SEZs and the Industrialisation Drive in Africa

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Africa has not had tremendous success with special economic zones (SEZs). Reasons for this include policies and institutional frameworks, unfriendly business environments, lack of zone management expertise and an infrastructure deficit. While some African countries are actively involved in reforms to reduce the cost of doing business and strengthen legal institutions and prioritize industrial development, much more needs to be done. With renewed interest in the industrialization of Africa, the paper considers the usefulness of special economic zones for structural transformation. It focuses on reasons for Africa’s underperformance in SEZs and attempts to improve performance, the impact of Chinese economic co-operation, and lessons and experiences of Asian countries, particularly China and Singapore, in zone development, management and structural change. Chinese co-operation, heavily relied upon, has created some jobs and provided investment. However, for Africa to truly industrialize, it has to chart its own course using the lessons and experiences learnt.

Africa’s growth is slowing down. Low oil and commodity prices, political and security risks, unemployment, a challenging business climate, exchange rate pressures, China’s slow down, and power deficits are some common reasons for this slowdown. One key area that can drive growth is industrialization. This paper will consider the use of Special Economic zones (SEZs) as a means to promoting economic growth and development in Sub-Saharan Africa (SSA).

SEZs are typically identified as designated and demarcated areas within an economy with more liberal administrative, regulatory and fiscal regimes than those found in the wider domestic economy. They have rules relating to investment, international trade, customs and taxation that are different from those prevalent in the rest of the country. SEZS operate through a variety of different forms and include export processing zones, economic processing zones, enterprise zones, freeports, free zones, foreign trade zones, industrial parks, single factory EPZ and specialized zones.¹

The benefits of SEZs are generally classified as static economic benefits, which include employment generation, export growth, government revenue and dynamic economic benefits such as skills upgrading, technology transfer and innovation, economic diversification and

Overall, SEZs seek to attract foreign investments, promote export-oriented growth and create jobs. SEZs can also contribute towards a country’s structural transformation, strengthening industrialization and global trade. These are all benefits no doubt needed to boost Africa’s economic growth and development.

Many articles on SEZs seek to highlight the benefits thereof with an emphasis on its significance for China’s and other Asian countries’ phenomenal growth. By the 70s, many Asian countries had developed zones. The articles also seek to distill lessons for African countries, which mostly got involved with SEZs about two decades or more after such programs had been established in Asia.\(^3\)

Reports of SEZ success stories in SSA are few and far between. This might be because of the lack of data. Available data suggests SSA’s experience with traditional export processing zones and industrial zones has been relatively poor in job creation and export performance. Mauritius Kenya, Madagascar and Lesotho are often cited as examples of countries that have been successful in zone development in Africa. Many are sceptical about the prospects for using zones as tools for industrial revival.\(^4\)

With Africa’s increasing use of SEZs with Chinese co-operation, there has been a flurry of thoughts on its potential for Africa’s growth. Along with this has been the observation that the Chinese zones in Africa are still in infancy.\(^5\) As a result, their efficacy has yet to be properly assessed. The paper will consider (1) the reasons why SEZs have traditionally underperformed in Africa and highlight attempts to reverse the situation; (2) the impact of Chinese co-operation on industrialization and growth; and (3) specific lessons from China and Singapore which the African countries should pay special attention to in their industrialization drive.

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SEZ underperformance in Africa

A number of reasons have been given for the underperformance of SEZs in Africa. These include weak governance and instability, poor regulatory and institutional frameworks, a weak business environment, inadequate transport and power infrastructure, contrary political agendas and a lack of a strong business case. Other reasons given are a lack of zone management expertise, poor strategic planning and a weak demand driven approach.6

The cost of doing business in SSA is high. Notable examples in the case of SEZs are frequent power shortages, custom clearance delays, trade logistics, taxation, foreign exchange constraints and service delivery. With African countries facing strong headwinds in 2016, some of these costs may still prevail. Power outages and foreign exchange issues are stunting economic development in Nigeria. A study using data from 1970-2005 found that inadequate and unstable power supply to the industrial sector was a major cause of unemployment in Nigeria.7

Nevertheless, it does appear that visible changes to the cost of doing business and other reasons cited for underperformance are being made in some countries. For instance, the Rwandan government is building SEZs seeking to address issues of industrial and commercial land availability, energy costs and limited transport linkages.8 Rwanda is number 2 in SSA on the World Bank’s Doing Business Report, with a global ranking of 62 and the most number of reforms in the region.9

The World Bank Group reports SSA alone accounted for 30% of the regulatory reforms, making it easier to do business in 2014/2015. Of the 10 most improved economies surveyed by Doing Business (DB), five were from Africa, namely Uganda, Kenya, Mauritania, Senegal and Benin. Countries in Africa were also noted for their activities on reforms to address complexity and

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8 Rwanda banks on Special Economic Zones to attract Investors, Global Times 15 March 2015 http://www.globaltimes.cn/content/912107.shtml

cost of regulatory process, as well as reforms for strengthening legal institutions.\footnote{10}{Doing Business 2016, Measuring Regulatory Quality and Efficiency, \url{http://www.doingbusiness.org/reports/global-reports/doing-business-2016}} For instance, in the 2016 DB report, Uganda, Kenya and Senegal made improvements to getting electricity by reducing delays in new electricity connections and/or making electricity less costly through reductions in security deposits. Angola and Gambia reduced corporate income tax rate. Benin eased trading across borders by further developing its electronic single window system, thus reducing border compliance times for import and export. Arguably, these reforms have the potential to provide avenues for curtailing some of the reasons for underperformance in SEZs and the wider economy.

It would also appear that the new zones being developed privately or through public private partnerships, are more likely to be built on the basis of a strong business case and strategic planning. The Eastern Industry Zone in Ethiopia, set up as a result of Chinese cooperation, is part of Ethiopia’s Sustainable Development and Poverty Reduction Plan and prioritized as important for the country’s industrial development.\footnote{11}{Jiangsu Qiyuan Group – The Eastern Industrial Zone available at \url{http://www.qiyuangroup.com/en/contentdes-1.html}} More will be said about the Chinese co-operation in the next section.

**Chinese Co-operation**

The Forum on China-Africa Cooperation (FOCAC) was established 15 years ago to strengthen friendly co-operation and jointly address economic globalization challenges and seek common development. A key aspect of the FOCAC is economic co-operation, with a special focus on agriculture and food security, industrialisation, infrastructure development, energy and natural resources, Ocean economy, tourism, investment, trade and finance.\footnote{12}{See FOCAC ABC available at \url{http://www.focac.org/eng/ltda/ltj/t933522.htm}; FOCAC Johannesburg Action Plan 2016-2018 Action Plan, available at \url{http://www.focac.org/eng/ltda/dwzbzjhys_1/hywj/t1327961.htm}}

At its third ministerial conference in 2006, the FOCAC agreed to strengthen co-operation among small and medium enterprises to promote Africa’s industrial development, production and export capacity. China also stated it would encourage well-established companies to set up three to five overseas economic and trade cooperation zones in African countries.\footnote{13}{FOCAC Action Plan 2007-2009, available at \url{http://www.focac.org/eng/ltda/dscbzjhy/DOC32009/t280369.htm}}

Following these action plans, China established zones in Zambia, Egypt, Nigeria, Mauritius and Ethiopia. A mix of companies and experienced zone developers were chosen to develop the zones after a tender called by the Chinese government. In the case of Nigeria, the state
governments of Lagos and Ogun were involved in the development of the China-Africa Lekki Investment and Ogun-Guangdong zone management respectively.\textsuperscript{14}

In 2015, the FOCAC Johannesburg Action Plan 2016-2018 cited Industrial Partnering and Industrial Capacity Cooperation as areas where China’s competitive industries and high quality capacity can merge with Africa’s industrialization and economy diversification. This partnership can help Africa with job creation, government revenue, export growth, foreign exchange technology transfer, innovation, productivity and other static and dynamic economic benefits. The co-operation agreed to jointly establish or upgrade a number of industrial parks.

In East Africa, there are pilot projects to build new industrial parks where several firms would be able to operate in various economic sectors. This includes manufacturing for export in Kenya and footwear production for both domestic and export markets in Ethiopia. There are also plans to expand these pilot projects to South Africa and Egypt.\textsuperscript{15}

Chinese co-operation has created jobs and provided investment in Africa. As at 2013, the Zambia China Economic and Trade Co-operation Zone, developed by China Non-Ferrous Metal Mining Corporation Limited (CNMC), has invested over US$ 140 million in infrastructure and production services facilities, housing 21 enterprises with a nominal investment of almost US$ 1.3 billion.\textsuperscript{16} In 2015, the Ogun-Guangdong Free Trade Zone was reported to have offered Nigeria 4,250 jobs for Nigerians, an increase on the 2013 figures of 1,619.\textsuperscript{17} The question remains whether these zones by themselves can provide dynamic economic benefits.

**Lessons for Africa**

In addition to improving all the reasons already cited above for SEZ underperformance in Africa, this section looks more specifically into lessons and experiences in zone development and management from Asia. Factors relevant for Asian success stories, and which have been noted as necessary for structural transformation, include increased employment and investment - particularly domestic investment, use of zone clusters, development of linkages, technological

\textsuperscript{15} Chinese FM says implementation of Africa industrialization plan underway, \url{http://www.focac.org/eng/ltda/dwzbzjhys_1/hyqk/t1322063.htm}.
\textsuperscript{17} Deborah Brautigam and Xiaoyang Tang, “Going Global in Groups”: Structural Transformation and China’s Special Economic Zones Oversea, World Development (2014) vol 63, p 78-91; Babatunde O, ‘Ogun-Guangdong Free Trade Zone to Create 4,250 jobs, BWN, 12 February 2015 \url{http://bizwatchnigeria.ng/ogun-guangdong-free-trade-zone-to-create-4250-jobs/}
capabilities and skills, infrastructure development and urbanization and the build-up of value chains.\textsuperscript{18}

The African countries need to take a more proactive approach on a number of these issues. For instance, ensuring linkages with SMEs and other local companies would be in line with the FOCAC promise to strengthen co-operation among SMEs. Countries may need to review their policies to ensure the realization of this promise. Sometimes the laws in such countries, such as minimum size of investments, and export policies might hinder such linkages. The Huajian group, a large shoe company in Ethiopia sourcing for local supplies, has faced obstacles as a result of Ethiopian laws.\textsuperscript{19}

Host countries should also look into the issue of zone clusters and building up the value chain. While many of the Chinese developers in Africa see the value of zone clusters, they have not been able to limit investors to certain clusters, perhaps due to a lack of sufficient demand. The SEZs in China worked well because of the value chains and clusters that enhanced competitiveness.\textsuperscript{20} Singapore’s use of industrial clusters has contributed to its continuing developmental success. From the early beginnings of Singapore’s first industrial township in the 1960s, the labour intensive Jurong Industrial Estate, Singapore’s industries are now capital intensive and based on high technology in key clusters.\textsuperscript{21} An example is the 280 hectare manufacturing hub that hosts major pharmaceutical, biotechnology and medical technology companies.\textsuperscript{22}

The African hosts can also consider lessons from Singapore in zone development and management sought by many countries.\textsuperscript{23} Although 10 African countries have had exposure to Singapore’s expertise through the 2009 high level workshop on SEZS organized by the World

\textsuperscript{18} Deborah Brautigam and Xiaoyang Tang, “Going Global in Groups”: Structural Transformation and China’s Special Economic Zones Oversea, World Development (2014) vol 63, p 78-91
\textsuperscript{19} Deborah Brautigam and Xiaoyang Tang, “Going Global in Groups”: Structural Transformation and China’s Special Economic Zones Oversea, World Development (2014) vol 63, p 78-91
Bank and government agencies in Singapore, Malaysia, and China\(^{24}\), there is the need for more exposure. Singapore is known for expertise in world class infrastructure, including industrial parks around the work-live-play concept. Jurong Town Corporation, Singapore’s lead agency in charge of Singapore’s industrial landscape, has over the years built a number of specialized parks to support the growth and development of key manufacturing sectors.\(^{25}\)

Singapore’s expertise has also been transported to other parts of Asia. The China-Sizhou Industrial Park (SIP) project is a well-known example of Singapore’s expertise in industrial park development. SIP was a joint project between the Chinese and Singaporean government, whereby Singapore transferred its industrial development model and public administration experience to China.\(^{26}\) Another example is the Vietnam–Singapore Industrial Park (VSIP) initiative between the governments of Vietnam and Singapore.\(^{27}\) In both situations, Singapore companies helped build world class industrial parks with modern infrastructure and other facilities.\(^{28}\) Singapore companies are also venturing into SSA. Olam international and the Tolaram group are building SEZs in Gabon and Nigeria respectively.\(^{29}\)

Interaction with training institutes, research centres and universities should be encouraged to foster innovation and technological advancement, while improving the host country human capital and development. Contrary to Asian trends in countries like Singapore and China, the African SEZs do not appear to have considered local institutional strengths.\(^{30}\) In the case of Singapore, strong interaction between industry and tertiary institutions can be seen through activities such as internships, research collaboration, technical licensing and industry participation in university committees. The Singapore government also gives appropriate incentives to facilitate such interactions.\(^{31}\) For instance, in February 2016, Nanyang Technology

\(^{28}\) IE Singapore, Industrial Developments and Parks available at http://www.iesingapore.gov.sg  
University announced a partnership with a helicopter manufacturing company to collaborate on helicopter production and technologies, with a final aim of establishing a collaborative technology research centre at NTU.\textsuperscript{32} No doubt Africa needs to improve its capabilities and capacities. There is a need for societies and markets to engage with universities and invest in research that drives innovative solutions.\textsuperscript{33}

Finally, adequate attention has to be paid to social and environmental issues that can arise if a zone is not properly managed or if it operates in an environment with lax laws or limited sustainability development awareness. Environmental degradation in China is one of China’s adverse lessons Africa should best avoid.\textsuperscript{34} There are calls for Africa to pursue a green industrialization pathway that promotes growth, creates employment and reduces poverty.\textsuperscript{35}

Conclusion

Africa has many lessons it can learn from SEZs in Asia. Lessons which have been identified in this paper are the need for policy and institutional frameworks, business-friendly environments, infrastructure upgrading, a strong business case for establishing SEZs, SME linkages, zone development and management expertise and interaction between industry and research. Armed with these lessons and experiences from other countries, Africa can chart the course of its industrialization afresh.

African countries cannot afford to remain marginal players in domestic and international markets for manufacturing, providing a negligible share of manufactured exports in world markets.\textsuperscript{36} The status quo has to change. In Africa, manufacturing accounts for just 11% of overall value added in SSA. Although this figure of 11% has been stable over the past decade, when compared with the ASEAN figure of 30%\textsuperscript{37} and the potential in Africa, the need for change is real, quantifiable and urgent. There has to be new and productive activities from increased and co-ordinated efforts in manufacturing. The examples provided in this paper show how this can be done. In the case of Africa, agro-processing, value addition to natural resource exportation and technology driven innovations have been cited as pathways for the region.

\textsuperscript{32} NTU News Release, NTU Singapore and Finmecanica partner on helicopter manufacturing and technology, 18 February 2016
China’s increasing co-operation, particularly with regards to SEZs, should be welcomed, but not seen as a reason for African governments to take a back seat. The goal of industrialization must be to ensure structural transformation. As Africa applies it mind to these enormous and challenging tasks at hand, there are bound to be more success stories of industrial revival. Now is the time for Africa to take its destiny in its hands, using all the help it can get.