conference on Trade and Development  
Palais des Nations, Room E-10052  
CH-1211 Geneva 10 Switzerland**

**Telephone: +41 22 917 4533**

**@unctadwif**