

SPECIAL ECONOMIC ZONES

Do they work? What matters for success?... Focus on Africa

The Future of Free Trade Zones

Paris-Dauphine University

3-4 June, 2015



WORLD BANK GROUP

Jobs

Shenzhen: 1981



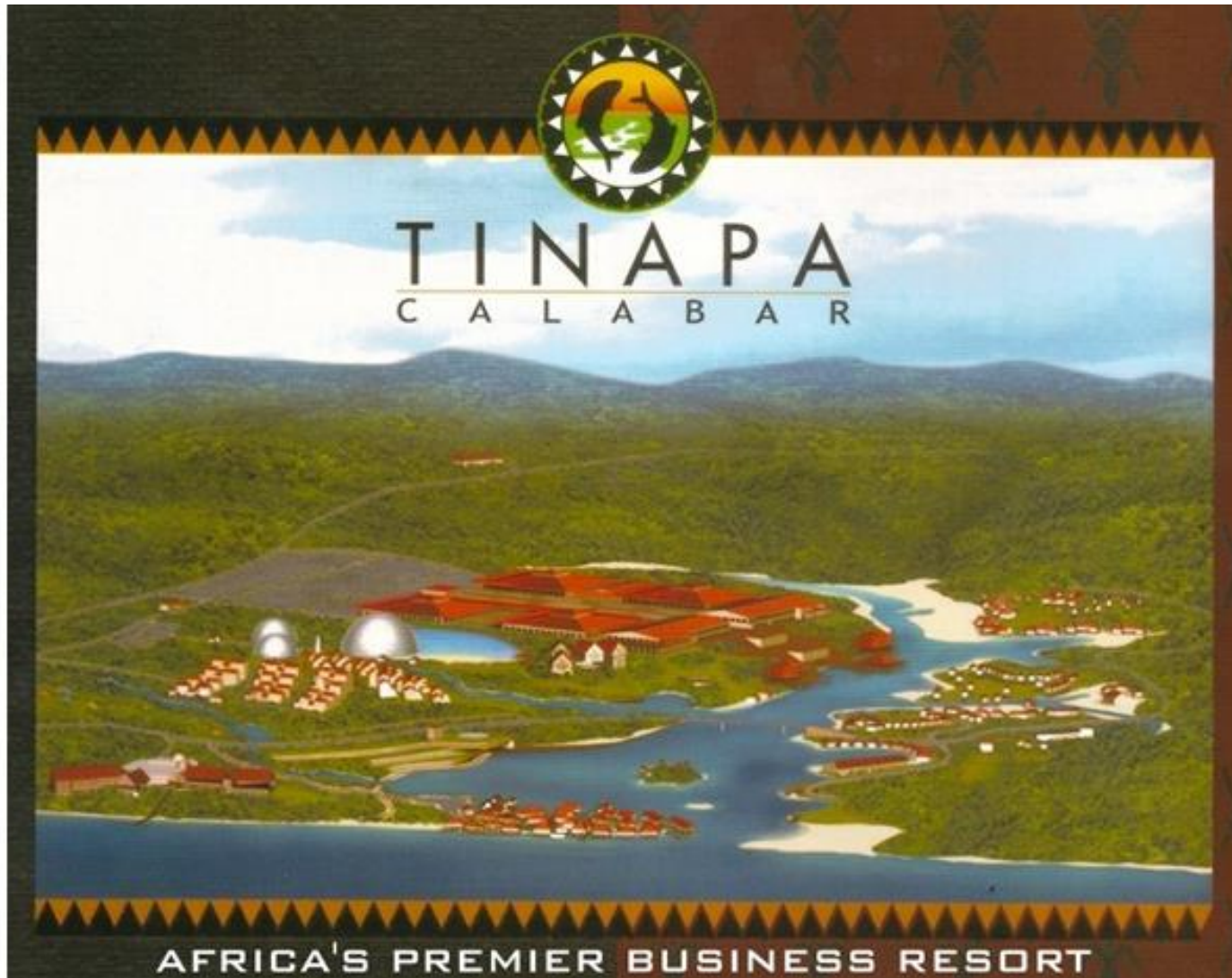
Source: Xinhuanet

Shenzhen today



Source: Xinhuanet

Tinapa Vision



Source: <http://newtelegraphonline.com/wp-content/uploads/2014/08/Tinapa-Calabar.png>

Tinapa Reality



THIS DAY

8 February 2008

**Nigeria: Country Loses
N219b Yearly On Tinapa**

CNN

April 22, 2010

CNN - Tinapa Failing?

CNN's Christian Purefoy heads to Tinapa, Nigeria, where a \$450 million investment fails to live up to its billing.

**Daily
Champion**

14 February 2012

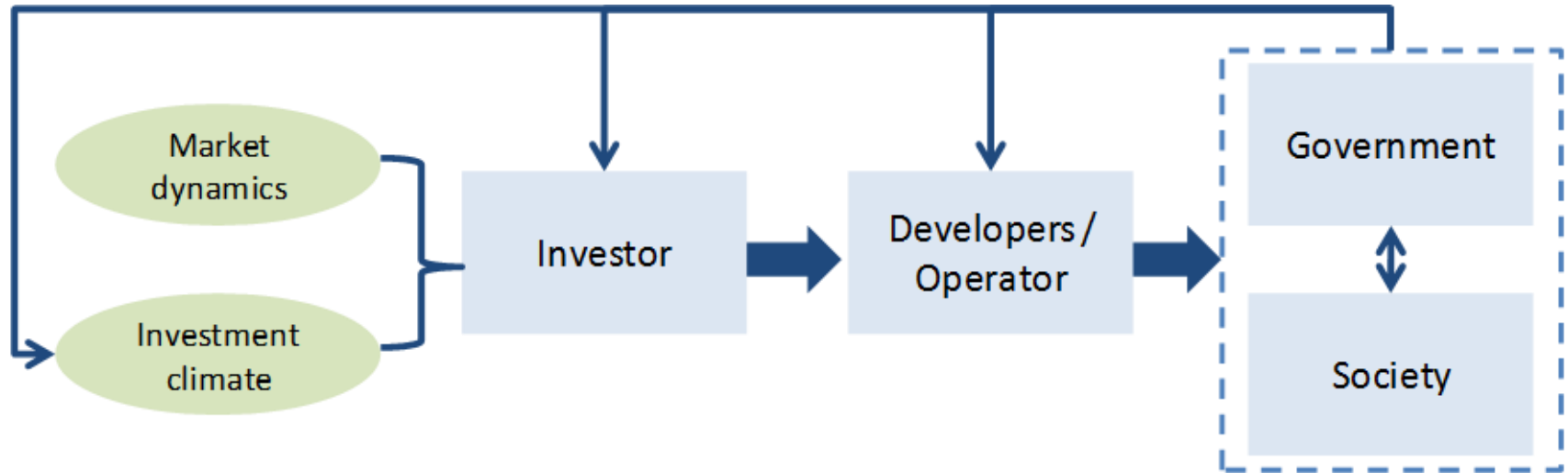
**Nigeria: Can FG's Deal With
Imoke Save Tinapa?**

Source: <http://www.skyscrapercity.com>

Context and caveats

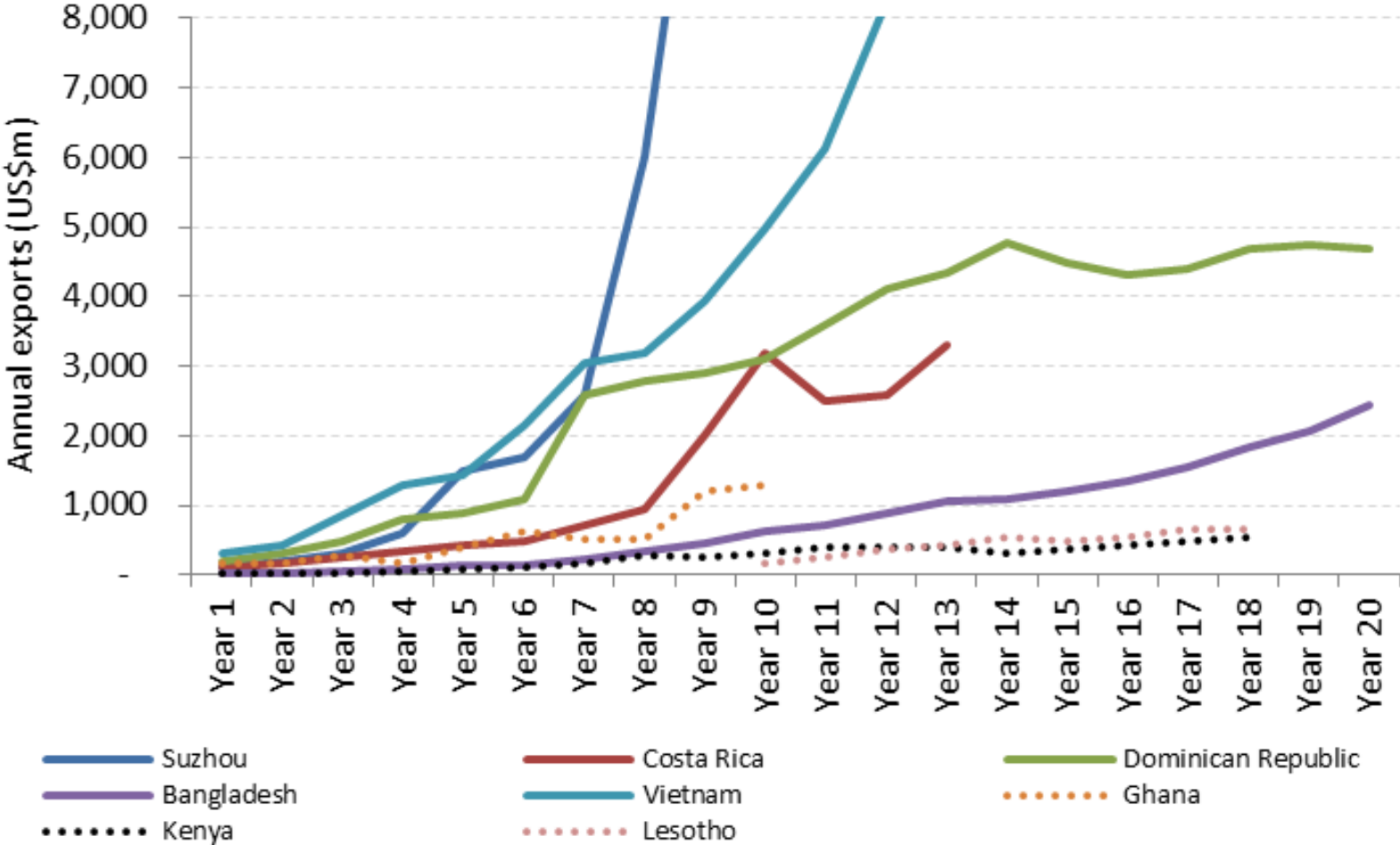
- **Somewhat old research:** started in late 2009, through 2011
- **Focus on Sub-Saharan Africa:** with some examples from other developing countries
 - Ghana, Kenya, Lesotho, Nigeria, Senegal, Tanzania
 - Honduras, Dominican Republic, Bangladesh, Vietnam
- **Research questions:**
 1. Have SEZs been 'successful'?
 2. Why / how?
- **Methodology:**
 - Surveys of SEZ investors
 - Case studies (semi-structured interviews + secondary)

How do we think about SEZ success?



SHORT-TERM / STATIC	<ul style="list-style-type: none"> • Factor endowments • Markets • Attractive IC • Appropriable profits 	<ul style="list-style-type: none"> • Attractive IC • Markets (investors) • Appropriable profits 	<ul style="list-style-type: none"> • Investment • Exports • Employment
LONG-TERM/ DYNAMIC	<ul style="list-style-type: none"> • Sources of externalities • Upgrading / innovation potential 	<ul style="list-style-type: none"> • Value-added services potential • Increasing quality of investors 	<ul style="list-style-type: none"> • Local market integration • Diversification / upgrading • Positive social impacts

African SEZ exports stagnated at a low level



And they have failed to deliver significant jobs

	SEZ employment (2009)	SEZ employment as % of national industrial sector employment
Bangladesh	218,299	3%
DR	124,517	30%
Honduras	130,000	30%
Vietnam	1,172,000	19%
Ghana (Tema)	2,025	3.5%
Ghana (single units)	26,534	
Kenya (EPZs)	15,127	15%
Kenya (single units)	15,551	
Lesotho	45,130	>80%
Nigeria (Calabar- est.)	1,156	<1%
Nigeria (Onne- oil & gas)	20,000	N/A
Tanzania	7,500	2.5%

Source: SEZ employment based on data from individual country SEZ authorities; national industrial employment from various sources

What matters most to African SEZ investors?

Investor perception of criteria determining investment location
(ranked in order of importance)

Investment criteria	Rank
Cost and quality of utilities	1
Access to transport infrastructure	2
Business regulatory environment	3
Tariffs, duties, rules of origin	4
Level of corporate taxes	5
Access to skilled labor	6
Access to suppliers	7
Access to low cost labor	8
Availability and cost of land and buildings	9
Access to local and regional markets	10
Access to technology	11

Source: Farole (2011)

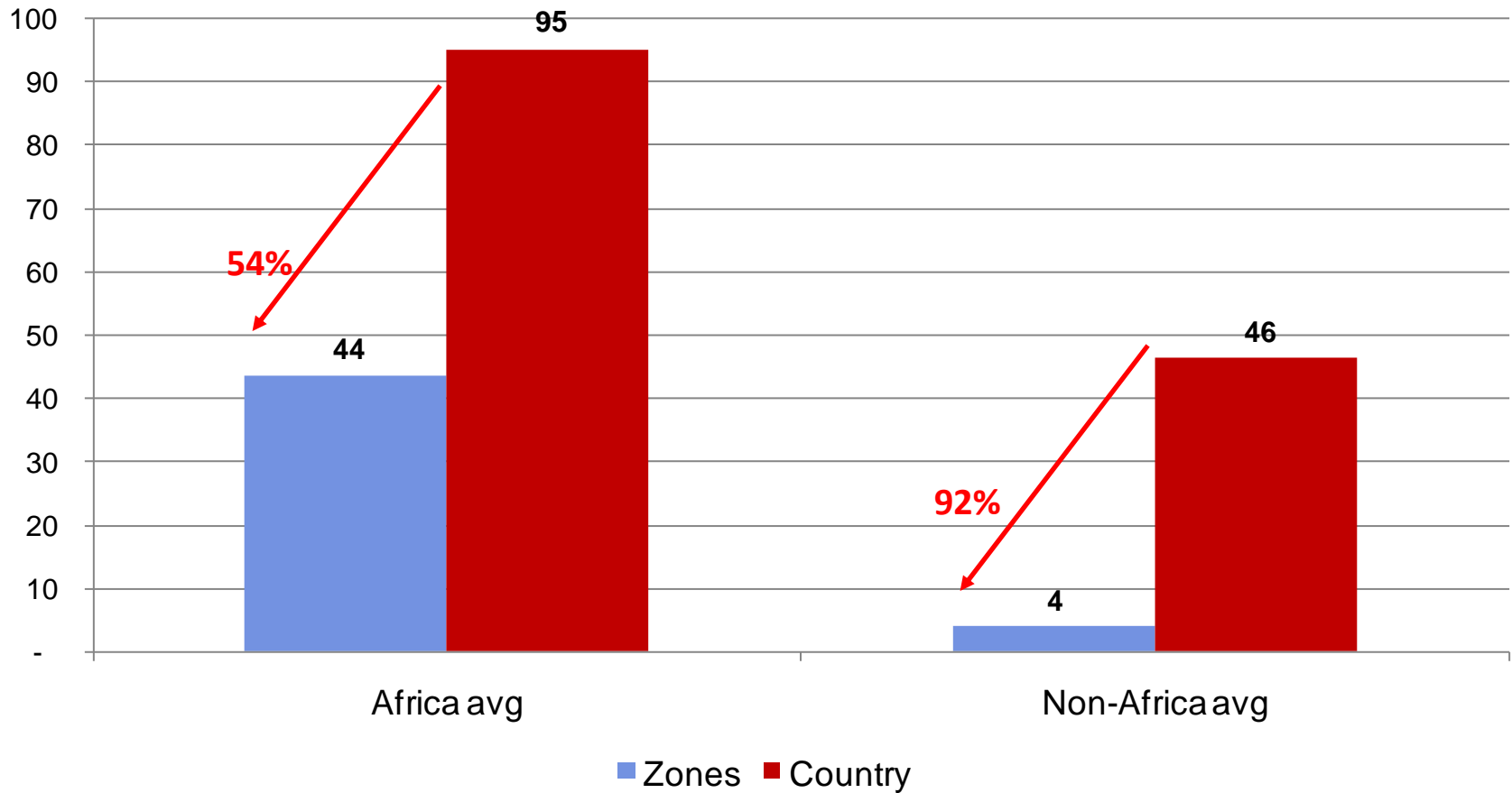
What matters for SEZ program performance?

	exports	investment	employment	
Zone investment climate	infrastructure	-0.654**	-0.145	-0.832**
	customs	-0.698**	-0.654*	-0.579*
	logistics	0.805**	0.103	0.843**
	setup	0.386	0.053	0.340
	onestop	-0.314	0.313	-0.233
	regulation	-0.201	-0.310	-0.218
National investment climate	GCI	0.396**	0.473**	0.486**
	DB	-0.214	-0.352**	-0.287**
	WGI	0.195	0.141	0.155
Traditional factors	incentives	0.069	-0.424**	0.072
	wages	0.073	0.146	0.289**
	preferences	-0.022	-0.083	-0.029
Management	private	-0.070	-0.133	0.104
	Remote	0.026	-0.158	0.048
Market access	Market	0.402**	0.654**	0.431**
	GDP/cap	0.100	0.335**	0.331**
	Access	0.165	0.074	0.307**
Other	years	0.230	0.175	0.160

Source: Farole (2011)

Do SEZs improve the investment climate? – utilities quality

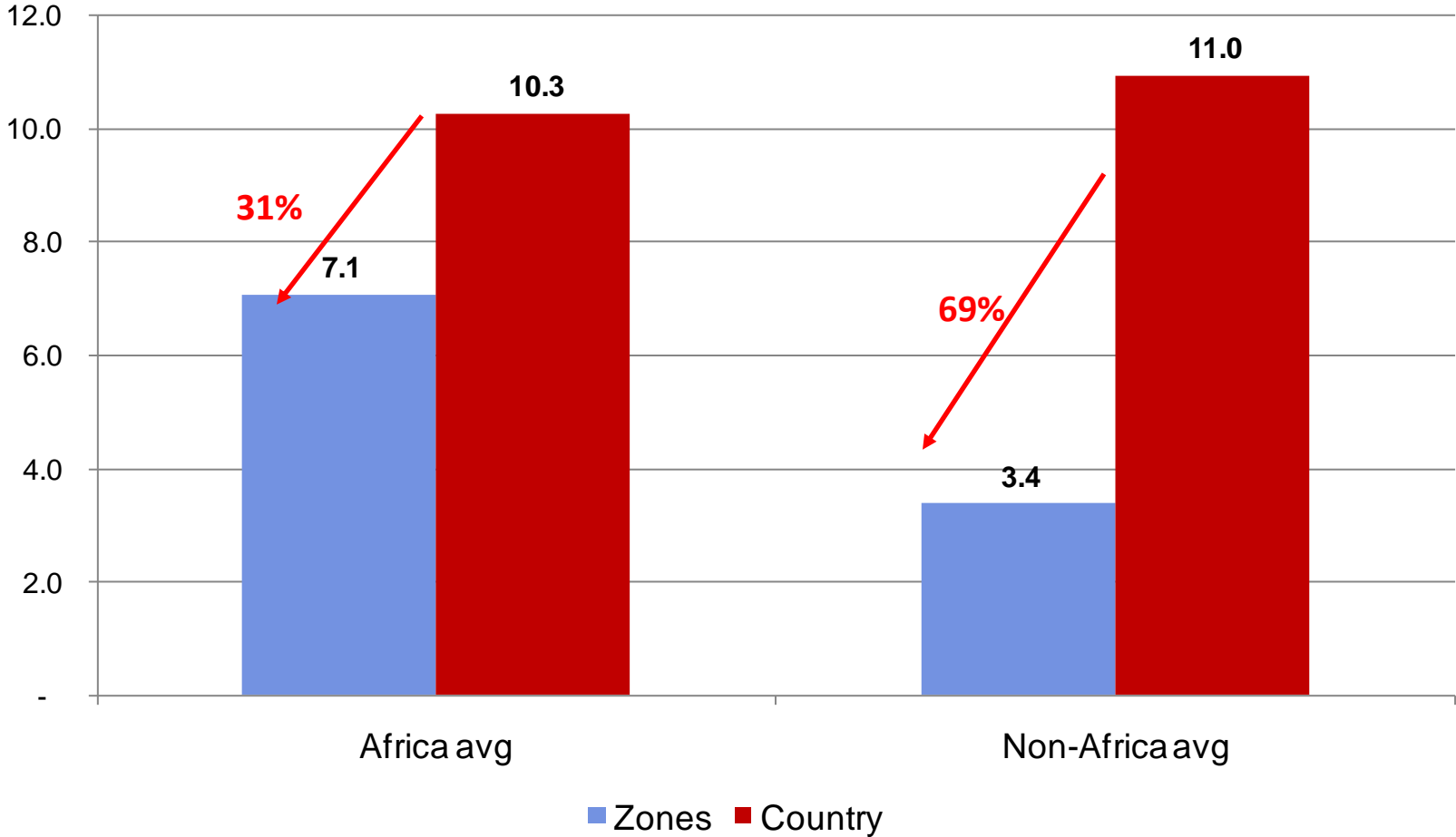
Average downtime (hours) monthly resulting from power outages



Source: Farole (2011)

Do SEZs improve the investment climate? – transport (soft) infrastructure

Average time needed for imports (through main seaport) to clear customs (days)



Source: Farole (2011)

What separates success (narrowly defined) from failure?

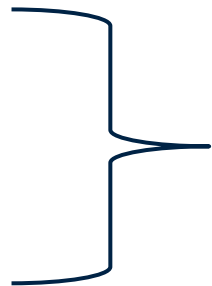
“All happy families are alike; each unhappy family is unhappy in its own way.” -- Leo Tolstoy

A couple structural issues:

- Good (bad) timing
- The national investment climate

Otherwise, it's about getting a lot things right:

1. Concept
2. Design
3. Delivery



All shaped by **political economy** factors

Some things that seem to contribute to success

- Political **commitment** (and patience) and effective **coordination**
- A good (and flexible) **legal and regulatory** framework
- Right **location** (Can SEZs be effective for lagging / peripheral region development?)
- Targeting constraints to investors (making it '**special**')
- Embracing **experimentation**- SEZs as reform pilots
- Avoiding the **fiscal incentive** trap
- Going **beyond the gates**: connective infrastructure, social infrastructure, linkages (labor and supply chain)

But there is: **1.** (far too) much we don't know... about the value of this instrument much less how to make it work; **2.** (far too) little research; and **3.** even less good quality data (which may explain #2)

Thank you!

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