



The challenge of developing special economic zones in Africa: Evidence and lessons learnt

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Abstract

Special economic zones (SEZs) are mushrooming across the developing world. Increasingly, policymakers resort to zones with the aim of turning around their countries' economic fortunes. Zones are expected to deliver greater innovation, exports, knowledge and technological spillovers. Yet, little is known about the state of play of SEZs in Africa, where almost half of SEZ programmes are less than 10 years old. The recent proliferation of SEZs in the continent has rendered the need to ensure that SEZs deliver on their objectives more impelling, given the often non-negligible opportunity costs associated with SEZ development. This article addresses this knowledge gap and sheds light on African SEZ practices. The analysis of a novel dataset highlights that (i) African SEZs are on a steep upward trend and are changing in nature; (ii) the ability of African SEZs to attract industrial activity, proxied by firms, and generate employment remains limited; and (iii) African SEZ governance policies (over)rely on fiscal incentives and performance requirements. Case studies from Ethiopia, Morocco and South Africa suggest that those African SEZ programmes that have a well-targeted strategic focus, promote institutional collaboration and take a proactive approach to create linkages with the local economy are more likely to succeed.

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Africa, economic development, emerging and developing countries, foreign direct investment, special economic zones

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1 | INTRODUCTION

Special economic zones (SEZs) – geographically delimited areas where governments promote industrial activity through both fiscal and non-fiscal incentives, infrastructure provision and improved services – are becoming an increasingly widespread economic development tool both in Africa and the rest of the emerging world. The adoption of zone-based developmental strategies, limited until the 1990s, has reached new heights in the last two decades. Developing countries' governments, under pressure to attract mobile investment and industrial activity, have resorted to SEZs to spur innovation, productivity, economic growth and dynamism. Recent estimates show that there are around 5,400 zones globally, up from 80 in 1975 (United Nations Conference on Trade and Development [UNCTAD], 2019). Although they still account for a mere 4% of the global tally, SEZs in Africa are picking up pace rapidly. Many countries in the continent are seeking to revamp already existing SEZ programmes or establish new SEZ regimes.

The *raison d'être* behind SEZs finds its roots in the consolidation of global value chains (GVCs) and the emergence of global production networks, leading to the agglomeration of separate production functions in the most cost-effective places (Baldwin, 2011; Iammarino & McCann, 2013). A handful of successful cases, mostly located in China and the Asian Tigers (such as the often-mentioned cases of Shenzhen and Suzhou) have reinforced the appeal of SEZs in the eyes of policymakers in emerging countries.

Africa has embraced SEZs with increasing enthusiasm. The convenience of enacting growth-stimulating reforms in limited geographical spaces has elicited great interest in countries where severe economic and institutional deficits frequently make country-wide structural reforms difficult and/or impractical. Yet little is known about the state of play of African SEZs and their performance. The prevailing view is that African SEZs have generally underperformed for a plethora of reasons, including weak economic and institutional capacity (e.g. Farole, 2011; Watson, 2001). Yet, the recent expansion of SEZs in the continent, the reshuffling of global production patterns, and African economic integration spurred by the introduction of the African Continental Free Trade Agreement may be altering the state of play.

There are many questions concerning African SEZs that, however, remain unanswered. What drives their proliferation? Are African SEZs delivering on their intended objectives? Or, instead, are they becoming public money blackholes? And importantly, how can policymakers ensure the success of future SEZs? This study draws on the dominant perceptions about African SEZs – that (i) they are driven by the aim to emulate successful cases; that (ii) African countries are not reaping the full benefits of zone-based development policies; and that (iii) the bottlenecks that hamper the full realisation of the benefits are related to the poor design of SEZ policies (e.g. Narula & Zhan, 2019; Newman & Page, 2017).

To assess whether these views hold, in this paper we first explain the approach to studying SEZs adopted, before taking a snapshot of the state of play of African SEZs. This is followed by the identification of SEZ development trends and patterns. The experience of a group of selected African countries – Ethiopia, Morocco and South Africa – in setting up zones is used to dive in depth into the specific functioning and success of African zones. The penultimate section presents a set of policy implications and extracts African-specific lessons learnt, including recommendations to enhance levels of innovation, employment, exports and industrial upgrading. The conclusions pull the different strings together.



2 | APPROACHING THE STUDY OF SEZs IN AFRICA

This study is built on the premises that African zones are not reaping the full benefits of SEZ development and that the reasons for this are to be found in the poor design of SEZ policies. To investigate whether this is the case, the paper adopts a mixed-method approach to the analysis of African SEZs, consisting of both sample analysis and case studies. The study introduces significant novelty stemming from its primary sources of information. We use novel data, presenting hitherto unseen information pertaining to African SEZs.

The next section presents an overview of the situation of SEZs in Africa. We then focus on two dimensions: (i) the performance of African SEZs in terms of their ability to attract firms and create employment and (ii) the characterisation of African SEZ programmes, with special emphasis on the incentives provided under the SEZ regime and the requirements imposed on SEZ-based firms. To do so, we use data sourced from the UNCTAD Universe of SEZs database, which provides novel data on 237 African SEZs on aspects including functionality, size, governance and legal status. The database, originally constructed in 2019, was updated in 2020. The classification of SEZs reflects UNCTAD's definition of 'special economic zone'. In particular, to be included in the dataset, SEZs need to possess three attributes: (i) a clearly delimited geographical area, (ii) a distinct regulatory regime vis-à-vis the rest of the country and (iii) infrastructure support (UNCTAD, 2019). Such classification follows similar criteria to those used by previous catalogues of zones (e.g. Bost, 2019) but may differ from datasets developed by other international organisations due to different interpretations of the broad definition of SEZ.

We assess the performance of SEZs through the application of three parameters of interest: (i) the number of firms hosted by individual zones, (ii) their employment contributions and (iii) the characteristics of SEZ policies. The choice of these variables is motivated by the literature covering SEZ performance (e.g. Farole, 2011). Whereas the dataset provides basic information on all 237 zones, data availability issues emerge when looking at more specific attributes of zones and SEZ policies. Relatedly, concrete details on the number of firms, employment and SEZ policies are not available for all 237 SEZs. The analysis therefore focuses on subsamples of the total population for which data are available and reliable. Tables A1, A2, A3 and A4 in the appendix provide details and descriptive statistics on the samples used for the analysis of the three parameters of interest.

Such an approach is not caveat-free. We deal with selected, non-randomized samples limited by the availability of data. This implies that a certain degree of sampling bias is present. In practice, underperforming zones are less likely to feature in the samples, in which well-established zones from countries, such as Ethiopia, Morocco and South Africa, feature prominently. This contrasts with anecdotal evidence that has in the past reported African zones with lower numbers of firms and employment created (Newman & Page, 2017). That being said, the approach adopted also has several strengths. First, non-probability sampling techniques are key to develop an understanding of what remains an under-researched population, African SEZs. (Etikan et al., 2016). Second, the sample retains a good level of representation of African subregions, with countries in all five macro-regions of the continent – north, central, east, west and southern Africa. Finally, although the sample is one of 'best cases', it still displays considerable variation, as illustrated by the standard deviation in Table A1.

This analysis is followed by the use of three case studies to investigate the more qualitative features of African SEZ practices. The case study methodology is essential to produce contextual, real-world knowledge about the practical aspects of SEZ development (Yin, 1994). The three case studies selected in this paper were identified based on their representativeness and relevance to our study's objectives. They rely on both primary and secondary data. The primary data stem from interviews as part of a project by the London School of Economics. A total of 103 interviews were conducted with SEZ firm managers in developing countries. Additional novel primary data originate from consultations held with African regional actors as part of a United Nations Conference on Trade and Development (UNCTAD) and Geography and the determinants of firm exports in Indonesia GIZ joint project *SEZs for Economic Diversification in Africa*. Secondary data were sourced from the literature specific to the target country/SEZ, including academic publications, policy reports, white papers and grey literature.



3 | OVERVIEW OF SPECIAL ECONOMIC ZONES IN AFRICA

3.1 | Number of SEZs by country

SEZs have blossomed in Africa in recent times (Farole, 2011; Newman & Page, 2017; UNCTAD, 2019). Although most African countries are latecomers, with most SEZ programmes starting only in the 1990s and 2000s, currently 38 African countries have at least one SEZ, while others have plans to establish new ones (UNCTAD, 2020). Overall, there are estimated to be 237 SEZs established by law in Africa (UNCTAD, 2020). Yet, this value well exceeds the number of fully operational SEZs. At the time of writing, 56 zones are under construction, while others remain at an early stage of development. In addition, there are approximately 203 single-factory free points (UNCTAD, 2020). The African region hosting the most SEZs is Eastern Africa, with around 50% of all African zones, followed by Western Africa (24%) and Northern Africa (10%). The African countries with the highest concentration of SEZs are Kenya (61 SEZs), Nigeria (38), Ethiopia (18) and Egypt (10) (Figures 1 and 2).

The number of SEZs on the continent has expanded from a mere 20 in 1990 to 237 in 2020. Although Africa remains the continent with the highest share of countries without SEZs (16 in total), the pace of SEZ development gathered at breakneck speed in the 2010s, when 40% of all African SEZ programmes were set up, in part thanks to

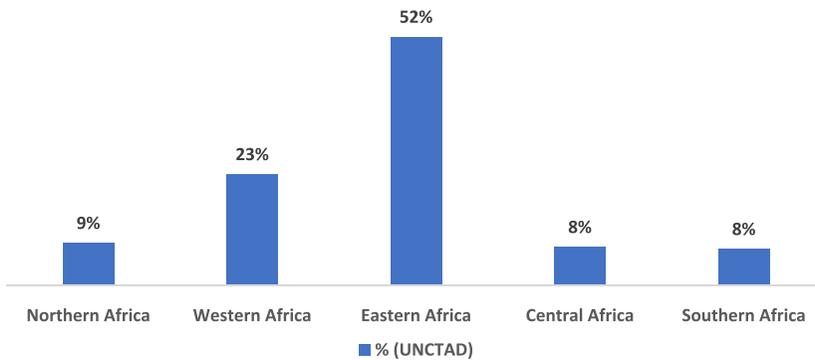


FIGURE 1 Percentage of SEZs by subregion, 2019 *Note:* Total number of SEZs equals 237. Classification of zones follows UNCTAD's definition of a SEZ. *Source:* UNCTAD.

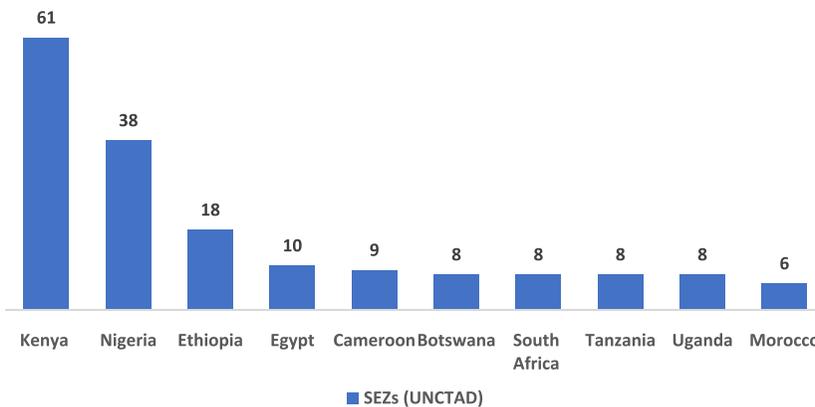


FIGURE 2 African countries with the most SEZs, 2019 *Note:* Classification of zones follows UNCTAD's definition of a SEZ. *Source:* Own elaboration based on UNCTAD's data.



the greater involvement of countries like China in the process. The recent proliferation of SEZs can be ascribed to two trends. On the one hand, countries that already had mature SEZ programmes, such as Egypt, Ethiopia, Morocco and South Africa, have pursued expansion and diversification strategies for their SEZ portfolios. On the other, new SEZs are in development in countries such as the Democratic Republic of the Congo, Botswana and Guinea, with the aim of boosting foreign direct investment (FDI) and facilitating industrial upgrades. SEZs in Africa are becoming one of the dominant industrial policy tools, as the tally of SEZs currently planned (53) keeps on growing (UNCTAD, 2020).

3.2 | Types of SEZs in Africa

The vast majority of African SEZs (89%) are multi-activity zones, that is, zones that do not specialize in a specific sector (Figure 3). Countries at different income levels have adopted the multi-sector model. Zones in Cameroon, Ghana and Kenya encompass a large variety of industrial activities. That said, some sectors are more represented than others, with food processing and natural resource-intensive industries being the most widespread (UNCTAD, 2020). In contrast, only 10% of African SEZs target specific sectors or industries. Examples are Morocco's Casablanca Midparc Free Zone (the aeronautics) and Ethiopia's Kilinto Industrial Park (pharmaceuticals). The remaining 1% consists of logistics hubs, which provide commercial, warehousing and logistics services close to airports and seaports. The lack of specialization of most African zones raises questions about the capacity of SEZs in the continent to deliver on the indirect economic benefits that increasingly underpin the establishment of zones. This is particularly so since the relatedness between the technologies used among firms in a given territory is understood to determine the nature and scope of knowledge spillovers and the creation of networks, bringing about significant productivity gains at the firm level (Boschma & Frenken, 2012). In this regard, firms in related activities and/or along the same value chains benefit more from mutual spillovers than firms in unrelated sectors (Boschma, 2005). In the future, researchers and policymakers should consider establishing more specialized zones in the continent.

4 | PERFORMANCE OF AFRICAN SEZS

Past research has generally exposed the poor performance of African SEZs in terms of FDI flows, firms attracted and employment generated (Farole, 2011). The reasons behind this outcome are multifaceted. They include a mismatch between SEZs' sectorial focus and the host country's comparative advantage; lack of provision of adequate infrastructure; poor environmental, social and governance (ESG) performance; lack of co-ordinated, high-level political support; unclear business strategy and, more broadly, a failure to embed a special business environment within the surrounding economy (Farole, 2011; Frick & Rodríguez-Pose, 2021; Watson, 2001; Zeng, 2016). In addition, the ability of African SEZs to generate linkages with the local industrial fabric has been limited (Farole, 2011; Frick & Rodríguez-Pose, 2021).



FIGURE 3 Share of SEZs by target sectors (total: 236) Source: UNCTAD, 2020.

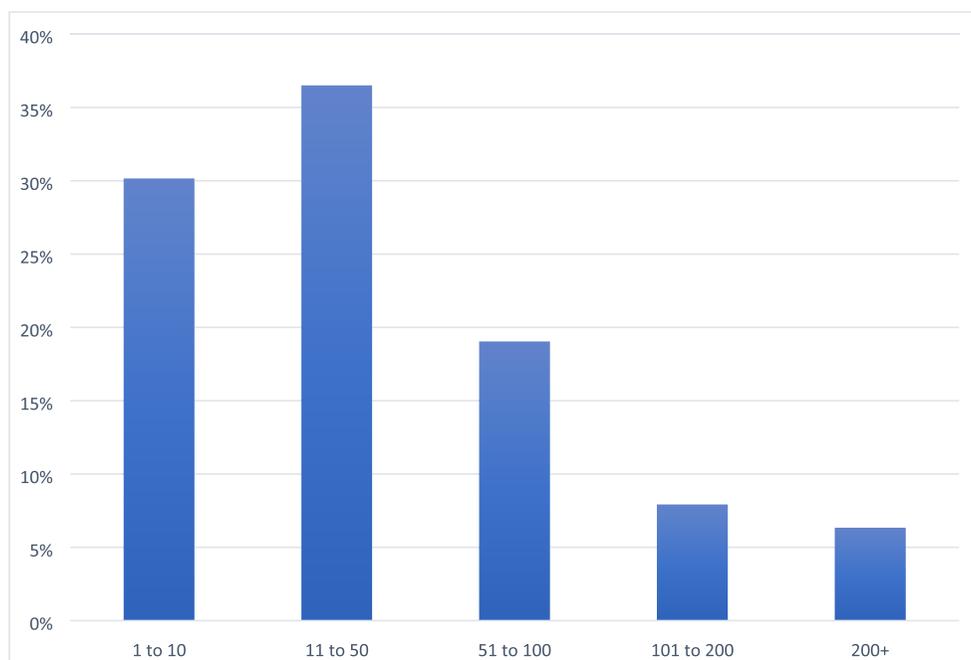


FIGURE 4 Distribution of SEZs by number of firms, 2019 *Note:* The total number of African zones in the sample is 63. Only zones for which data are available and reliable are included. *Source:* UNCTAD.

Our sample of 71 African SEZs for which complete data are available¹ reveals the inability of African zones to match the socio-economic gains of zones in other world regions. In terms of operational firms per zone, African zones in the sample have on average 60 firms or fewer (UNCTAD, 2020). More than half host less than 50 firms. The share of zones with more than 200 firms is below 6% (Figure 4). The zones with the greatest number of firms are normally long-established, wide-area SEZs located in the more developed African countries, such as the Tanger Free Zone in Morocco (750 firms) (Tanger Med Zone, 2021) or Egypt's Alexandria Free Zone (405 firms) (General Authority for Investment, 2021).

Another criterion to measure the performance of zones is their contribution to employment creation (Farole, 2011; Frick et al., 2019). The literature is inconclusive on the correlation between SEZs and employment creation. Some past research has documented the ability of SEZs to generate new employment in surrounding regions (e.g. Sanders & Brown, 2012), but other studies report a limited effect on employment creation (e.g. Cirera & Qasim, 2014). Using a sample of 53 SEZs to gauge contributions to employment,² around half of the African SEZs under consideration have created between 1,000 and 10,000 new jobs (Figure 5). More successful examples are the Suez Free Zone in Egypt, Chambishi multi-facility economic zone (MFEZ) in Zambia, Morocco's Atlantic Free Zone and Nigeria's Calabar Free Trade Zone. The sectoral focus of the zone frequently determines its employment contributions. SEZs specialized in labour-intensive industrial activities, such as garments and textiles, report higher numbers of new direct jobs. Zones with a higher technological content create less employment. Ethiopia's SEZs, which mainly target labour-intensive industries, report some of the highest levels of employment creation across Africa. Bole Lemi Industrial Park, near Addis Ababa, has generated 20,000 new jobs in the garments, textiles and leather industries.

¹The 71 zones are presented in Table A1 in the appendix, while Table A2 provides some summary statistics.

²When measuring the number of jobs created, values tend to be conservative as only direct employment is considered. Please refer to Table A2 in the appendix for the full specification of the sample.

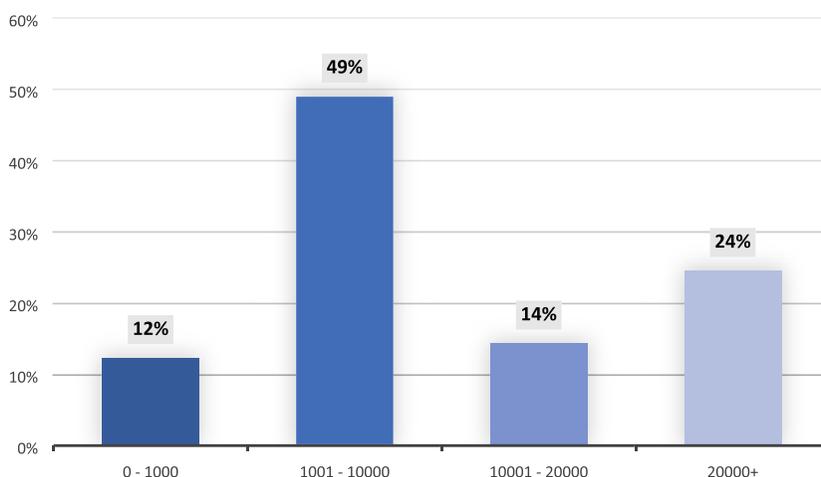


FIGURE 5 Distribution of SEZs by number of jobs created, 2019 Note: The total number of African SEZs in the sample is 53. Only zones for which data are available and reliable are considered. Source: UNCTAD.

On the whole, SEZs represent a tiny fraction of African employment (Table 1). Using the most recent estimates, African SEZs account for between 1% and 5% of total national industrial sector employment. The sole exception is Djibouti. Even in countries targeting labour-intensive industries, such as Egypt and Ethiopia, which have the highest SEZ employment in the continent, the share does not exceed 5% of national industrial employment. Overall, the jobs generated by African SEZs are well below those of SEZs in East and South-east Asian countries, where the SEZ contribution as a percentage of total national industrial sector employment is generally in double digits. Some small Central American countries, such as Honduras and the Dominican Republic, also register far higher SEZ contributions to industrial employment (around 30%) (Table 1).

SEZ policies feature a plethora of investment and trade facilitation tools, investment attraction instruments, and value-added services. Traditionally, the provision of fiscal incentives has formed the backbone of most SEZ programmes. They range from offering exemptions from import duties on machinery and production inputs to reductions in corporate and local taxes. Many countries also subsidize utilities (Asian Development Bank [ADB], 2015). The effectiveness of tax breaks within SEZ regimes has been hotly debated. Aggarwal (2005) stresses the role of fiscal incentives to attract foreign investors. Farole (2011) and Frick et al. (2019), however, do not find any significant correlation between tax breaks and zone performance. In this context, granting generous incentive packages may have become an ‘hygiene factor’, that is, while their economic returns may be limited, many countries and firms consider them as a *conditio sine qua non* for the establishment of SEZ regimes (ADB, 2015).

As illustrated in Figure 6, African SEZ policies rely more heavily on fiscal incentives as their main investment lever than policies in other parts of the world (see Table A4 in the appendix for the list of SEZ policies considered). Almost 90% of the African SEZ regimes examined include fiscal incentives, compared with the global average of less than 80% (UNCTAD, 2019). Tax breaks take many forms. Countries, such as Kenya, offer exemptions of profit, corporate and income taxes. Egypt subsidizes skill development programmes targeted at the local workforce (UNCTAD, 2017). Mali ties the provision of fiscal packages to compliance with specific export targets (UNCTAD, 2019).

More than 70% of the African SEZ policies under consideration – including those in Ethiopia, Kenya, Mauritius and South Africa – also adopt a special customs regime, including duty-free treatment of goods, plants and machinery. Investment protection measures feature in 40% of the African SEZ policies in our sample, while only one third of SEZ policies offer investment facilitation measures, such as a single window or a one-stop shop, to ease firm access to government services (ADB, 2015; Farole & Kweka, 2011; UNCTAD, 2019). Surprisingly, only 20% of African SEZ

**TABLE 1** Employment contribution of national SEZs in selected countries

Country	SEZ direct employment (2019 or most recently est.)	SEZ employment as % of national industrial employment (2019)
AFRICAN COUNTRIES		
Angola	5,000	1%
Djibouti	27,000	48%
Egypt	400,000	5%
Ethiopia	200,000	4%
Ghana	30,000	1%
Kenya	60,000	4%
Morocco	150,000	5%
Rwanda	13,000	2%
Senegal	4,500	1%
South Africa	110,000	2%
Tanzania	45,000	3%
Togo	15,000	3%
NON-AFRICAN COUNTRIES		
Cambodia	90,000	3%
China	30,000,000	14%
Dominican Republic	160,000	36%
Honduras	125,000	30%
Malaysia	1,000,000	23%
Philippines	1,400,000	16%
Vietnam	3,000,000	19%

Note: Data pertaining to the Democratic Republic of the Congo, Gabon, Mauritania, Mauritius, Nigeria and Sudan from the sample selected for the analysis of employment contributions are unavailable or unreliable. Definition of SEZ employment may vary across countries. The numbers of SEZ direct employment are indicative and reflect UNCTAD's classification of a SEZ.

Source: SEZ employment from national SEZ authorities (indicative) and UNCTAD (2017); national industrial employment from World Bank Development Indicators.

policies include infrastructure provision as an investment attraction tool, although inadequate infrastructure is frequently singled out by investors as a major deterrent for investment, both within SEZs and in the wider economy (Farole, 2011). Finally, only 7% of African SEZ policies provide social amenities, which may include health facilities, recreation facilities and educational institutions, and which are often credited to increase the attractiveness of a zone (Farole & Akinci, 2011).

African SEZ programmes also vary in the requirements that firms need to meet to invest and set up shop in the zones. After studying the incentives and services offered in the sample of 30 African SEZ policies, the majority of policies include some requirements, either in terms of capital expenditure, development goals or specific performance requirements (Figure 7). Compared to SEZ policies around the world, African SEZ programmes are generally more restrictive. In particular, the share of African SEZ programmes requiring conditions that companies must meet to invest and operate is almost double the global average – slightly less than 80% in Africa versus 40% in the rest of the world (UNCTAD, 2019). Traditionally intended to protect local firms from foreign competition, performance-based criteria are, however, a double-edged sword, damaging the investment climate and failing to comply with

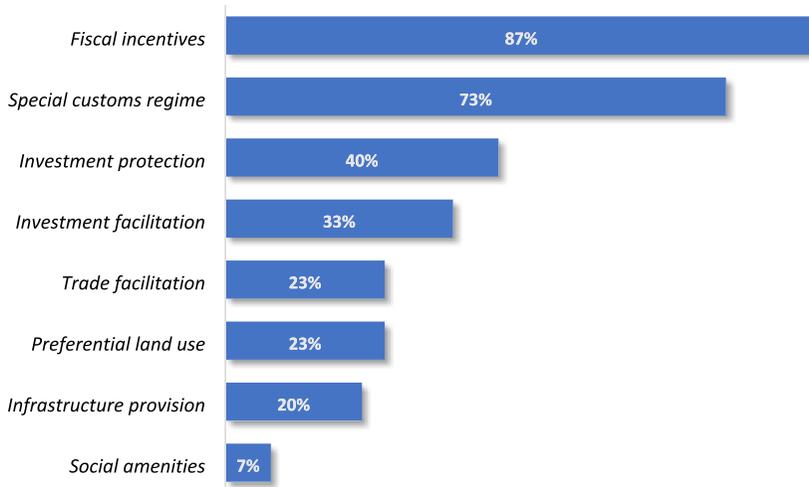


FIGURE 6 Incentives and services offered by SEZ policies (percent), 2019 *Note:* The total number of African SEZ policies included in the sample is 30. Only policies for which data are available and reliable are included. *Source:* UNCTAD.

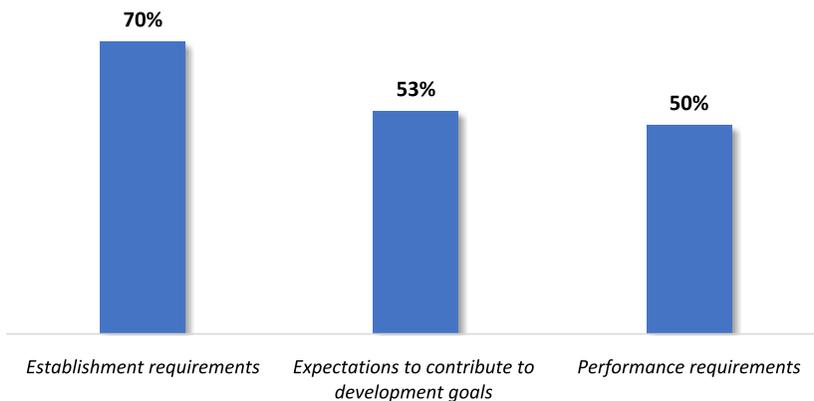


FIGURE 7 Requirements in African SEZ policies *Note:* The total number of African SEZ policies included in the sample is 30. Only policies for which data are available and reliable are included. *Source:* UNCTAD, 2020.

World Trade Organization regulations (FIAS, 2008; Organisation for Economic Co-operation and Development [OECD], 2009).

Three main findings, each carrying its own set of opportunities and challenges, can be extracted from this overview of African SEZs. First, African SEZs are on a steep upwards trend, both in terms of the number of individual SEZs and countries adopting SEZ regimes. Furthermore, the nature of African SEZs is gradually shifting: the traditional enclave-like export processing zone model is giving way to larger SEZs relying on various investment levers, aspiring to achieve more comprehensive economic benefits. While the development of new and different SEZs can provide African countries with additional economic development tools to revitalize existing industrial fabrics, the growing army of African SEZs carries enormous opportunity costs for countries that are often afflicted by severe economic and institutional deficits.



Second, the ability of African zones to attract firms and create jobs remains limited. The few African countries experiencing substantial SEZ-related employment generation are those at higher development levels, such as Kenya, Mauritius, Morocco and South Africa. Overall, SEZ development has failed to significantly alter the economic fortunes of African countries at the bottom of the development pyramid. The new wave of interest for SEZ development in African countries with limited institutional capacity and experience in establishing SEZs further reiterates the risk of ending up with underperforming zones in the continent.

Third, the greater restrictions imposed by African SEZ policies, relative to zones elsewhere in the emerging world, overshadow the more progressive attributes of SEZ governance policies – that is, social amenities and other value-added services, which are increasingly singled out by international investors (UNCTAD, 2019). Such attributes of African SEZs may fail to equip zones with a future-proof value proposition capable of competing with zones elsewhere in the world.

5 | AFRICAN SEZ PRACTICES

Whether a zone becomes a springboard for greater innovation, employment, industrial upgrading and exports frequently depends on a limited number of critical factors. Past research has focused on three crucial areas for the success of SEZ programmes: (i) a well-targeted strategic focus (Farole, 2011; Frick et al., 2019), (ii) the role of institutional collaboration and integrated policies vis-à-vis stand-alone interventions (Hazakis, 2014; Mangal, 2019; Zeng, 2016) and (iii) the ability of a zone to exert a positive impact beyond its gates by reaping ‘dynamic gains’ (Frick & Rodríguez-Pose, 2021; Moberg, 2015). This section dwells on three case studies, each representing one of the three areas identified as key by the academic and policy literature. The countries represented are Ethiopia, Morocco and South Africa.

5.1 | Morocco: The strategic focus

The interconnected nature of a country’s comparative advantage and SEZ programmes often features in successful stories of zone-based development strategies (Farole, 2011; Frick et al., 2019; Zeng, 2011). A recent survey of firms located in seven SEZs around the world further reiterated the importance of having a clear strategic focus based on a country’s comparative advantage, while simultaneously establishing SEZs as catalysts for attracting investment. One in three investors stated that while they were primarily attracted to a country because the specific country’s endowments matched their requirements, they would not have invested in the country without an SEZ policy (Frick & Rodríguez-Pose, 2021). This suggests that the potential economic gains of SEZs are maximized when the intended value proposition of a country’s zones and those sectors in which the country retains a competitive edge vis-à-vis regional and international competitors are aligned. In contrast, past research showcased the limited positive socio-economic spillovers that occur when such alignment is not achieved (Newman & Page, 2017).

This evidence, however, stands in stark contrast with the implementation of SEZ programmes. This frequently has resulted in what Castells (2014) called ‘high-tech fantasies’ or zones that lack the locational factors, such as a sufficiently skilled labour force and advanced research and academic institutions, normally required to attract higher value-added industries.

Therefore, it is paramount to target industries in line with the country’s specific conditions and skill sets (Boschma, 2005; Farole, 2011; Rodríguez-Pose et al., 2013). In this context, countries not following an incremental approach – for example, by pursuing lower value-added industries initially then increasing the technological component of the target firms when the local economic conditions allow – have frequently enjoyed higher success rates (Rodríguez-Pose & Hardy, 2014).



In Africa, a representative case of an incremental approach to SEZ development is that of Morocco, one of the few African countries that has succeeded in attracting significant investment flows through SEZs (Africa Economic Zones Organization [AEZO], 2019). Morocco's industrial sector was long dominated by low-tech exports in labour-intensive industries, such as garments and textiles, accounting for 15% of manufacturing gross domestic product in 2014 (OECD, 2018). Over the last decade, Morocco has increasingly become the destination of choice in Africa for investment in higher value-added industries, herding a growing share of activities with technological content in manufacturing exports and FDI (World Bank, 2021). The share of automotive exports rose from a mere 2% of overall exports in 2010 to 16% in 2016 (Global Manufacturing and Industrialisation Summit, 2018). Similarly, the share of medium- and high-tech exports grew from 23% of total exports between 2000 and 2007 to over 40% between 2008 and 2015 (Lahsini, 2017).

The shift towards higher value-added industrial activities has been enabled through a strategy crafted on Morocco's comparative advantage. In this strategy, targeted SEZs became key economic development tools. A number of factors, including Morocco's political stability, its proximity to Europe, and low salaries for relatively highly skilled workers, make the country an attractive destination for FDI. In 2018, the minimum wage in Morocco was US \$300 per month, compared with US \$338 in Tunisia and US \$430 in Turkey (Mills, 2019). Free trade agreements with large trading partners, such as the European Union, the United States and the Gulf States, also underpin Morocco's locational advantages. To leverage these advantages, the National Pact for Industrial Emergence was launched in 2008 by the Moroccan government. This was followed by the Industrial Acceleration Plan in 2014. In these country-wide development strategies, specific target sectors were prioritized, based on Morocco's suitability for investments in certain industries, such as automotive, aerospace, electronics, agro-industrial processing and offshoring sectors (Karim et al., 2021). The development of SEZs was co-ordinated with these strategies and targeted specific sectoral activities to provide a more favourable ecosystem for the development of industrial clusters. Investment facilitation and promotion tools – in the form of attractive incentive packages and subsidies for high-skill training (Mills, 2019) – played a non-negligible role in attracting investment to the SEZs. Specialized zones, such as Tanger Automotive City (automotive), Casablanca Midparc Free Zone (aeronautics), Rabat Technopolis and Oujda Technopolis (both more intensive sectors), generated industrial clusters that often incorporate research institutions and training facilities, alongside high-quality infrastructure. SEZs have become key to reaching the comprehensive investment objectives set out by national authorities.

The case of Morocco highlights the importance of a well-targeted strategic focus – frequently stressed by the academic literature but often overlooked during the design and implementation of SEZ programmes. Moreover, the Moroccan zone-based development strategy demonstrates the all-important role of a careful analysis of a country's competitive edge, benchmarked against international and regional competitors, prior to the establishment of SEZs that target specific sectors of the economy. In contrast, SEZ regimes lacking the necessary locational advantages for their success (such as adequate skill sets or infrastructure) have non-negligible opportunity costs and detract much-needed financial resources from what are often cash-strapped areas, such as health or education.

5.2 | Ethiopia: Institutional co-ordination and integrated policies

SEZ policies frequently touch upon different policy areas, including trade and investment promotion as well as labour and environmental policies. These fields are not just related to the development of SEZs but their regulations regularly overlap with those of SEZ programmes. Co-ordination between government institutions to ensure policy coherence is, therefore, essential if SEZ policies are to be effective (Mangal, 2019).

Among the many areas that facilitate the successful functioning of SEZs, investment promotion is crucial (Farole, 2011). In a recent survey, 41% of over 100 SEZ-based firms interviewed in seven SEZs in the emerging world stated that the government's investment promotion efforts and support were vital in steering decisions to invest in



a specific SEZ.³ The level and degree of support vary significantly from country to country, with some proactively approaching firms prior to their investment or facilitating investments once the firm expressed interest. The related and/or overlapping relationship between SEZ policies and investment promotion is reinforced by the results of another recent survey which found that 47% of 120 surveyed investment promotion agencies around the world consider SEZs to represent a significant boost to FDI (UNCTAD, 2019). These results showcase the interconnected and mutual importance of investment promotion efforts and SEZ policies.

In addition to investment promotion, other fields, such as trade, customs regulations and labour laws, also influence the effective development and implementation of SEZ policies. The interconnectedness of these many policy areas, often controlled by different government institutions and agencies, requires an effective mechanism for institutional collaboration and co-ordination to embed SEZ policies into integrated strategies, and more generally, ensure policy coherence (Farole, 2011). Whereas there is no one-size-fits-all approach to warrant such collaboration, countries the world over have resorted to formal institutional collaboration mechanisms adapted to the local context.

In Africa, an example of the potential benefits accruing from the alignment of objectives across various government agencies is Ethiopia. Whereas part of Ethiopia's success can be attributed to favourable external condition – including the extension of the African Growth and Opportunity Act (AGOA) and low labour costs, a mix of an adequately-targeted SEZ policy, proactive investment promotion efforts and high levels of government support – drove its attraction to foreign investors. FDI inflows have soared recently, with FDI rising to US \$4 billion in 2017 from just US \$1.3 billion in 2013 (UNCTAD, 2019).

A key feature of Ethiopia's SEZ policy is the institutional structure developed to facilitate a smooth collaboration across government agencies dealing with investment promotion and the SEZ policy, together with the effective implementation of interventions across different policy areas, such as infrastructure investments and the enactment of investment laws. To achieve this, the government restructured existing institutions and created new ones, such as the Ethiopian Investment Board (EIB). The EIB is responsible for policy, strategy and oversight of the overall investment promotion and industrial park policy, while the Ethiopian Investment Commission (EIC) is charged with the day-to-day running of operations and has the mandate to conduct investment promotion and attract investors to the targeted sectors. The EIC also regulates industrial park developers, operators and firms. In addition, a new Industrial Parks Development Corporation was established based on Singapore's JTC. It has the task of developing and operating industrial parks and making industrial land and infrastructure available for investors (United Nations Industrial Development Organization, 2018).

Some factors are distinctive to Ethiopia's institutional set-up. First, the EIB and the EIC are co-responsible for the development and implementation of the industrial park strategy as well as investment promotion. Such a set-up underlines the interlinked relationship of the two activities and the need to combine and align investment promotion efforts and SEZ programmes. Second, the prime minister's office supervises the development of all activities and presides over the EIB. The role of the prime minister's office is fundamental not only for the co-ordination across all the different agencies but also for signalling high-level support for the SEZ strategy to potential investors (Akileswaran et al., 2020). Finally, senior representatives from line ministries, such as foreign affairs, industry, finance, and agriculture, are members of the EIB board. This has further facilitated effective collaboration between different institutions, ensuring policy coherence.

Ethiopia's co-ordinated and integrated approach to SEZ development has yielded considerable results. A 2018 survey of investors in the Bole Lemi Industrial Park I, the first SEZ operational in Ethiopia, indicated that almost half of all the investors interviewed chose Ethiopia because of the government's strong support. 75% of the firms surveyed reported that they had been proactively approached by the Ethiopian government, stressing the role of investment promotion efforts (World Bank, 2017). Ethiopia's capacity to attract anchor investors was also essential. In particular, securing investment from PVH, the second largest global garment producer, in the

³As part of a London School of Economics/World Bank project, 103 interviews were conducted with SEZ firm managers in seven SEZs in Colombia, Ethiopia, Malaysia, Nigeria, Rwanda, South Africa and Vietnam.



Hawassa Industrial Park in 2017 was a major game-changer for a country that, up to that point, mainly attracted smaller subcontractors from India, Turkey and Bangladesh (Mihretu & Llobet, 2017). PVH chose Ethiopia, among other factors, because of its co-ordinated institutional set-up and strong political backing. Direct involvement from the prime minister's office in this and other investment processes signalled that the government was serious about its strategy.

The Ethiopian case represents an example of a country that integrated the development of its SEZs with investment promotion. A carefully crafted institutional set-up – involving both the prime minister's office and senior officials from relevant line ministries – guaranteed a high degree of institutional collaboration and co-ordination. This layout prevented the operational disconnect that has undermined the success of many SEZs in other African countries, such as Kenya, Nigeria and Tanzania. There, the lack of formal institutional links between agencies prevented a co-ordinated approach to SEZ development (Newman & Page, 2017).

5.3 | South Africa: Reaping the dynamic gains of SEZs

Policymakers often embark on SEZ strategies with higher ambitions than the attraction of FDI, promoting exports and generating jobs. Decision-makers often seek to dynamize lagging regions and embark on a process of industrial upgrading by leveraging the technological advantage of foreign SEZ-based firms and promoting localized knowledge and productivity spillovers (Aggarwal, 2019; Kuznetsov & Kuznetsova, 2019; Narula & Zhan, 2019). However, past research has highlighted the limited ability of many SEZs around the world to generate spillovers and spur economic activity outside the SEZs' borders (Farole, 2011; Frick et al., 2019). The reasons for the limited SEZ capacity to generate spillovers can often be traced back to a mismatch between the firms targeted and the local absorptive capacity. The local environment and local firms often lack the capacity to identify and absorb new knowledge into the local production fabric (Audretsch & Feldman, 2004; Boschma, 2005). The establishment of sourcing linkages with domestic firms is often considered to be one of the most important and effective channels for generating spillovers (Amendolagine et al., 2019; Javorcik & Spatareanu, 2008). The establishment of such linkages, however, is by no means automatic nor guaranteed to occur. Frick and Rodríguez-Pose (2021) pointed out a variety of challenges to source production inputs from the local economy, with the non-availability of the inputs and quality and/or price issues being the most prominent.

Africa is no exception to this rule. SEZs have generally remained isolated enclaves disconnected from the rest of the local economy (Farole, 2011). In South Africa, however, the Coega Industrial Development Zone (Coega IDZ), established in 2001 close to Port Elizabeth, has generated considerable linkages with local small, micro, and medium-sized enterprises (SMMEs) through a set of specific initiatives aimed at creating a conducive environment for local firms to partake and benefit from the industrial activities at Coega IDZ. These initiatives include setting up a SMME Development Unit responsible for the SMME Development Programme, which aims to boost local business formation through the creation of a SMME supplier database; a training and development programme adapted to the needs of each SMME; and technical mentoring to aid local firms' bids for higher value-added tenders (Coega Development Corporation, 2020a, 2020b). Further programmes aim at reducing the financial constraints of SMMEs through, for instance, the Broad-Based Black Economic Empowerment Programme, and providing multi-user facilities to facilitate the transfer of knowledge and the formation of value chains through physical proximity (Coega Development Corporation, 2020a, 2020b).

The outcomes of such an approach are notable, especially when compared with other African experiences. The Coega IDZ achieved a 35% SMME procurement rate over the 2015–2020 period, nearly reaching its ambitious goal of 40%. This amounted to 609 million South African rand (approximately US \$40 million) in the financial year 2019–2020 alone. Close to 400 SMMEs benefitted from training programmes, and 80% of the SMMEs that were awarded contracts by the Coega Development Corporation successfully completed the mentorship programme (Coega Development Corporation, 2020a, 2020b).



The initiatives supported by Coega illustrate the role that SEZs can play in facilitating the creation of sourcing linkages with domestic firms by expanding market opportunities, supporting access to finance, and providing training and mentoring. Nevertheless, such attempts also highlight the importance of adopting a proactive approach to address the multifaceted nature of the challenges faced by SMMEs, ranging from sourcing managerial and technical skills to financing constraints. Such a concerted effort may be crucial to extend the positive socio-economic effects beyond the gates of the Coega IDZ.

6 | POLICY IMPLICATIONS AND LESSONS LEARNT

This section introduces a set of policy implications and lessons learnt derived from the evidence stemming from the African case studies presented and, more generally, from the decades of SEZ policy implementation and research around the world. The section builds on the common challenges endured by African countries to design and implement zone-based development strategies, as described in the previous sections. The section first provides some general lessons learnt, which refer to the expectations policymakers often have when embarking on the development of new zones. Second, we provide lessons learnt concerning the first step of SEZ development, the strategic country analysis. Third, we explore the lessons learnt linked to the design of SEZ policies. Fourth, we dwell on best practices on the specific SEZ set-up. Finally, we introduce lessons concerning institutional considerations and the organisational set up of SEZ programmes. Table 2 summarizes the key elements of the section.

6.1 | General lessons learnt

The impact of SEZ interventions is highly context dependent. SEZ interventions are contingent on the specific national and regional ecosystem where they are established, suggesting that there is no blueprint for SEZ development (Frick & Rodríguez-Pose, 2019; World Bank, 2017). Nevertheless, retaining a clear picture of the potential benefits of SEZs – including the scope, duration and spatial extent of such benefits – remains crucial for the establishment of new zones and enhancing the role SEZs can play within the wider national economic policy framework, particularly in Africa.

Overall, SEZs in general and African SEZs in particular cannot be considered a panacea for economic growth. The economic outcomes of African SEZs display high variability. The successful cases are few and far between. Most African zones have struggled to boost the economic performance of the countries where they are located (Farole, 2011; UNCTAD, 2019). As elsewhere in the world, it is not always the case that African SEZs grow at a higher rate than the rest of the hosting national economy (Frick et al., 2019). SEZs can thus not be considered a fix to lagging African economies, especially as their implementation has been plagued by institutional deficits (Aggarwal, 2019).

Furthermore, the economic growth of African zones is proving hard to sustain. The economic impact of SEZs frequently wanes with time, with the main benefits predominantly accruing in the first years of operation (World Bank, 2017). Hence, the task of policymakers does not end with the opening of the zone. Concerted efforts by African governments to ensure the adequate functioning of SEZs are required throughout their lifespan, especially as the zone ages. The economic gains of African SEZs are also subject to strong distance decay effects. While past research shows that forward and backward linkages between firms in SEZs and local firms outside the zone can, in theory, ignite multiplier effects (Zeng, 2016), economic dynamism is often hard to attain beyond the boundaries of SEZs. In most emerging countries, there is no evidence of impact beyond 50 kilometres from the zone (Frick & Rodríguez-Pose, 2019). Both the time and distance decay effects should therefore be considered when framing fiscal and non-fiscal incentives and preferential treatments to avoid misallocations of public resources.

**TABLE 2** Summary table of challenges facing African SEZs and lessons learnt by area of SEZ development

GENERAL LESSONS LEARNT		
<ul style="list-style-type: none"> • The impact of SEZ interventions is highly context dependent. • SEZs are not a panacea for growth. • Policy attention to SEZs should be guaranteed throughout their whole lifespan. • SEZs can bring about benefits beyond their gates; however, there is a strong distance decay. 		
AREAS OF SEZ DEVELOPMENT	CHALLENGES IN AFRICA	LESSONS LEARNT
Strategic country assessment	<ul style="list-style-type: none"> • Mismatch between SEZ sectoral focus and country's comparative advantage • Unclear business case for determining lack of financial viability • Failure to reproduce a conducive business environment vis-à-vis the surrounding economy 	<ul style="list-style-type: none"> • Devote enough attention to identifying key drivers of the country's comparative advantage • Choose an adequate sectoral focus reflecting the country's specialization • Single out the country's main deficits
SEZ policy design	<ul style="list-style-type: none"> • Similar value proposition among competitors • Regulatory barriers preventing local integration of SEZs • High opportunity costs of incentive packages 	<ul style="list-style-type: none"> • Tailor the SEZ policy to the country characteristics and target sectors • Avoid overreliance on fiscal incentives • Remove regulatory barriers and support local integration of SEZs
Specific SEZ set-up	<ul style="list-style-type: none"> • Lack of locational advantages • Lack of provision of high-quality infrastructure • Failure to adapt services to target industry 	<ul style="list-style-type: none"> • Leverage strategic locational advantages • Consider indispensable infrastructure for target sectors • Tailor services to the country's environment
Institutional considerations	<ul style="list-style-type: none"> • Stand-alone policies with little cross-institutional co-ordination • Lack of political commitment, hindering investors' interest • Political interference in the SEZ authority's activities 	<ul style="list-style-type: none"> • Ensure co-ordinated, high-level political support • Grant appropriate financial and administrative autonomy to the SEZ authority • Develop integrated strategies rather than stand-alone SEZ policies, emphasising policy coherence

Note: The African-specific challenges and the respective lessons learnt have been first identified in the literature and then corroborated by the data, the sample analysis of African SEZs and the case studies.

Source: Based on Watson (2001); Farole (2011); Frick and Rodríguez-Pose (2019); Zeng (2016) and evidence from the analysis of SEZs in this study and case studies.

6.2 | Strategic country assessment

A careful analysis of the country context is normally the first stage of developing SEZ programmes (Farole, 2011). The case study from Morocco highlights the advantages of positioning the national SEZ programme in light of the country's pre-existing industrial capabilities. The design of SEZ policies that support and complement a country's sources of comparative advantage requires a thorough diagnosis of the strengths and weaknesses of the country's industrial fabric. However, African SEZs have mostly been conceived banking on ideal country's endowments detached from Africa's reality. This mismatch has thwarted the take-off of numerous zones across the continent. Many African zones have struggled to attract any high-tech investment but have taken off when targeting sectors more adapted to the country's conditions and where a comparative advantage exists. Trying to develop high-tech zones in the hope of leapfrogging towards higher value-added industrial activities has not worked in Africa, as has been the case in most other parts of the emerging world (Castells, 2014; Farole, 2011). High-tech SEZs in Africa normally perform worse than zones targeting more low-tech, labour-intensive industries. Shortages of skilled labour and



education deficits represent significant barriers to high-tech development (Castells, 2014; World Bank, 2017). For many African countries, linking their SEZ programmes to endowments in natural resources and other low-tech industries may provide a more economically sustainable venue. This is further supported by empirical and theoretical evidence, which finds that industrial upgrading through SEZs may lead to greater outcomes, if done through both a progressive and incremental accumulation of technological capabilities and focusing on sectors already present in the country (Farole & Akinci, 2011; Zeng, 2016).

Finally, SEZs are often conceived as venues for policy experimentation (UNCTAD, 2019). However, SEZs in Africa have frequently failed to offer a truly special business environment that set them aside from the rest of the economy (Farole, 2011). Therefore, a diagnostic exercise that leads to the identification of the primary bottlenecks in the economy is required to single out Africa's most pressing deficits and overcome them through the establishment of specific SEZ regimes (ADB, 2015).

6.3 | SEZ policy design

SEZ policies tend to resemble each other across countries. Most African SEZ programmes offer corporate tax, VAT and import duties exemptions as well as one-stop shops and other administrative facilitation tools (Bost, 2019). However, the success of SEZ policies may be much more context dependent than hitherto thought, rendering copycat strategies and one-size-fits-all approaches to SEZ development unlikely to deliver, particularly in Africa (World Bank, 2017). The commonly used elements of global SEZ policies do not contribute per se to augment SEZs' dynamism in Africa, especially given that they wear off with time, as economies open up and other countries adopt similar policy incentives (Vats et al., 2018). What appears to have worked better in the design of African SEZ policies is a proactive, demand-driven approach that carefully considers which aspects of the policy incentive package are required, given the specific country context and the target investors and/or industries.

One element of African SEZ policies that has progressively become a wedge issue are fiscal incentives. In addition to being non-compliant with World Trade Organization regulations, especially when tied to specific performance requirements (Creskoff & Walkenhorst, 2009; Defever et al., 2019; Torres, 2007), fiscal incentives are rather ineffective and/or insufficient at attracting investment to developing countries (OECD, 2015; Tuomi, 2011). This may be partly explained because fiscal incentives, instead of tackling the root impediments limiting the competitiveness of African countries, conceal structural economic deficits, such as low productivity or skill shortages, which eventually affect firms' location choices. Successful African zone programmes have taken steps to remove or retarget fiscal incentives, focusing instead on other elements of SEZ policies, such as service delivery quality or infrastructure (Narula & Zhan, 2019). Given the (over)reliance of African SEZ programmes on fiscal incentives, such a shift may provide a window of opportunity for African countries that have experienced limited success in developing SEZs.

Finally, another crucial aspect is the presence of regulatory barriers, usually in the form of export requirements and restrictions on local sales. These requirements frequently isolate SEZs and inhibit spillover effects to the local economy through, for example, forwards and backwards linkages (Frick et al., 2019). African SEZ policies can adopt a variety of measures to foster linkages beyond the mere removal of performance requirements. For instance, facilitation provisions – such as the establishment of shared facilities and streamlined administrative support for those SEZs and local firms willing and capable to collaborate – can go a long way in supporting local integration (Zeng, 2015). African zones with support mechanisms for foreign investors to establish joint ventures with local companies have generally performed better, as was the case in Kenya, where business accelerators have been set up to optimize local SMEs' production processes to meet the requirements of SEZ-based firms. More proactive mechanisms in other parts of the continent are required to grant equal footing to domestic suppliers and elicit the formation of linkages.

³As part of a London School of Economics/World Bank project, 103 interviews were conducted with SEZ firm managers in seven SEZs in Colombia, Ethiopia, Malaysia, Nigeria, Rwanda, South Africa and Vietnam.



6.4 | Specific SEZ setup

While the design of SEZ policies has often been under the spotlight of SEZ best practices, specific zone's characteristics are even more important for the successful implementation of SEZ programmes in Africa. The geographical location of SEZs, the provision of infrastructure and the delivery of value-added services are, among others, crucial to foster zones' growth (Frick et al., 2019).

International best practice and research suggest that location shapes the success of specific SEZs (World Bank, 2017). Proximity to major agglomerations, such as capital cities, facilitates zone dynamism (Frick et al., 2019). Similarly, distance to major trade gateways, such as ports and airports, can lower trade costs, rendering the zone more attractive to investors requiring access to imported inputs (Farole, 2011). Both proximity to transport infrastructure nodes and large, skilled labour pools can also make or break the fortunes of African SEZs (ADB, 2015). The most mature and dynamic SEZs in Africa display many, if not all, of these locational characteristics. For instance, zones in Tangier and Casablanca in Morocco enjoy proximity to both the Strait of Gibraltar and large metropolitan areas. In South Africa and Ghana, successful zones are often close to major cities and seaports. This evidence somewhat contrasts with certain African countries' attempts to locate SEZs in lagging and rural regions to boost economic growth and reduce regional inequalities (Cane et al., 2018; Kuznetsov & Kuznetsova, 2019). Such approaches to SEZ development may trigger wasteful interventions that leave no trace in lagging areas.

The infrastructure and services available in each SEZ also determine the performance of SEZs (Farole, 2011). Similarly to the presence of specific elements in SEZ governance policies, the provision of certain infrastructure and services is not per se a driver of zone performance, indicating that the economic returns of offering enhanced infrastructure and/or services are subject to a high degree of context dependency (Frick et al., 2019). Whereas most industries share similar needs in terms of basic infrastructure, different investors might consider the infrastructural and service aspects offered by a specific zone more or less essential. For instance, garments and textiles firms benefit from a 'plug-and-play' system offering pre-built factory units and warehouses, such as that implemented in many Ethiopian SEZs (EIC, 2017). In contrast, the provision of such services may represent an unnecessary cost for SEZs that target other industries, such as pharmaceuticals, where firms require factory units tailored to specific production requirements. This suggests that tailoring the infrastructure and services offered to both the country context and target investors may provide greater returns as opposed to blanket interventions, which frequently endow zones with identical value propositions.

6.5 | Institutional considerations

Institutional deficits and inefficient organisational set-ups have been at the root of many SEZ programmes' poor performance, especially in developing countries (Zeng, 2016). As illustrated by the Ethiopian case, establishing SEZ policies requires the ability to co-ordinate several government agencies and to collaborate towards shared objectives, avoiding overlaps. Relatedly, governance models with strong political support are generally well integrated with the broader national development strategies and can empower SEZ authorities. They are, therefore, more likely to succeed.

Lack of adequate high-level political support for SEZ programmes can have dire consequences. The most successful examples of SEZ programmes, in contrast, often benefit from the highest possible political commitment both as a way to ensure the financial and technical resources needed to establish zones and to signal to foreign investors that SEZ development is high on the government agenda (Mangal, 2019; Zeng, 2016). In Africa, this is exemplified by the cases of Mauritius – where Gaëtan Duval, a former Deputy Prime Minister, took a personal stance to promote the establishment of the domestic SEZ programme – and of Ethiopia, where the prime minister's office supervises and presides over SEZ development and investment promotion (Akileswaran et al., 2020; Farole, 2011).

Granting appropriate financial and administrative autonomy to the SEZ authority is also key. Many SEZ authorities in developing countries, despite being state entities, lack sufficient autonomy to deliver on their mandates (Farole & Kweka, 2011). A subtle and thin line frequently separates an SEZ authority with adequate political backing



from one that is prey to political interference. To succeed, SEZ authorities should have sufficient financial autonomy to execute infrastructure development projects, implement land development projects and set up the required services for investors. They should also retain sufficient autonomy to set labour policies within SEZs – including hiring, setting salaries and firing workers – and have a say on taxation matters, such as subsidies or tax breaks that best fit the national context and target investors (Mangal, 2019). For instance, the Agence Spéciale Tanger-Méditerranée (TMSA), the authority that regulates Morocco's Tanger Med zones, benefits from considerable freedom in terms of internal labour policies, while enjoying high-level political support through the presence of high-level senior officials on its board of directors (Tanger Med Zone, 2019).

Finally, ensuring that SEZ policies are developed as integrated strategies rather than stand-alone initiatives can offer SEZs backing from complementary policy areas (ADB, 2015). SEZs can thus facilitate the achievement of targets set by national or regional development strategies (Zeng, 2016). Integration with the national growth policy framework allows SEZs to benefit from interventions in related areas, such as trade, industrial and education policies. Creating mutually reinforcing linkages between different national policy realms may effectively maximize the economic gains achievable as part of SEZ programmes.

Ultimately, the process of putting in place well-performing SEZs is demanding. The need for a multi-agent, cross-institutional and co-ordinated approach, together with the high context dependency to which SEZ programmes are subject, inevitably puts African countries – especially those with a limited institutional capacity – in a disadvantaged position. Even so, the vast array of global and African experiences can offer insights (ranging from avoiding an overreliance on fiscal incentives to thinking through locational advantages and adapting SEZs to the local context) on what is more likely to work when it comes to the establishment of SEZs. This can result in SEZs more capable of generating not only employment and wealth but also knowledge spillovers and local linkages that can benefit Africa's national economies at large.

7 | CONCLUSIONS

Decades of SEZ policies have provided a plethora of evidence on the impact of SEZs across the world. Systematic studies involving SEZs in Africa, however, remain scarce. Developing international research credited with introducing a more systematic approach to the analysis of drivers of SEZ performance has frequently relied on datasets with limited African representation (e.g. Aggarwal, 2005; Engman et al., 2007; Frick et al., 2019). This study has aimed to fill some of these knowledge gaps by providing an overview of the state of play of SEZs in Africa, presenting a novel dataset, and investigating the experiences of establishing SEZs in a selected group of countries, namely Ethiopia, Morocco and South Africa.

Three main findings stem from the analysis. First, Africa is experiencing an unprecedented proliferation of zones both in countries at higher and lower levels of development. While the trend may favour industrial diversification and specialization across Africa and, perhaps, lead to innovation and technological leapfrogs, the proliferation of SEZs carries non-negligible opportunity costs. It also diverts public resources from other policy areas that equally demand significant capital outlays and are necessary for economic development in Africa. Second and relatedly, the risk of having a growing army of underperforming zones looms large over the continent and is rendered even more real by the fact that the performance of most African SEZs to date has fallen short of expectations. In particular, compared with their Asian and Central American counterparts, African SEZs account, on average, for a smaller share of economic dynamism and national employment. Many African zones have so far failed to attract the amount and type of investment they were built for. Such a gap in economic impact – also driven by the difference in numbers of SEZs between Africa and the rest of the world – may incentivize African countries to establish an ever-greater number of zones, increasing the financial burden of current and new programmes.

Third, African zones rely to a greater extent than elsewhere in the developing world on fiscal incentives and establishment and performance requirements. Such a layout, however, may significantly hinder the formation of



linkages with local economies. In addition, ongoing international negotiations on a minimum global corporate tax (OECD BEPS 2.0) may impinge on investment attraction strategies that have primarily depended on tax breaks and fiscal incentives as their backbone. It remains to be seen whether the minimum floor of 15% on corporate income tax foreseen by Pillar Two of BEPS 2.0 will apply to special economic regimes as well. However, new international regulations may negatively affect the value proposition of many African SEZs (OECD, 2021). These zones, as a result, may be forced to shift away from generous corporate tax breaks and move towards other investment levers. All in all, the findings stemming from our analysis cast doubt on the ability of many existing African SEZs to become a source of innovation, employment, industrial activity and economic dynamism for the territories where they are located. Huge opportunities for performance improvement remain.

Nevertheless, not all is doom and gloom. The case studies from Ethiopia, Morocco and South Africa are illustrative of the potential of zones in Africa, when the conditions of implementation are more favourable. Factors such as proactively stimulating dynamic benefits – essential to measure zone success – as demonstrated by the SMME Development Programme in the Coega IDZ in South Africa or ensuring that the SEZ programme has a well-targeted strategic focus, reflecting true country endowments and comparative advantages, are essential to trigger winning zone strategies and generate sustainable sources of economic development. Establishing formal mechanisms for institutional collaboration often represents a launching pad for long-term success, as shown in Ethiopia. Moreover, in a changing strategic landscape, seeking rapid growth by pursuing efficiency-seeking, GVC-oriented manufacturing investment is becoming increasingly risky, while a greater focus on regional market investment may provide greater rewards.

The study adopted a policy-oriented analytical lens in order to extract from the evidence a set of policy implications and lessons learnt that can serve as a valid reference to policymakers when setting up SEZs that transcend the attainment of the most basic objectives and aim for more indirect and widespread economic gains. Our policy lessons refrain from providing definitive axioms. They rather emphasize the context-specific nature of SEZ development, stressing the role of place-sensitive policy interventions vis-à-vis copycat and blanket zone strategies.

This study presents some novel evidence from a relatively neglected world region – at least when it comes to zone-based developmental policies – representing a first, partial attempt to document the trajectory of African SEZs. The usual caveats apply, given the case study approach adopted in part of the paper. While the study overviews the characteristics of African zones likely to make them more economically dynamic, one should be wary of generalizing the elements behind such dynamism across different economic, social and institutional contexts. Finally, there remain important gaps in the knowledge on African SEZs. Further research may examine in greater depth the existence of African-specific determinants of zone growth and focus on the sort of opportunities and challenges that African countries with little or no experience in setting up zones may face. The relatively fast-paced African policy environment provides considerable room for future studies to analyse how recent and future policy developments – such as the introduction of a continent-wide free trade agreement – may impact the value proposition of SEZs, although, in most cases this will require changes in African SEZ policy frameworks and SEZ laws.

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APPENDIX

TABLE A1 Countries and zones included in the sample used for the analysis of SEZs' ability to attract firms

COUNTRY	SPECIAL ECONOMIC ZONE
Angola	Luanda-Bengo SEZ
Cameroon	Zone Industrielle de Garoua
Cameroon	Zone Industrielle de Bamenda
Cameroon	Zone Industrielle de Ngaoundéré
Cameroon	Zone Industrielle de Douala-Bonabéri
Cameroon	Zone Industrielle de Yaoundé-Sud
Cameroon	Zone Industrielle de Douala-Bassa
Djibouti	Djibouti International Free Trade Zone
Djibouti	Djibouti Free Zone
Egypt	Keft FZ
Egypt	Shebin El Kom Free Zone
Egypt	Damietta FZ
Egypt	Media Free Zone
Egypt	Port Said FZ
Egypt	Ismailia FZ
Egypt	Suez FZ
Egypt	Nasr FZ
Egypt	Suez Canal SEZ
Egypt	Alexandria FZ
Equatorial Guinea	Luba Freeport
Ethiopia	George Show IP
Ethiopia	Vogue IP
Ethiopia	DBL IP

(Continues)



TABLE A1 (Continued)

COUNTRY	SPECIAL ECONOMIC ZONE
Ethiopia	CCCC Arerti IP
Ethiopia	Huajian IP
Ethiopia	Debre Berhan IP
Ethiopia	Kombolcha Industrial Park
Ethiopia	Bahir Dar IP
Ethiopia	Bole Lemi Industrial Park
Ethiopia	Mekelle Industrial Park
Ethiopia	Adama Industrial Park
Ethiopia	Dire Dawa IP
Ethiopia	Hawassa Industrial Park
Ethiopia	Eastern IP
Gabon	Nkok SEZ
Ghana	Tema Free Zone
Kenya	Talab EPZ
Kenya	Vipingo EPZ
Kenya	Sameer EPZ
Kenya	Athi River EPZ
Liberia	Monrovia Industrial Park
Morocco	Oujda Technopolis Free Zone
Morocco	Kenitra Atlantic Free Zone
Morocco	Tanger Automotive City
Morocco	Rabat Technopolis
Morocco	Tanger Free Zone
Nigeria	Kano Free Trade Zone
Nigeria	Calabar Free Trade Zone
Nigeria	Centenary Economic City
Nigeria	Ogun Guangdong Free Trade Zone
Rwanda	Kigali SEZ
Senegal	Diarniadio Industrial Park
Sierra Leone	First Step SEZ
South Africa	Richards Bay IDZ
South Africa	Atlantis SEZ
South Africa	Nkomazi SEZ
South Africa	East London IDZ
South Africa	Saldanha Bay IDZ
South Africa	Coega IDZ
Togo	Zone Franche and Portuaire SEZ
Zambia	Lusaka East MFEZ
Zambia	Lusaka South MFEZ
Zambia	Chambishi MFEZ

**TABLE A2** Summary descriptive statistics of samples used for the analysis

Variables	Observations	Mean	Standard deviation	Min	Max	Skewness	Kurtosis
Number of firms hosted	63	60.889	112.381	1	750	4.315	24.851
Number of jobs created	53	14,838.11	20,660.12	25	100,000	2.433	8.863

TABLE A3 Countries and SEZs in the sample used for the analysis of SEZs' employment contributions

COUNTRY	SPECIAL ECONOMIC ZONE
Angola	Luanda-Bengo SEZ
Djibouti	Djibouti Damerjog Industrial Development Free Trade Zone
Djibouti	Djibouti Free Zone
DRC	Maluku SEZ
Egypt	Keft FZ
Egypt	Shebin El Kom Free Zone
Egypt	Damietta FZ
Egypt	Media Free Zone
Egypt	Suez FZ
Egypt	Ismailia FZ
Egypt	Port Said FZ
Egypt	Nasr FZ
Egypt	Alexandria FZ
Egypt	Suez Canal SEZ
Ethiopia	George Show IP
Ethiopia	Vogue IP
Ethiopia	Kombolcha Industrial Park
Ethiopia	Mekelle Industrial Park
Ethiopia	Huajian IP
Ethiopia	Adama Industrial Park
Ethiopia	Debre Berhan IP
Ethiopia	Bahir Dar IP
Ethiopia	Dire Dawa IP
Ethiopia	Jimma IP
Ethiopia	Eastern IP
Ethiopia	Bole Lemi Industrial Park
Ethiopia	Hawassa Industrial Park
Gabon	Nkok SEZ
Ghana	Tema Free Zone
Mauritania	Nouadhibou Free Zone
Mauritius	Freeport
Morocco	Kenitra Atlantic Free Zone

(Continues)



TABLE A3 (Continued)

COUNTRY	SPECIAL ECONOMIC ZONE
Morocco	Casablanca Midparc free Zone
Morocco	Oujda Technopolis Free Zone
Morocco	Rabat Technopolis
Morocco	Tanger Free Zone
Nigeria	Kano Free Trade Zone
Nigeria	Ogun Guangdong Free Trade Zone
Nigeria	Calabar Free Trade Zone
Rwanda	Kigali SEZ
Senegal	Diamniadio Industrial Park
South Africa	Richards Bay IDZ
South Africa	Atlantis SEZ
South Africa	Nkomazi SEZ
South Africa	Dube TradePort
South Africa	East London IDZ
South Africa	Saldanha Bay IDZ
South Africa	Coega IDZ
Sudan	Gallabat Free Zone
Togo	Zone Franche and Portuaire SEZ
Zambia	Lusaka East MFEZ
Zambia	Lusaka South MFEZ
Zambia	Chambishi MFEZ

**TABLE A4** SEZ policies used in the sample for the analysis of African SEZ governance policies

COUNTRY	RELEVANT LAW AND POLICY	YEAR OF ESTABLISHMENT
Angola	Legal Regime of Special Economic Zones, Decree No. 6-15, 2015	2009
Benin	Loi no. 2017-07 du 19 juin 2017 fixant le régime des Zones économiques spéciales en République du Bénin	2017
Botswana	Special Economic Zones Act, 2015	2015
Burundi	La Loi No. 1/015 du 31 juillet 2001 portant Révision du décret-Loi No. 1/3 du 31 aout 1992 portant création d'un régime de zone franche au Burundi	2001
Cabo Verde	Decree Law No. 57/2017	2017
Cameroon	Le régime de la Zone Franche, 1990; Régissant les zones économiques au Cameroun, Loi no. 2013/011 du 16 décembre 2013	1990
Congo	Loi no. 24-2017 du 9 juin 2017 relative à la création des zones économiques spéciales, à la détermination de leur régime et de leur organisation	2017
Djibouti	Djibouti Code des zones franches, Loi no. 53/AN/04 du 17 mai 2004	2004
DRC	Loi no.14/022 fixant le régime des zones économiques spéciales en République Démocratique du Congo, 2014	2014
Egypt	Law of Economic Zones of a Special Nature, No. 83 of 2002	1975
Eritrea	Eritrean free zones proclamation, No. 115/2001	2001
Eswatini	Special Economic Zones Act, Act No. 3 of 2018	2018
Ethiopia	Industrial Park Proclamation, No. 886/2015	2012
Gabon	Law No. 010/2011 on the Regulation of the Special Economic Zones in the Gabonese Republic	2011
Gambia		2001
Ghana	The Free Zone Act, 1995	1995
Kenya	Special Economic Zones Act, No. 16 of 2015	1990
Liberia	Special Economic Zone Act of 2017	2017
Madagascar	Loi No. 2017-023 sur les Zones Economiques Spéciales (ZES) à Madagascar	2007
Mali	La loi no. 2012-016 du 12 février 2012 portant Code des Investissements	2012
Mauritania	Loi no. 52/2012 portant Code des Investissements du 31 Juillet 2012	2012
Morocco	Export Processing Zones, Law No. 19/94	1994
Nigeria	Nigeria Export Processing Zones Act 1992, Act No. 63	1992
Rwanda	Law Regulating Special Economic Zones in Rwanda, No. 05/2011 of 21/03/2011	2011
Senegal	Loi no. 2017-06 du 06 janvier 2017 portant sur les zones économiques spéciales (ZES)	1974
South Africa	Special Economic Zones Act, 2014	1989
Togo	Loi no. 2011-018 portant statut de Zone Franche Industrial	1989
Tunisia	Loi no. 92-81 du 3 août 1992 portant création des zones franches économiques	1992
Uganda	Uganda Free Zones Act, 2014	2014
United Republic of Tanzania	Special Economic Zones Act, Chapter 420, Revised edition of 2012	2002
Zambia	The Export Processing Zones Act, No. 7 of 2001	2001
Zimbabwe	Special Economic Zones Act, Chapter 14:341, No. 7/2016	1995



Resumen. Las zonas económicas especiales (ZEE) están proliferando en todo el mundo en países en desarrollo. Cada vez más, los políticos recurren a estas zonas con el objetivo de cambiar el destino económico de sus países. Se espera que las zonas aporten más innovación, exportaciones, conocimientos y *spillovers* tecnológicos. Sin embargo, no se sabe mucho sobre la situación de las ZEE en África, donde casi la mitad de los programas de ZEE tienen menos de 10 años. La reciente proliferación de ZEE en el continente ha hecho más apremiante la necesidad de garantizar que las ZEE cumplan sus objetivos, dados los costos de oportunidad, a menudo no despreciables, asociados al desarrollo de las ZEE. Este artículo aborda esta laguna de conocimiento y esclarece las prácticas de las ZEE africanas. El análisis de un novedoso conjunto de datos pone de manifiesto que (i) las ZEE africanas presentan una marcada tendencia al alza y sus características están cambiando; (ii) la capacidad de las ZEE africanas para atraer la actividad industrial, indicada por las empresas, y generar empleo sigue siendo limitada; y (iii) las políticas de gobernanza de las ZEE africanas dependen (sobremedida) de los incentivos fiscales y los requisitos de desempeño. Los estudios de caso de Etiopía, Marruecos y Sudáfrica sugieren que los programas de ZEE africanas que tienen un enfoque estratégico bien orientado, promueven la colaboración institucional y adoptan un enfoque proactivo para establecer vínculos con la economía local tienen más probabilidades de éxito.

抄録: 開発途上国では、経済特区(Special Economic zone:SEZ)が急増している。政策立案者は、自国の経済状況を好転させるために、経済特区を利用するようになってきている。経済特区は、より規模の大きなイノベーション、輸出、知識及び技術の波及効果をもたらすことが期待される。しかし、アフリカにおけるSEZの状況はほとんど知られておらず、アフリカのSEZプログラムのおよそ半分は実施されてから10年未満のものである。アフリカ大陸において最近SEZが急増しているが、SEZの開発に伴う機会費用は往々にしてかなりのものであることを考慮すると、SEZはその目的を確実に達成する必要性に迫られている。本稿では、この未知の領域を取り上げ、アフリカのSEZの実情を明らかにする。新しいデータセットを分析すると、以下の事項が明らかになった。1)アフリカのSEZは急激な増加傾向にあり、その特性は変化している。2)アフリカのSEZが企業に代わって産業活動を誘致し雇用を創出する能力には依然として限界がある。3)アフリカのSEZの管理政策は、財政的インセンティブとパフォーマンス要件に(過度に)依存している。エチオピア、モロッコ、南アフリカの事例を用いたケーススタディから、アフリカのSEZプログラムは、戦略の焦点を絞り、組織的な連携を促進し、地域経済とのつながりを生み出すための積極的なアプローチをとることで成功する可能性が高くなることが示唆される。