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Special Economic Zones & African Continental Free Trade Agreement:

Results from a continent-wide survey

With the contribution of

AFRICA ECONOMIC ZONES ORGANIZATION

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ACRONYMS

AEZO	Africa Economic Zones Organization
AfCFTA	African Continental Free Trade Agreement
AGOA	African Growth and Opportunity Act
ASEAN	Association of Southeast Asian Nations
COMESA	Common Market for Eastern and Southern Africa
ECOWAS	Economic Community of West African States
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GVC(s)	Global Value Chains
MoU	Memorandum of Understanding
ROOs	Rules of Origin
RVC(s)	Regional Value Chains
SADC	Southern African Development Community
SEZ	Special Economic Zones
SSA	Sub-Saharan Africa

INTRODUCTION

Special Economic Zones (SEZs) are clearly demarcated geographical areas within which governments facilitate industrial activity through infrastructure support, fiscal incentives and a regulatory regime that is distinct from that prevailing in the rest of the economy. They are widely used around the world as key economic policy tools, especially in developing economies.

There are many types of SEZs including free zones, economic zones, export processing zones, and industrial parks. SEZs are designed as instruments of trade, investment and spatial industrial policy (African Economic Zones Outlook, 2019).

Basic free zones usually focused on facilitating trade logistics are most common in developed countries. Developing economies tend to establish integrated zones aimed at industrial development, which can be multi-industry, specialized or focused on developing innovation capabilities. The degree and type of zones' specialization is closely linked to countries' level of industrialization (WIR19).

As important instruments of trade, investment, and industrial policy, SEZs have supported economic diversification and industrialization in many countries, making important contributions to growth and development. They can contribute to investment promotion and employment creation, build productive capacity and promote diversification, and boost exports. SEZs can also support global value chain (GVC) participation, industrial upgrading and diversification. However, the benefits of SEZs are not automatic and in recent years, with their number growing, competition between zones has been on the rise.

SEZs were adopted relatively late in Africa, although they have been increasing in number recently. With infrastructure and institutional weaknesses widely recognized as major factors hampering economic development in Africa, the creation of zones that allow governments to concentrate administrative resources and infrastructure provision in confined areas is often seen as a pragmatic solution to structural limitations. Today, there are an estimated 237 SEZs in Africa, although some are still under construction, in addition to more than 200 single-enterprise zones (or free points). Zones are found in 47 of the 54 economies on the continent. SEZ programs in the largest economies on the continent — Morocco, Nigeria, Egypt and South Africa – are well developed. Many smaller economies have established SEZ frameworks only in the last 10 to 15 years and tend to have fewer zones (WIR19).

SEZs are also viewed as part of the strategic instruments to expedite Africa's industrialization as well as regional integration supporting the vision of creating one African Market under the AfCFTA Agreement.

The AfCFTA Agreement supports the establishment and operation of SEZs for the purpose of accelerating its development. Special Economic Zones are in fact one of the main devices to advance the objectives of the AfCFTA in driving sustainable economic growth, uplifting trade integration, enhancing competitiveness and promoting industrial investment, as well as job creation.

Against this backdrop, the United Nations Conference on Trade and Development (UNCTAD) and the Africa Economic Zones Organization (AEZO) have jointly conducted a survey on Special Economic Zones (SEZs) in Africa, assessing good practices and sentiments towards the impact of the forthcoming implementation of the AfCFTA. The survey collected information on key features and issues related to SEZs on the continent, including zone types, performance, employment, sustainability and regulations.

The survey particularly focused on the current linkages between African SEZs, and their role in promoting intra-continental trade and investment.

The key messages of the survey:

- The AfCFTA is expected to have important implications for zones on the continent, bringing both challenges and opportunities.
- Economic Zones can make an important contribution to economic integration in Africa by promoting intra-regional trade and investment.
- The growth opportunity brought by regional integration is of vital importance for the long-term sustainability of zones in Africa.

The survey was conducted via an online questionnaire of 45 short closed-ended and open-ended questions grouped in 6 sections, and was open from 9 to 29 November 2020. The survey was sent to nearly 100 potential respondents and answers were received from 39 SEZs representatives (16% of SEZs in Africa) in the following countries: Angola, Benin, Burundi, Cameroon, Comoros, Côte d'Ivoire, The Democratic Republic of the Congo, Djibouti, Egypt, Gabon, Gambia, Ghana, Guinea, Kenya, Lesotho, Libya, Mali, Mauritania, Mauritius, Morocco, Mozambique, Nigeria, Rwanda, Seychelles, South Africa, Sudan, Togo, Tunisia, Uganda, and Zambia. Among the zones that participated in the survey, 5 were under construction, just over a third (15) were established during the last 10 years, and nearly half (19) before 2010.

This brief report summarizes the main results of the survey.

.**Tanger Med Zones** - Ranked 2nd Special Economic Zone in the World by the Financial Times' FDI Intelligence

SURVEY FINDINGS

1. Background questions

Business model

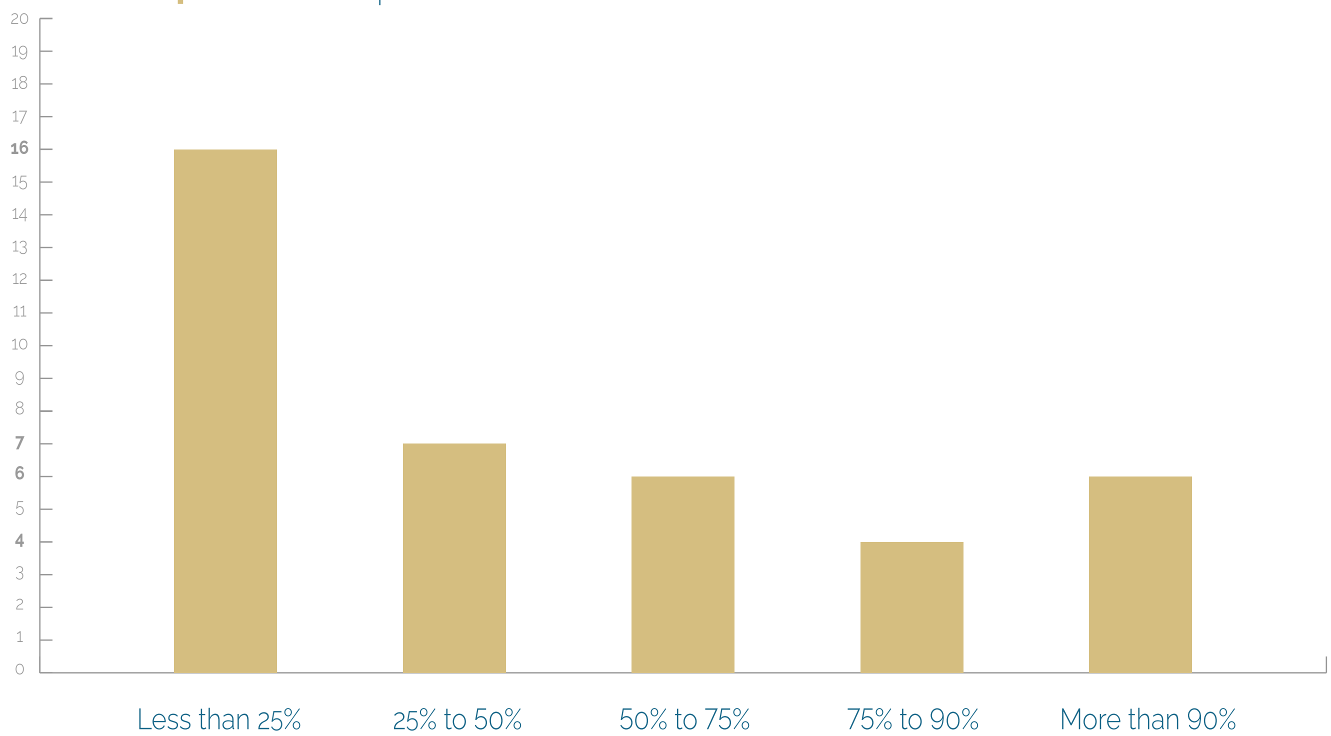
SEZs, as distinct geographical entities governed by special rules, are necessarily a public initiative. The development, ownership and management of individual zones, however, can be public, private or a public-private partnership (PPP). Private developers are often engaged to minimize initial public financial outlays and to access international expertise in zone design, construction and marketing. Zone management and oversight can involve various government levels (local, regional, national), investors and businesses operating in the zone, and numerous other stakeholders, such as financiers, industry associations and representatives from local communities or other interest groups (WIR19).

The survey specifically addressed the issue of the management models of zones in Africa. Amongst the 39 respondents, the management structure of more than half SEZs was based on PPPs (21), followed by public (10) and private models (8).

Zone Occupancy

The survey revealed that zone occupancy levels for respondents across the continent were relatively low. This can be explained in part by the fact that a significant proportion of responding zones were established recently. However, it also indicates that there is significant potential for the improvement of zone performance. Zone occupancy levels were reported to be below 50% of the total capacity by more than half of respondents, with 16 reporting occupancy levels of less than a quarter of capacity. Only 10 zones reported occupancy levels of more than three-quarters of capacity (Figure 1).

Figure 1 | **Occupancy rates of zones**
(Number of respondents out of a total of 39)



Transport infrastructure and zone location

Most respondents reported that road is one of the main modes of transportation of goods from and to the zone (35). Nearly two-thirds of respondents (21) considered sea freight as one of the top three modes of transportation. Railway was next in order of perceived importance with a third of zones classifying it as one of the main transportation modes (Table 1).

Around two-thirds of respondents (22) reported being connected to at least two modes of transportation (among which 12 reported three modes).

Table 1 **Main modes of transportation of goods from / to the zone**
(Number of respondents out of a total of 37)

Rank	Mode of transportation	Number of respondents
1	Road	35
2	Sea freight	21
3	Railway	12
4	Air	6
5	Over (river)	1

About a third of 31 respondents reported their zone being located less than 20 km to the nearest port, and the same number of respondents reported that the nearest port is located more than 100 km away. For one-third of respondents, the distance to the nearest port varies between 20 and 100 km.

Employment within the zone

According to the survey responses, a total of more than 380,000 employees are currently working in the 30 zones which reported the number of workers. The number of employees varies per zone, but more than half of respondents reported having between 1,000 and 5,000 permanent employees.

Only half (21) of zones surveyed have reported female employment in the zones, and it varies between 6% and 50% per zone. Over two-thirds of respondents reported that 20% to 50% of the employees are women, while 4 reported that less than 20% of their employees are women. Only 2 respondents reported that more than half of the total workers are women. This situation compares with female employment ratios in the rest of the world that are often above 50%, especially in zones with significant light manufacturing in apparel and electronics assembly industries. Differences in industry focus of the responding zones in Africa – with higher shares of resource-based zones and agricultural processing – may explain the relatively lower numbers.

The minimum wage laws in Africa are complex and vary significantly across the continent. Only a small fraction of workers are currently covered by minimum wages in Sub-Saharan Africa (World Bank, 2017).

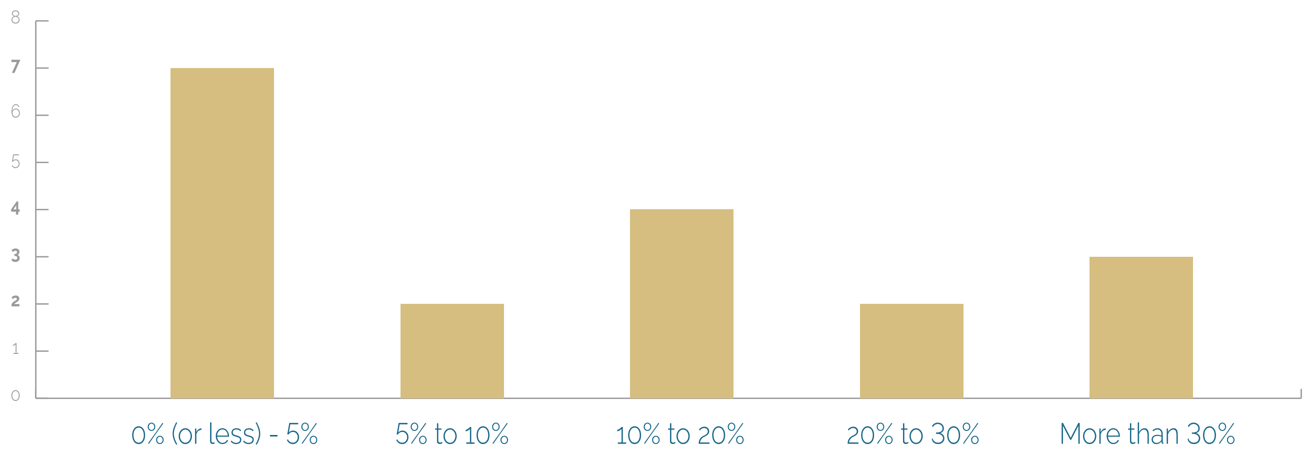
With regards to wages prevailing in SEZs, 17 of the zones surveyed reported having a minimum wage similar to those applied in the local economy, while 10 reported the existence of a minimum wage stipulated for the zone that is different from wages in the domestic economy. The national average minimum wage in respondent countries is $200 per month, but it varies significantly per country. Within SEZs, the average minimum wage reported is $165 per month, with a minimum of $75 and a maximum of $300 per month[1].

2. Current trade and investment patterns

Export average growth rate and products exported

During the last five years, the average growth rate of exports was relatively low for many of the zones surveyed, with nearly half of respondents reporting less than 5% of average annual growth. However, the other half of the zones also reported average annual growth of exports of more than 10%, among which 3 zones reported growth of more than 30% on average annually (Figure 2). This compares to the average growth rate in Africa of 5.5% between 2015 and 2019 for total exports[2].

Figure 2 | **Average annual growth rate of exports in the last 5 years**
(Number of respondents out of a total of 18)

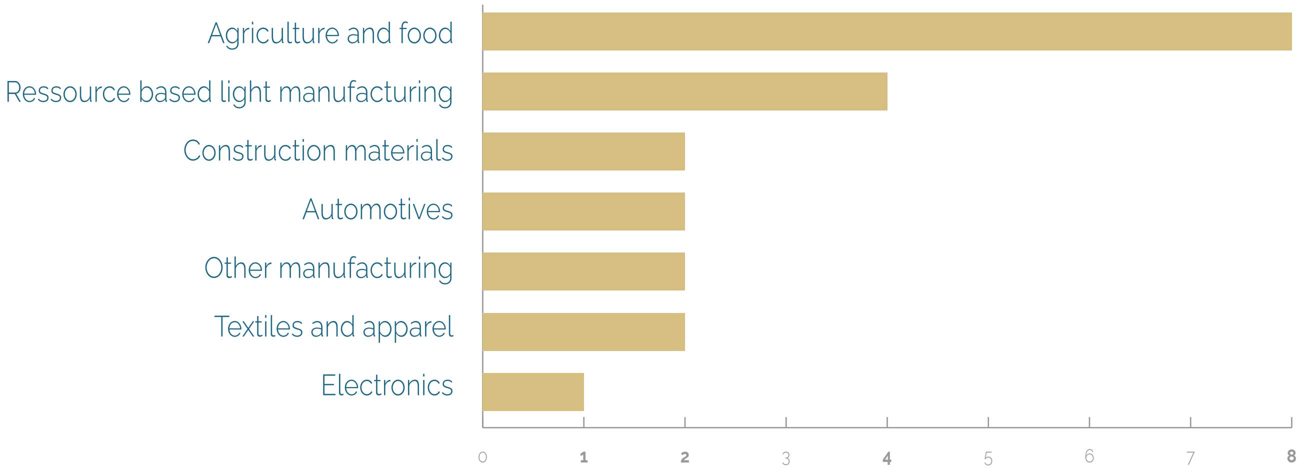


[1] Often, when wages and incentives are the basis of competitiveness within SEZs, they create pressure for distortions and race-to-the-bottom policies, including extending and increasing incentives and granting exemptions on minimum wage (World Bank, 2011).

[2] UNCTAD Statistics.

The agriculture and food industry accounted for the highest share of exports, with 40% of respondents (8) considering it as one of the three most important export industries, followed by resource based light manufacturing (4) (Figure 3). Other important export industries include automotive, construction materials and textiles and apparel. Compared to the overall export profile in Africa, SEZ exports appear to be more concentrated on foodstuffs and textiles, and less on mineral products, that account for 33% of intra-African exports and 50% of total exports from Africa to the rest of the world during 2014 – 2016 (UNCTAD 2019).

Figure 3 | Industries considered by respondents as one of the three most important for exports
(Number of respondents out of a total of 21)



Export to African destinations

More than half of 17 respondents reported that less than 25% of the total exports from the zones go to African destinations, and just under a third reported an intra-regional share of 25 to 50% of total exports. Finally, only a fifth of the respondents reported that 75% or more of their total exports went to other countries on the continent, most of the neighboring territories. For comparison, intra-African exports were 16.6% of total exports in 2017 (UNCTAD 2019), and intra-regional exports in the Association of Southeast Asian Nations (ASEAN) about 24% in 2018 (ASEAN 2019).

The most important African export destinations for respondents include Senegal and South Africa. 20% of respondents (5) cited them as a highly important destination for their exports (Table 2). South Africa in particular is considered a top export destination by many countries from Central, Northern and Southern Africa, including Angola, Gabon, Mauritius, Morocco and Seychelles. Senegal, on the other hand, was mentioned as one of the top export destinations by countries from West Africa, including Benin, Gabon, Gambia, Mali and Mauritania. One reason for Senegal being in the same league as South Africa, even when the economy of the latter is bigger, is the geographical location of the respondents, since 8 out of 21 respondents are west-African.

Egypt and Mali were also reported among the important destinations to export, and were mentioned each by 4 respondents. Egypt was reported as one of the main African export destinations by other North-African countries including Libya and Morocco, in addition to Djibouti (East Africa), while Mali was exclusively reported by other countries from West Africa (Table 2).

Table 2 African countries ranked by importance for exports
(Number of respondents out of a total of 21)

Importance for exports	African countries
Significant Up to 10% of responses	Algeria, Angola, Cameroon, Chad, Gabon, Gambia, Ghana, Guinea Bissau, Guinea Equatorial, Libya, Madagascar, Mauritius, Namibia, Niger, Nigeria, South Sudan, Sudan, The Democratic Republic of the Congo, Togo, Tunisia
Important 10% - 20% of responses	Burkina Faso, Côte d'Ivoire, Egypt, Ethiopia, Kenya, Mali, Morocco
Highly important Above 20% of responses	Senegal, South Africa

Exports to non-African destinations

Non-African countries account for more than three-quarters of total exports for almost half of the 15 respondents. Nearly a third of the respondents reported that between 25% and 75% of exports go to non-African countries, and the same percentage of respondents reported that less than 25% of exports go to countries outside the continent.

In general, European countries and the United States of America, (besides China and India), are the main markets for African SEZs. China, France and Spain are reported as the most important export destinations outside the continent, with over a quarter of respondents ranking at least one of the three countries as one of the three most important destinations to export outside Africa. Other important non-African export destinations include Belgium, Germany, India, Netherlands, Turkey, United Arab Emirates, United Kingdom, United States of America, and Vietnam, mentioned each at least twice in the survey responses (Table 3).

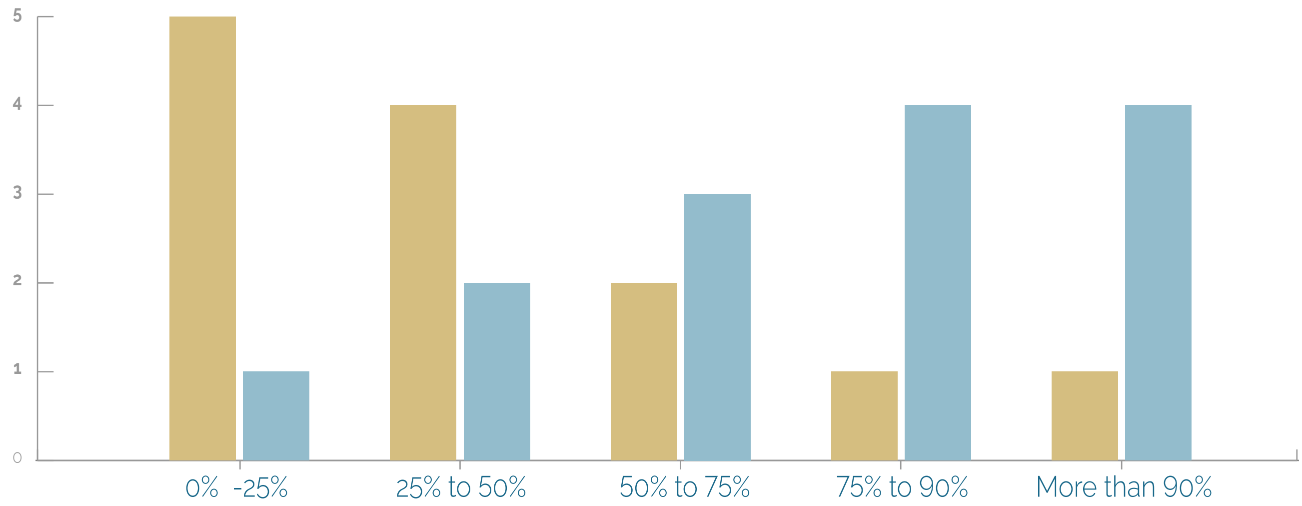
Table 3 Non-African countries ranked by importance for exports
(Number of respondents out of a total of 19)

Importance for exports	Non-African countries
Significant Up to 10% of responses	Ecuador, Italy, Kazakhstan, Kingdom of Saudi Arabia, Republic of Korea, Switzerland, Taiwan
Important 10% - 20% of responses	Belgium, Germany, India, Netherlands, Turkey, United Arab Emirates, United Kingdom, United States of America, Vietnam
Highly important Above a quarter of responses	China, France, Spain

Import sources

Imports to SEZs are largely in line with the continent's export patterns. Only 2 respondents out of 13 reported importing more than 75% of total goods from African countries, compared to more than half (8 responses out of 14) reporting the same rate from non-African countries (Figure 4). Nearly half of the respondents reported that between 25% and 75% of total imports originate from the continent. Over a third reported that less than 25% of the total imports are intra-continental.

Figure 4 | Percentage ranges of imports per source (African / non-African) reported by respondents
(Number of respondents out of a total of 13 for African sources and 14 or non-Africa sources)



Major investor countries

When asked about the three most important investor countries for SEZs in Africa, survey respondents ranked China at the top of FDI sources with 9 responses, India and France followed with 8 mentions each (out of 19). Other countries were also reported as one of the three main investment sources, including Belgium, Japan, Lebanon, Nigeria, Spain, Switzerland, Turkey, United Arab Emirates, and United States of America. Only a few African countries feature in the list of the top 3 most important sources of FDI, and were mentioned each by only one respondent out of 19 responses. These include Egypt, Ethiopia, Ghana, Morocco and South Africa (Table 4).

Table 4 | Countries considered by respondents as one of the three most important sources of FDI within SEZs (Number of respondents out of a total of 19)

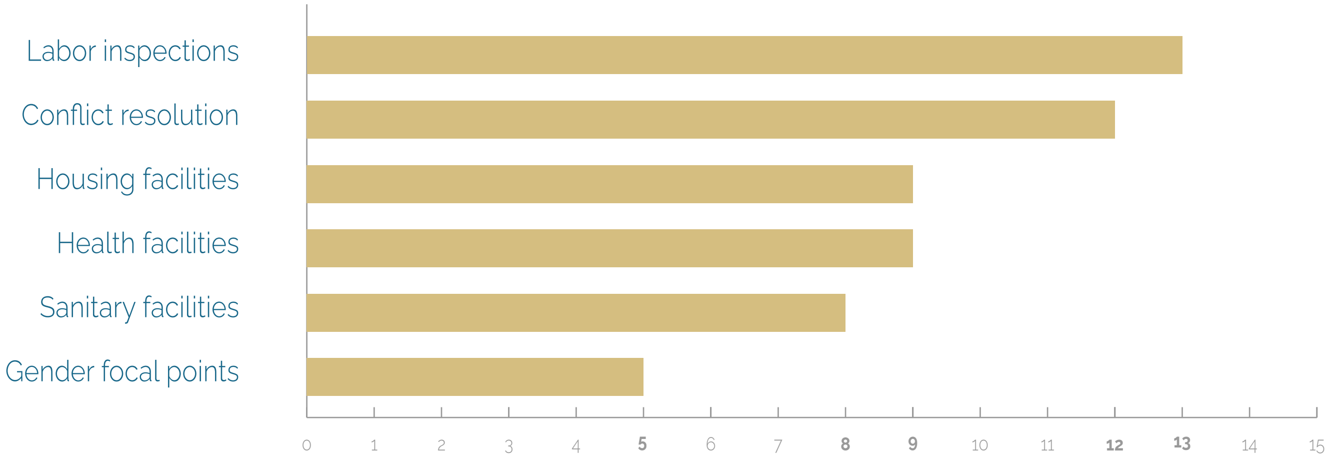
Importance for exports	Countries sources of FDI
Significant Up to 10% of responses	Egypt, Ethiopia, Germany, Ghana, Kazakhstan, Kingdom of Saudi Arabia, Morocco, Pakistan, Portugal, South Africa
Important 10% - 20% of responses	Belgium, Japan, Lebanon, Nigeria, Spain, Switzerland, Turkey, United Arab Emirates, United States of America
Highly important Above a quarter of responses	China, India, France

3. Social & Environmental practices within Zones

Social services

The survey inquired about social services provided for workers in the zones. A third (13) of all zones surveyed reported providing at least one social service related to employee well-being and to enhanced labor standards. Labor inspections and redressal mechanisms (conflict resolution) were reported by over three-quarters of the respondents. Most respondents also reported the provision of housing, health and sanitary facilities (Figure 5). In addition, 5 respondents informed about access to a gender focal point. Other benefits mentioned by respondents include gendarmerie and infrastructure support.

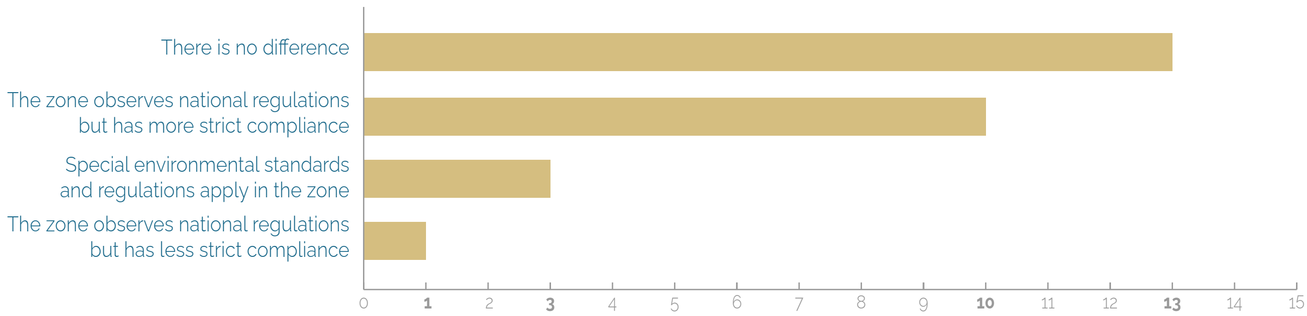
Figure 5 | Social services offered by zones (Main services mentioned)
(Number of respondents out of a total of 15)



Environmental laws and regulations

The survey included questions on environmental rules and services, as well as the degree to which these were different from the rest of the economy. The majority of zones reported either no difference of environmental regulations compared to the general regulations outside the zone, or the observance of standard national regulations but more strict compliance (Figure 6). Only a few SEZs reported that special environmental standards and regulations applied to them, and even fewer characterized compliance within the zone less strict than that at the national level.

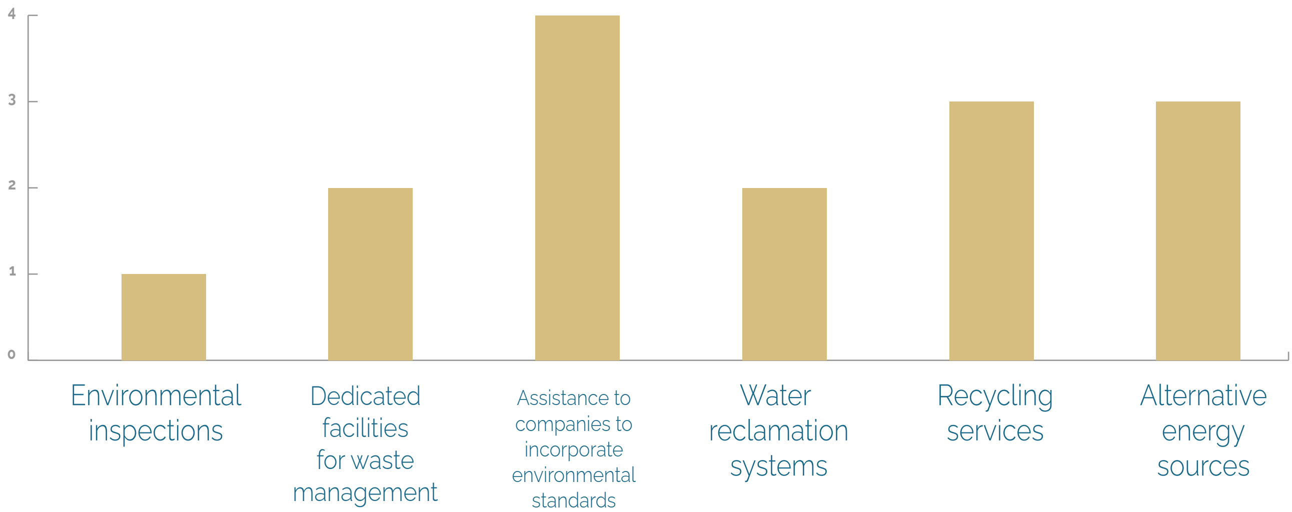
Figure 6 | Environmental laws and regulations compared to the rest of the economy in the SEZs surveyed
(Number of respondents out of a total of 26)



Environmental sustainability

Among the zones surveyed, two-thirds reported providing at least one environmental service in the zone. Environmental inspections were reported by two-thirds of respondents (14 out of 22), and nearly half have dedicated facilities for waste management or assistance to companies to incorporate environmental standards (Figure 7). Water reclamation systems are also present in 9 zones followed by recycling services and alternative energy sources, present in 8 of the zones surveyed.

Figure 7 | Environment services provided by zones
(Number of respondents out of a total of 22)



4. Challenges faced by SEZs in Africa

The next section of the survey pertained to the main challenges that affect the performance of zones in Africa.

Trade related challenges

There are three major categories of obstacles to intra-African trade. First, weak productive capacities and limited economic diversification, which constrict the range of intermediate and final goods that can be traded and potentially inhibits the fuller development of regional value chains. Secondly, tariff-related trade costs, associated with the slow implementation of the tariff liberalization schedules underpinning free trade agreements. Moreover, high non-tariff-related trade costs hamper the competitiveness of firms and economies in Africa (UNCTAD 2019).

When asked to identify the main barriers to intra-African trade for Special Economic Zones, respondents ranked informal and non-tariff barriers at the top of the list (Table 5). Infrastructure, procedures at borders and lack of information were also reported by nearly half of the zones as important factors hindering trade from zones.

Table 5 | Factors considered important or extremely important in hindering trade from zones (Number of respondents out of a total of 24)

Rank	Mode of transportation	Number of respondents
1	Informal barriers	15
2	Non-tariff barriers	13
3	Infrastructure	11
-	Procedures at borders	11
-	Lack of information	11

Investment related challenges

Survey respondents ranked infrastructure as one of the main barriers to FDI in SEZs. Unavailability of skilled labor, lack of information of investment opportunities, and regulatory and administrative barriers are also considered as important factors hindering FDI to zones by at least half of respondents (Table 6).

Table 6 **Factors considered important or extremely important in hindering FDI to zones** (Number of respondents out of a total of 22)

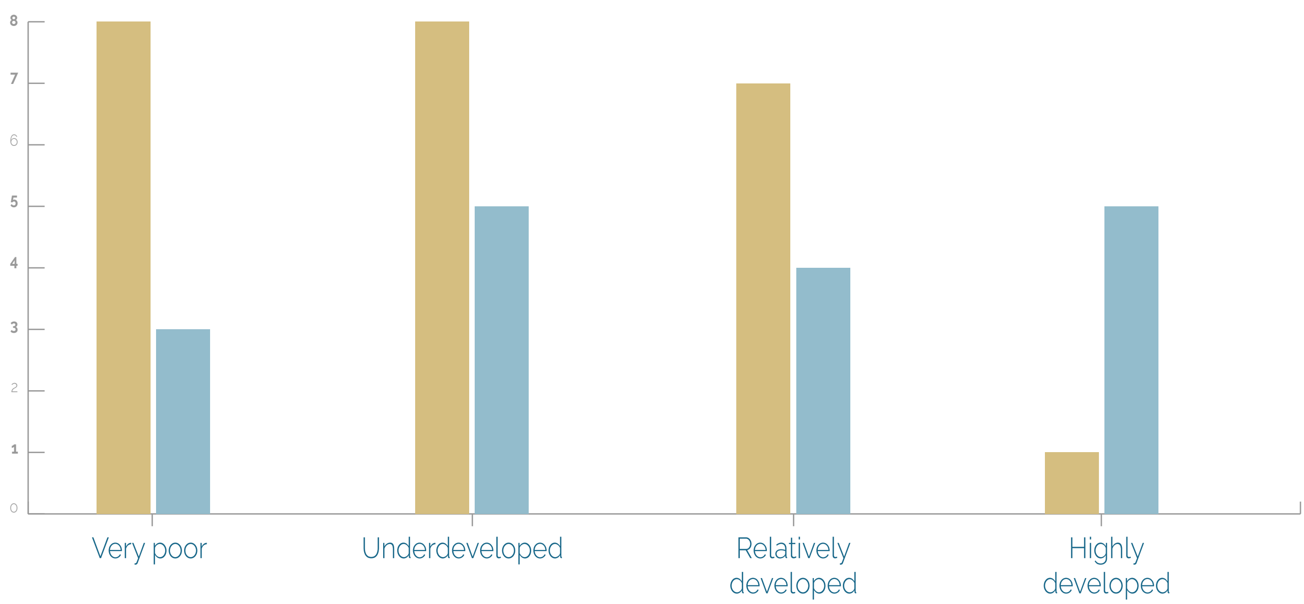
Rank	Mode of transportation	Number of respondents
1	Infrastructure	15
2	Unavailability of skilled labor	13
3	Lack of information on investment opportunities	11
-	Regulatory and administrative barriers	11

Infrastructure connectivity

Most respondents (15) described infrastructure connection with African target markets as underdeveloped or relatively developed. One-fifth classified it as very poor and only one zone surveyed labelled infrastructure as highly developed (Figure 8). For non-African markets, the infrastructure connection is viewed as underdeveloped or highly developed by a quarter of respondents each, relatively developed by 4 and very poor by three respondents, respectively.

Poor infrastructure connections to African neighboring markets are one of the major flaws hindering intra- African trade. The reason is that intra-African trade is mainly dependent on road transportation which is expensive and time consuming in Africa. This contributes to deepening Africa's export dependence on the rest of the world.

Figure 8 **Infrastructure connection of zones with target markets**
(Number of respondents out of a total of 20)



5. African Continental Free Trade Area (AfCFTA) and the future of SEZs

Considering the profound potential implications of the implementation of the AfCFTA on SEZs in Africa, the survey assessed how SEZ stakeholders in Africa perceive the agreement within the context of the existing regional trade and investment cooperation frameworks.

Regional cooperation

Most zones reported not having any ongoing collaboration arrangements with other SEZs in Africa, while only a third reported the existence of some type of cooperation agreement. For example, Djibouti (Djibouti Ports and Free Zones Authority) has bilateral agreements and Memoranda of Understanding (MoU) with Congo, Libya and Morocco. NKOK SEZ (Gabon) conducts exchanges of experience with Kenya, Morocco and Togo. Misurata Free Zone (Libya) focuses on training and development cooperation with Djibouti. Mauritius has initiated a government-to-government agreement to set up SEZs in Côte d'Ivoire, Ghana, Madagascar and Senegal. Similarly, Morocco has signed MoUs and initiated capacity building and expertise sharing arrangements with countries including Ethiopia, Ghana, Nigeria, and Zambia.

Cross border zones spanning two or three countries are also becoming a feature of regional economic cooperation. For example, the development of the Sikasso-Korhogo-Bobo-Dioulasso (SKBO), a cross-border free zone project, involving Burkina Faso, Côte d'Ivoire and Mali, will allow these three countries to improve and better utilize connectivity along the regional corridor. The bilateral or regional treaties identified to be the most important for trade from the zones, in order of perceived importance are: AfCFTA, The Common Market for Eastern and Southern Africa (COMESA), Free Trade Agreements (FTAs) with EU and USA, Southern African Development Community (SADC), Economic Community of West African States (ECOWAS), African Growth and Opportunity Act (AGOA).

Impact of the AfCFTA's policy areas on SEZs

When asked about their perception of the likely impact of the implementation of the specific issues encompassed by AfCFTA, survey respondents classified most policy areas positively. Trade facilitation was perceived the most favourably with all respondents expecting it to have a positive impact. Investment, customs cooperation, transit in services and transit trade, as well as intellectual property rights were also perceived highly positively in terms of the potential impact for SEZs.

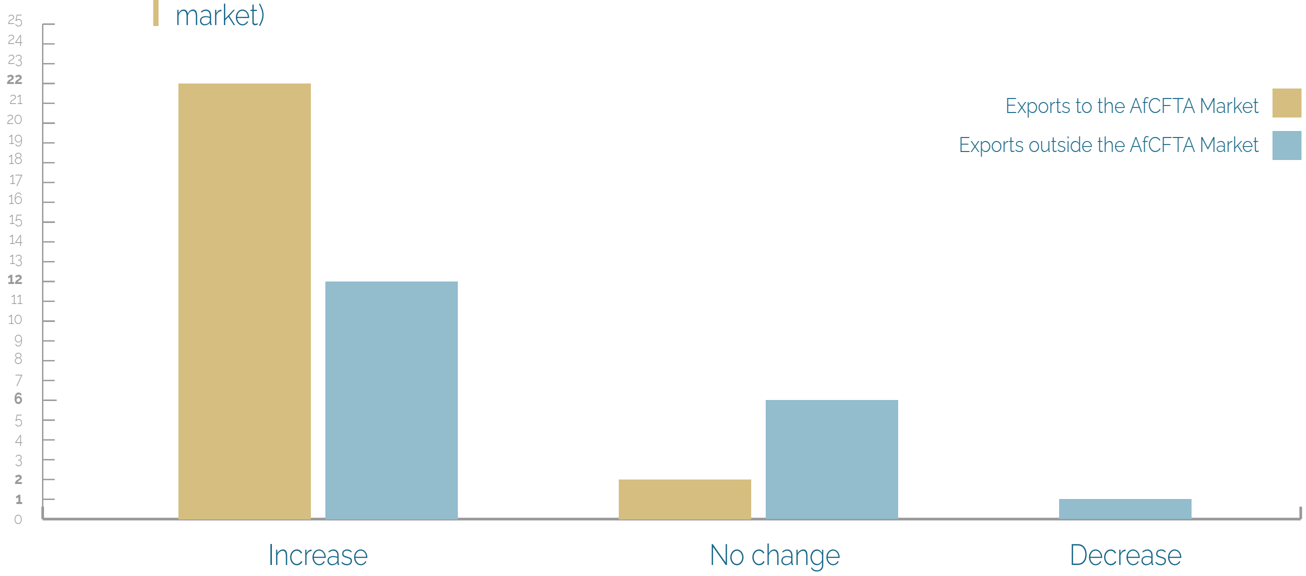
However, the expected impact of other policy areas such as rules of origin (ROOs), trade remedies, technical barriers to trade and non-tariff barriers, is mixed. Sanitary and phytosanitary measures are expected to have a positive impact on zones according to more than two-thirds of respondents, and a third expect such measures to have a negative impact.

Impact of AfCFTA on trade from SEZs

With the implementation of the AfCFTA, most respondents expect exports to the AfCFTA market to increase or significantly increase, while only two do not expect it to impact export volumes to the AfCFTA market.

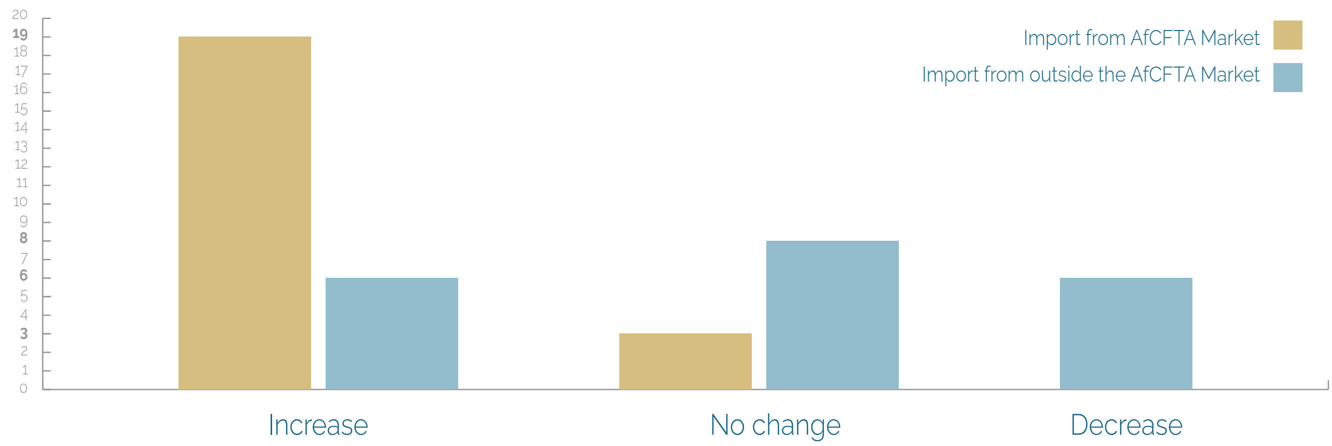
Exports outside the AfCFTA are expected to increase or significantly increase according to most respondents, while about a third do not expect a change (Figure 9). Overall, the survey respondents expect an increase in exports by 20% within the AfCFTA market and 15% outside.

Figure 9 | Impact of the implementation of the AfCFTA on exports expected by respondents
(Number of respondents out of a total of 24 for AfCFTA market, and 19 for outside the AfCFTA market)



Regarding imports, most respondents expect volumes to increase significantly from the AfCFTA market, while three do not expect any change. Outside the AfCFTA market, one-third expect an increase in the volume of imports, while over a third do not expect changes, and just under a third expect a decrease (Figure 10). Substituting extra-regional imports by imports from the AfCFTA market would imply growing Regional Value Chains (RVCs).

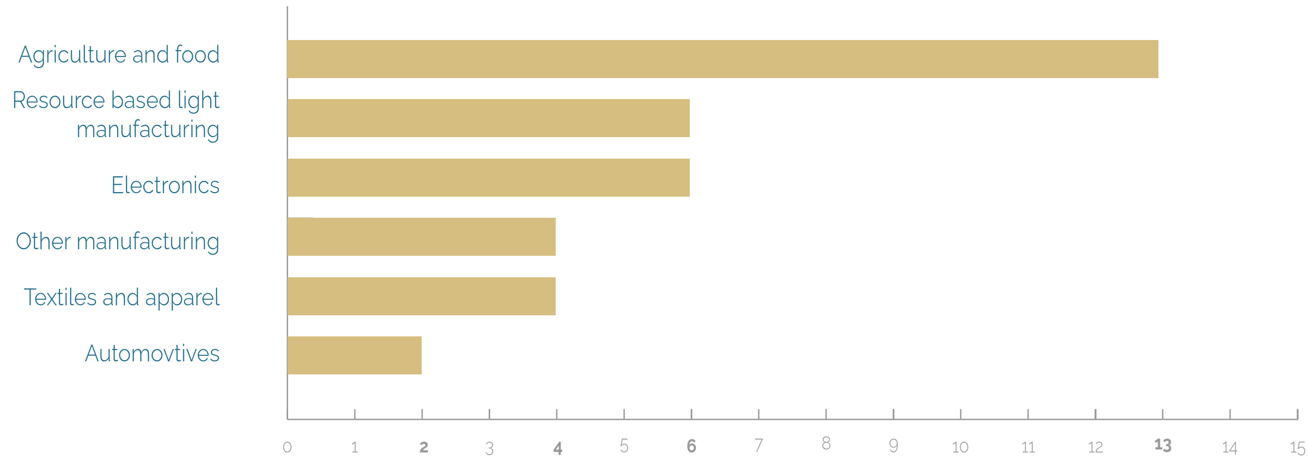
Figure 10 | Impact of the implementation of the AfCFTA on imports expected by respondents
(Number of respondents out of a total of 22 for AfCFTA market, and 20 for outside the AfCFTA market)



[3] These gains would come, in part, from decreased tariffs, which remain stubbornly high in many countries in the region. Even greater gains would arise from lowering trade costs by reducing non-tariff barriers and improving hard and soft infrastructure at the borders— the so-called trade facilitation measures. These measures would reduce red tape, lower compliance costs for traders, and ultimately make it easier for African businesses to integrate into global supply chains (World Bank 2020).

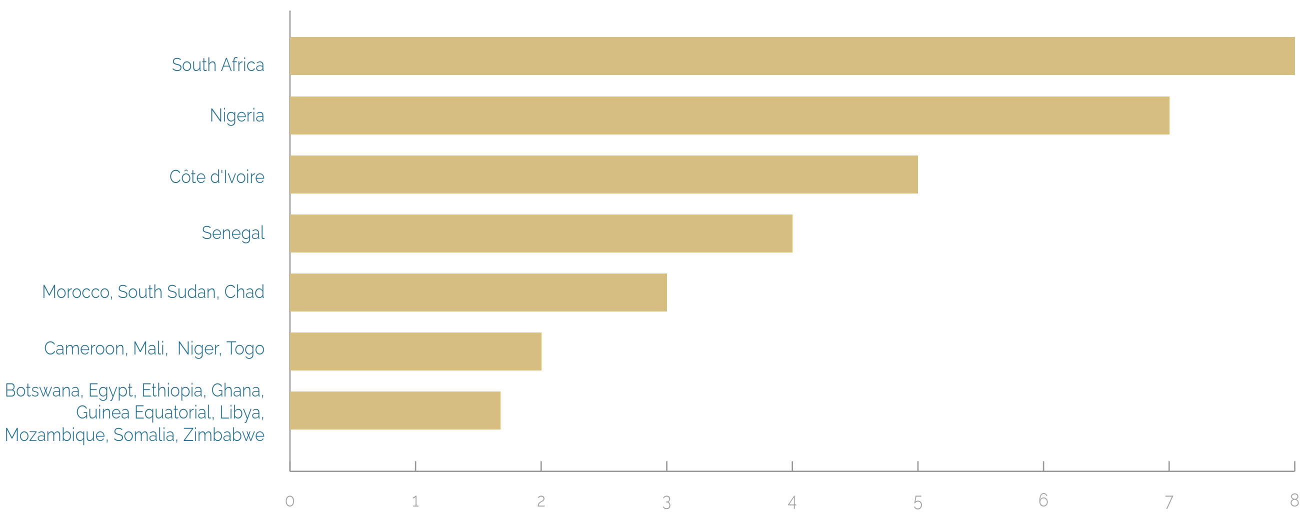
The agriculture and food industry, already perceived currently by most respondents as the most important industry for exports, is expected to become even more important for exports from the zone after the implementation of the AfCFTA by two-thirds of respondents (13). Other sectors reported by respondents to be most likely amongst the top three industries for exports from the zones include resource based light manufacturing and automotive (6 each), followed by textiles and apparel (4) and electronics (2) (Figure 11). Compared to the current export profile, zones expect growth in typical GVC-intensive industries with the implementation of the AfCFTA.

Figure 11 | Industries considered by respondents among the most important for exports after the implementation of the AfCFTA
(Number of respondents out of a total of 17)



Amongst African destinations expected to be the most important for exports after the implementation of the AfCFTA, South Africa comes at the top of the list, with nearly half of respondents selecting the country as one of the main African destinations of exports following the implementation of the AfCFTA. Nigeria comes in second place with 7 responses, followed by Côte d'Ivoire mentioned by nearly a third (5) and Senegal (4 responses). Other African countries expected to feature amongst the top export destinations, include Cameroon, Chad, Mali, Morocco, Niger, South Sudan, and Togo (Figure 12). Nigeria and South Africa as the continent's largest and second largest economies, respectively, are obvious candidates to be at the top of the perceived most important export destinations. However, overall, the list indicates that the export destinations perceived as important with the implementation of the AfCFTA are the ones that are already well integrated within their sub-regions in terms of existing arrangements that encompass trade and other areas of cooperation.

Figure 12 | Most important African export destinations expected by respondents after the implementation of the AfCFTA
(Number of respondents out of a total of 18)

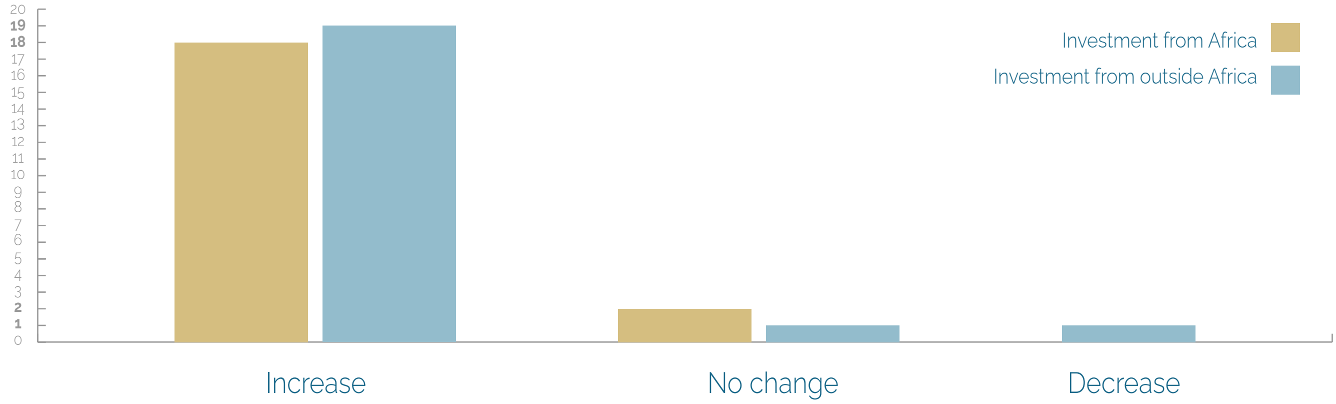


Impact of the AfCFTA on investment within SEZs

With the implementation of the AfCFTA, the majority of zones expect intra-continental FDI to increase (20 respondents out of 21). The average growth expected from respondents for investment from the continent is around 15% annually.

For investment from outside Africa, nearly all respondents expect it to increase (19 responses out of 20). The average growth rate expected by respondents for FDI from outside Africa is around 30% annually.

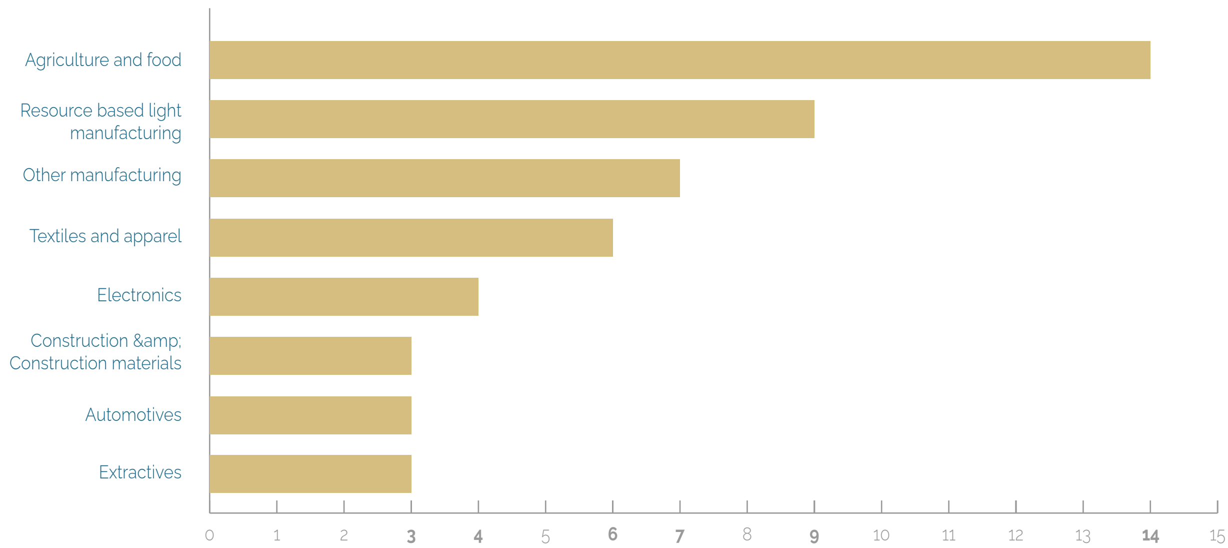
Figure 13 | Expected impact of AFCFTA on investment
(Number of respondents out of a total of 21)



Mirroring the expectations for exports, agriculture and food is considered the industry most likely to feature amongst the top in terms of FDI attraction by 82% of respondents (14). It is followed by resource based light manufacturing for more than half of respondents (9), and other manufacturing (7). Other industries considered among the three most important for FDI following the implementation of the AfCFTA include textiles and apparel (6), electronics (4), as well as construction materials, automotive and extractives (Figure 14).

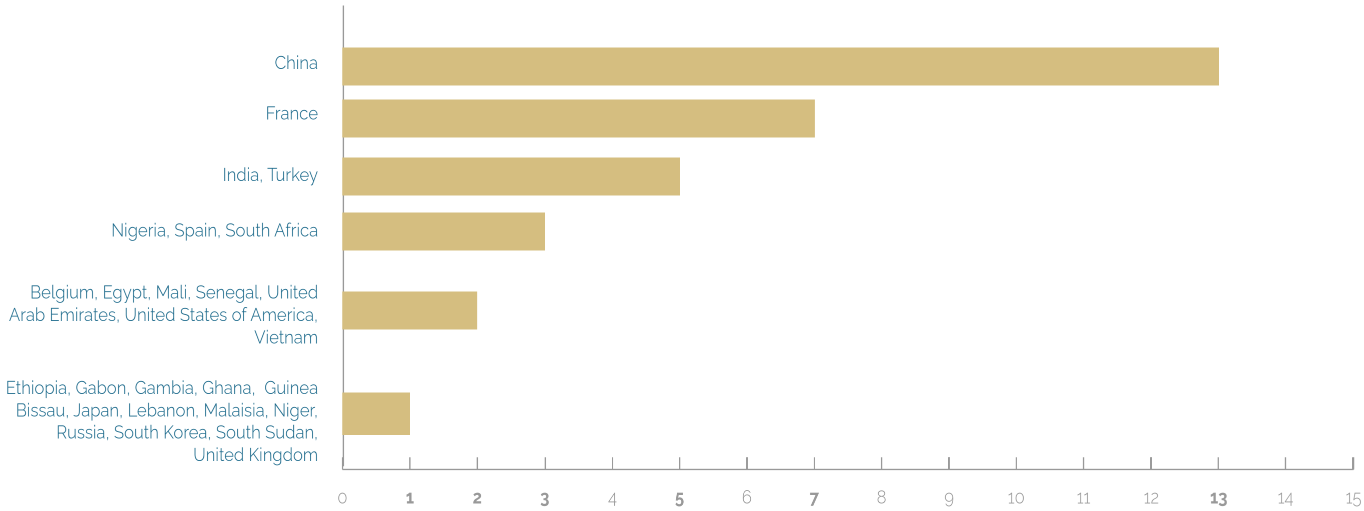
Although FDI in SEZs directed to agriculture and the food industry can increase value-added in natural resources, this can lead to higher competition for non-SEZ domestic firms. Whereas Agriculture is a commodity sector of significant importance in Africa, it is important to balance the opportunity to develop the agriculture and food sector within the zones with the prospect to further develop regional value chains through value chain intensive industries. In that sense, the likely impact of the increase in FDI in GVC intensive industries expected post- AfCFTA implementation is unequivocally positive.

Figure 14 | Industries considered by respondents among the three most important for FDI after the implementation of the AfCFTA
(Number of respondents out of a total of 17)



In line with the ranking of current major investor economies in SEZs in Africa, China (13 out of 17 responses) and France (7 out of 17 respondents) mentioned by nearly half of respondents, are expected to be the top sources of FDI for zones following the implementation of the AfCFTA. These two countries are followed by India and Turkey, which have been selected by 5 respondents as likely to feature amongst the top three sources of FDI following the implementation of the AfCFTA. African countries also feature on this list, with Nigeria and South Africa expected by three respondents as main sources of FDI following the implementation of the AfCFTA. Other expected sources of FDI include Belgium, Egypt, Mali, Senegal, the United Arab Emirates, the United States of America and Viet Nam (Figure 15).

Figure 15 | Countries considered by respondents among of the top sources of FDI after the implementation of the AfCFTA
(Number of respondents out of a total of 17)



Opportunities and challenges of the AfCFTA

The implementation of the African Continental Free Trade Agreement (AfCFTA) entails both opportunities and challenges for SEZs across the continent. Almost all zones surveyed expect industrial diversification to be enhanced with the full implementation of the agreement (20 out of 22). More than half of respondents (14) expect bilateral cooperation with other African SEZs and non-African investment to be boosted. Many respondents also suggested that the implementation of the agreement would accelerate exports to other African countries (14), and attract new African investment (9) (Table 7).

Table 7 | Opportunities classified as important or very important
(Number of respondents out of a total of 22)

Rank		Number of respondents
1	Enhance industrial diversification	20
2	Enhance bilateral cooperation with other African SEZs	14
3	Attract new non-African investment	12
4	Accelerate exports to other African countries	11
5	Attract new African investment	9

With regards to challenges the agreement is likely to bring, more than two-thirds of respondents (18) singled out neglect of labor and environmental standards by firms due to the rising regional competition, while more than half of respondents expressed their concern regarding the heterogeneity of the market sizes and characteristics and market regulations (Table 8).

Table 8 **Challenges classified as important or very important**
(Number of respondents out of a total of 23)

Rank		Number of respondents
1	Neglect of labor and environmental standards by firms due to rising regional competition	20
2	Heterogeneity of the market sizes and characteristics	14
3	Heterogeneity of market regulations	12

SURVEY CONCLUSIONS

The AfCFTA is a central pillar of the AU's goal to create an African Economic Community. The AfCFTA was conceived to help stimulate African industrialization and greater economic self-reliance. AfCFTA is increasingly also flagged as the basis for African economic recovery after the COVID-19 crisis. Special Economic Zones are one of the main instruments to advance the objectives of the AfCFTA in expanding the manufacturing sector, continental industrialization, driving sustainable economic growth, job creation, investment promotion, trade liberalization and regional integration.

SEZ stakeholders from across Africa highlighted how the AfCFTA is expected to have important implications for special economic zones on the continent, bringing both challenges and opportunities. While most of the agreement policy areas are expected to have a positive impact, there are mixed expectations on the impact on zones of some policy areas, such as the proliferation of non-tariff barriers and technical trade barriers.

Currently, zones face a variety of barriers that impact performance across different dimensions. For example, informal trade barriers and non-tariff barriers, infrastructure, and procedures at borders are classified as the main obstacles to regional exports from zones. Similarly, several factors are perceived to hinder FDI to zones, such as infrastructure, unavailability of skilled labor, lack of information of investment opportunities, and regulatory and administrative barriers.

The implementation of the AfCFTA could have a positive effect on trade and investment, especially intra- African, as major economies on the continent seek to benefit from increasing integration. The agreement is also expected to contribute to enhancing industrial diversification. GVC-intensive activities within zones are expected to grow after the implementation of the AfCFTA with important implications for regional value chains and continent-wide economic diversification. GVC-oriented industries are also expected to become more important for FDI promotion with the implementation of the AfCFTA. On the other hand, concerns over the implementation of the agreement pertained mostly to the risk of neglect of environmental and social standards by firms due to the rising regional competition, heterogeneity of the market sizes, characteristics and regulations.

However, some Member states expressed some concerns regarding the AfCFTA rules of origin alleging unfair competition deriving from tax and other investment incentives granted to companies located in Economic Zones. They also consider firms established in SEZs as not being truly African, as they perceive them mostly foreign-owned. Hence, they are suspected to not particularly benefit the local economy with backward linkages.

Contrariwise, excluding Economic Zones from the AfCFTA can have undesirable effects, due to the following:

- Economic Zones have evolved nowadays and many companies, also called export processing firms could benefit from similar incentives schemes without being physically located inside the economic zones. This makes the task of determining SEZs and identifying firms that receive benefits usually associated with Economic Zones, more difficult.
- Excluding goods produced in Economic Zones may reduce the effectiveness and efficiency of the AfCFTA as it would exclude sizable shares of intra-African trade from the scope of the continental agreement.

In light of the findings from the survey, SEZs can make an important contribution to economic integration in Africa by promoting intra-regional trade and investment, as they can strongly influence the realization of AfCFTA's objectives. To facilitate this, SEZs policies should be harmonized within the continent for which the new SEZ regulations encompassed in the framework of the AfCFTA can play a crucial role.

The growth opportunity brought by regional integration is of vital importance for the long-term sustainability of zones in Africa. The regional integration could help integrate African economies into the global economy, whose manufacturing processes are driven increasingly by the globalization of supply and value chains.

Preliminary estimates of the expected benefits of the AfCFTA, in terms of trade performance and regional integration, are positive and significant. In fact, it is estimated that intra-African trade, largely dominated by industrial products and manufactured goods, could increase by more than 50 percent and even double about a decade into the implementation of the AfCFTA, if the envisioned reforms are fully carried out and complemented by robust trade facilitation measures.

Hence, the current trade and investment patterns within zones indicate a significant capacity for growth. To further exploit the potential of SEZs and maximize their contribution, particularly with an increasingly difficult environment for international investment and even more fierce competition between SEZs, continued dialogue among SEZs stakeholders is fundamental. It is also important for zones to strengthen their cooperation with investment promotion agencies (IPAs) to accelerate the transition towards sustainable-development-oriented zones. The opportunities tend to switch to Attracting Investment and improving the synergy between SEZs, while also emphasizing the Industrial diversification.

The results of this survey highlighted the key concerns of the SEZs surveyed with regards to the challenges for zones performance. It also demonstrates that beyond the numbers, the future of SEZs will depend on decisive actions and collective efforts of the African member states. Concrete policy measures and investments are needed, in particular to ensure that women, business owners and workforce, can be better involved and integrated in SEZs' development.

For African SEZs, the challenges in global trade and investment are also linked to the deployment of technology driven policies. "Generic" advantages such as cheap labor and abundant land are no longer enough to ensure that investors will sign up. Digitization and the proliferation of automation have become important drivers of competitiveness and thus determinants of investments.

One of the main recommendations would consist on the deployment of a technology platform or B2B connection platform (website and app) designed specifically for SEZs that connects them with their ecosystem and could be extended to cross border cooperation, project collaboration, resource sharing and communication.

This brief report can serve as a useful starting point to facilitate discussions amongst stakeholders linked with SEZs in Africa, and thus enhance their contribution to the continent's development.

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