
POLICY BRIEF

Statements and recommendation of AEZO technical committee on the AfCFTA regulations on Special Economic Zones

African Economic Zones have played a key role in promoting industrialization, economic diversification, and structural transformation. As of today, there are 203 operational SEZs in Africa and 73 projects have been announced for completion in 47 of the 54 countries.

Over the past five years, 60 million jobs have been created in Agro-processing, industrial fields, and services and more than \$2.6 Billion USD has been invested in the development of SEZ projects in the continent.

While the African region is home to about 17% of the world's population, it only accounts for 2.5% of global trade. The challenge therefore for the African economies is not just a matter of attracting investment or joining value chains. It is about increasing the share of value added created locally and moving up the chain hierarchy from simple to more complex activities, which is what Special Economic Zones are all about!

Special Economic Zones are also a strategic instrument to address issues of rampant unemployment, enhance local capacity and deepen the continent-wide economic integration in the context of the AfCFTA.

SEZs can trigger economic policy reforms, by promoting economic diversification and exports while preserving domestic linkages. It provides room for experimenting new policy approaches and regulations in trade facilitation, governance, public-private partnerships, sustainable development, and green industrialization initiatives.

It is in this context that the AfCFTA secretariat requested the contribution of the African Economic Zones Organization, to share recommendations pertaining to the treatment of goods originating from African SEZs.

This Policy Paper falls under this scope of work and encompasses key messages and recommendations provided by the AEZO technical committee, to addresses the following:

I. The payment of duties and taxes on non-originating inputs used in the manufacture of SEZ products: Against

Rules of Origin, cited in Annex II of the trade agreement, detail all the conditions related to the acceptance of products as originating from a member state. This includes SEZs products as well. As such, we find there is no interest in imposing the payment of duties and taxes on inputs used in their manufacturing, as it is unfair to include SEZs products only in this regulation, and thus they will not receive the same preferential treatment as other originating products.

Article 6 of Annex II clearly details the acceptable criteria to consider an un-wholly obtained or a substantially transformed product as originating from a member state, and by extension viable for a preferential treatment. The criteria mentioned are based primarily on the inputs used and the process through which they are transformed.

This means that the inputs are an important factor in determining the final product's origins and must receive the same treatment as the final product. In other words, if the final product is considered as originating from a member state and benefits from preferential treatment, then there is no benefit nor reason behind the payment of duties and taxes on its inputs.

Furthermore, such regulations go against the very essence of Special Economic Zones, which are separated from other economic demarcations due to the fiscal incentives that are provided to tenants.

The SEZs do not produce for the AfCFTA market only. It may become cumbersome to segregate products that are for the AfCFTA and pay duties on their non-originating input. Hence why imposing taxes inside SEZs will be counterproductive.

The aim of the African Continental Free Trade Area (AfCFTA) is to enhance economic integration and boost trade among member countries by eliminating barriers to trade, such as tariffs, while respecting the autonomy of member states in generating revenue and promoting industrialization.

Imposing taxes on Special Economic Zones (SEZs), which are widely used as industrialization tools, would undermine the objective of the AfCFTA. In addition, taxing non-originating goods used in production would only add complexity to the processes and defeat the purpose of the AfCFTA.

Many member states have industrialization policies that exempt raw materials from import duties, such as Nigeria's Manufacture-in-Bond scheme. Morocco is also a good example, offering a complete tax exemption during the first 5 years of the establishment of a company inside the SEZ. Kenya's 2015 Special Economic Zones Act, for instance, provides for a 10-year corporate income tax holiday. Certain countries provide for tax deductions for skills development programs sponsored by SEZ-based firms and targeted to local workers, such as in Egypt, which are also considered as an input during production.

Imposing taxes on raw materials or inputs could also discourage foreign direct investment (FDI), as was observed in the Mercosur Trade Agreement. The successful ASEAN Free Trade Area adopted a relaxed Rules of Origin (RoO) strategy and reduced or eliminated duties on foreign inputs used in production.

A good example is Malaysia, that abolished duties on 98.74% of its tariff lines in the ASEAN Trade in Goods Agreement (ATIGA) for 2016, leaving only 73 tariff lines, or less than 1%, with import duties ranging from 5% to 20% for tropical fruits, tobacco, and rice products. This approach has driven the region's growth and led to substantial intra-ASEAN trade worth \$543.7 billion, or 24% of total ASEAN trade, and attracted FDI of \$119.9 billion in 2015.

II. The possibility of introducing exemption provisions for countries that do not intend to grant preferential access to SEZs products: Against

Implementing the African Continental Free Trade Agreement (AfCFTA) entails both opportunities and challenges for SEZs across the continent. Industrial diversification and exports proliferation are two of the most expected and favored outcomes.

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.

However, these benefits cannot be achieved if not all countries perceive SEZs products as originating products deserving of preferential access to the AfCFTA Market.

Leaving member countries with the option of whether to include SEZs in the trade area and grant them preferential access, contradicts the agreement's principles. It would encourage trade based on the principle of reciprocity, creating more rifts between African countries and hindering the development of one African market and the industrialization agenda of the AfCFTA.

Furthermore, by agreeing to partake in AfCFTA, countries, directly and indirectly, agree to accept SEZ-originating products as part of this ecosystem. Introducing an exemption provision would open the door to the possibility of excluding SEZs from intra-African trade all together. This would reduce the effectiveness and efficiency of the AfCFTA as it would exclude sizable shares of the intra-African market from the scope of the continental agreement.

Bearing this conviction in mind, we suggest an alternative provision to protect African economies and to align the Agreement with the national development strategies of each country. Here, we refer to offering guidelines and standardizing “Anti-dumping” policies, to ensure that SEZ-originating products do not undercut local businesses. Following these recommendations would guarantee a level playing field for all products.

III. The revision of the definition of SEZs in Annex 2 (Rules of Origin) of the Protocol on Trade in Goods to consider other categories of customs economic regimes, e.g. exclusion of arrangement such as Export Trade Zones (EPZs) from the Regulation.

The definition of SEZs applied in Annex 2 states that *“Special Economic Arrangements / Zones” means special regulatory provisions applicable in a geographical demarcation within a State Party’s Territory where the legal, regulatory and fiscal and Customs schemes, applicable to business differ, generally in a more liberal way, from those in application in the rest of that State Party’s Territory. “*

This definition outlines the three main components of any Special Economic Zone, i.e. Fiscal incentives, geographical demarcation, and legal regulations.

However, the word Arrangement is used loosely in this sense, where we do not know if all Special Economic Zones are considered as an arrangement in and of itself, especially with new business models allowing companies to benefit of the SEZ status without physically being arranged inside the SEZ grounds. Using this term might overshadow the SEZ status and create ambiguity on how to qualify an SEZ.

UNCTAD (2019) offers a more comprehensive definition. It refers to SEZs as *“a geographically delimited area where governments promote industrial activity through both fiscal and non-fiscal incentives, in addition to providing infrastructure and improved services.”*

To avoid all misconceptions that might hinder the trade of SEZs goods inside the AfCFTA, we suggest the addition of footnote with examples of SEZs models that are operational in Africa, to cover all variants, including Private, Public, and Private-Public Partnership-born SEZs, in addition to illustrating the main industries/services provided inside SEZs.

It would also be pertinent to mention in the footnote that the term “SEZ” or “Special Economic Zone” encompasses the entirety of zone types open to investors and, is used as an across-the-board term unless stated otherwise. This would be particularly helpful to highlight the types of SEZs (e.g export processing zones) that are not included in the AfCFTA and thus should not benefit from the preferential treatment. It would also allow us to anticipate the inclusion of any new SEZs models in the future.

[About Africa Economic Zones Organization \(AEZO\):](#)

Africa Economic Zones Organization (AEZO) is a continental association representing of leading public and private institutions in charge of the Development, Management and Promotion of Economic Zones in Africa. Founded in November 2015 by Tanger Med Group - Morocco, Africa Economic Zones Organization (AEZO) is striving to support African Economic Zones projects and strengthen relationships within its ecosystem.

Africa Economic Zones Organization (AEZO) is guided by its strategic orientations to “foster collective knowledge sharing, provide strategic and technical assistance, connect with international business network and promote sustainable economic models and practices”. AEZO comprehends today 87 members representing 42 countries.

AEZO Technical Committee:

The technical committee project has been established by AEZO General Assembly, dated December 2nd, 2022.

Special Thanks for their insights and contribution to:

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