

# 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



**XINHUANET**

Source: Xinhuanet

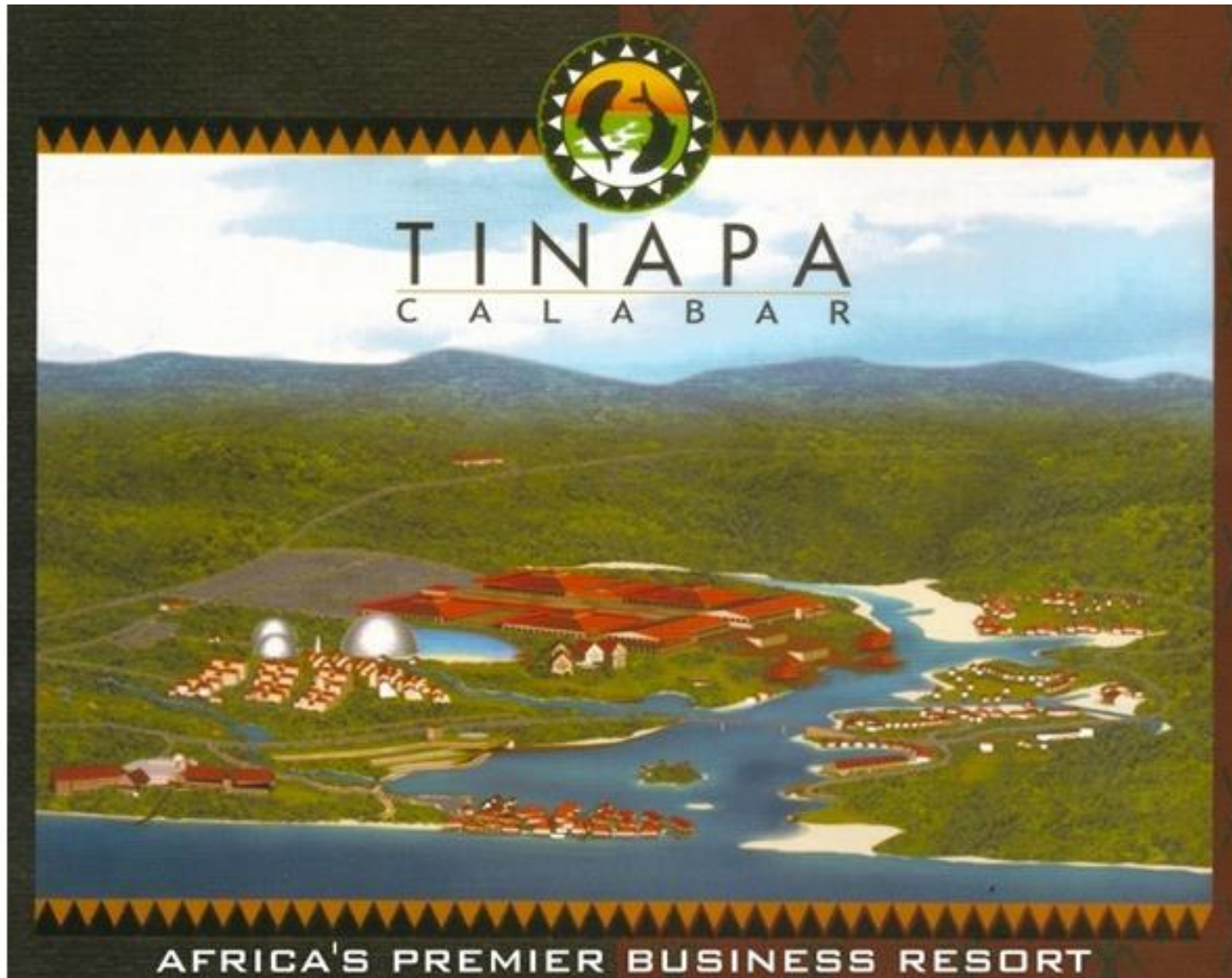
## Shenzhen today



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

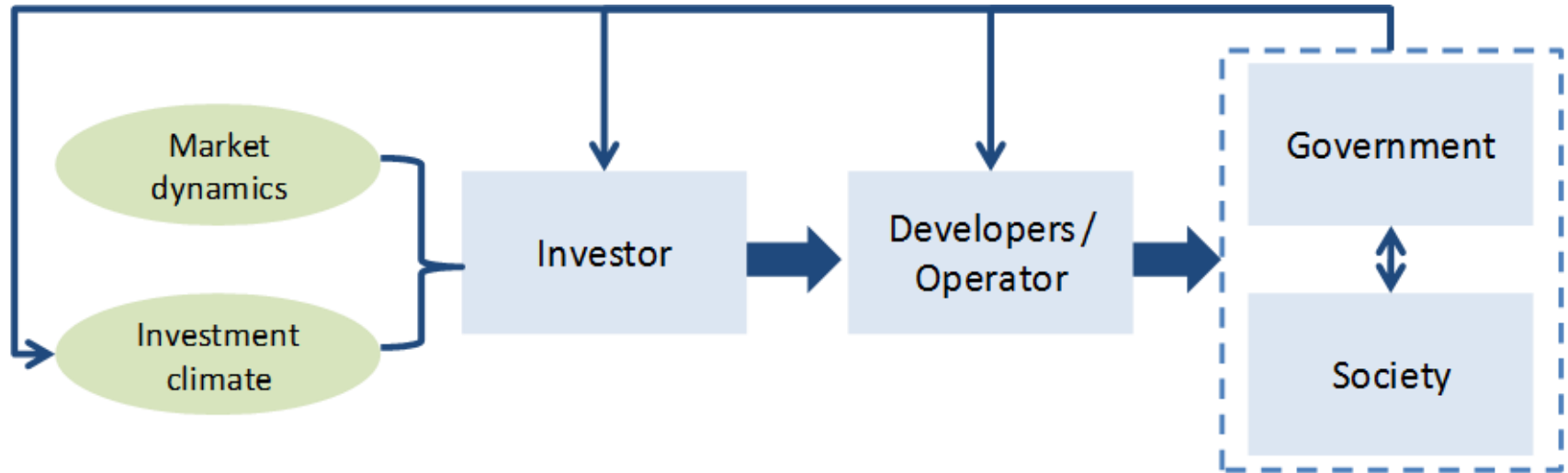
**Nigeria: Can FG's Deal With  
Imoke Save Tinapa?**

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

# Context and caveats

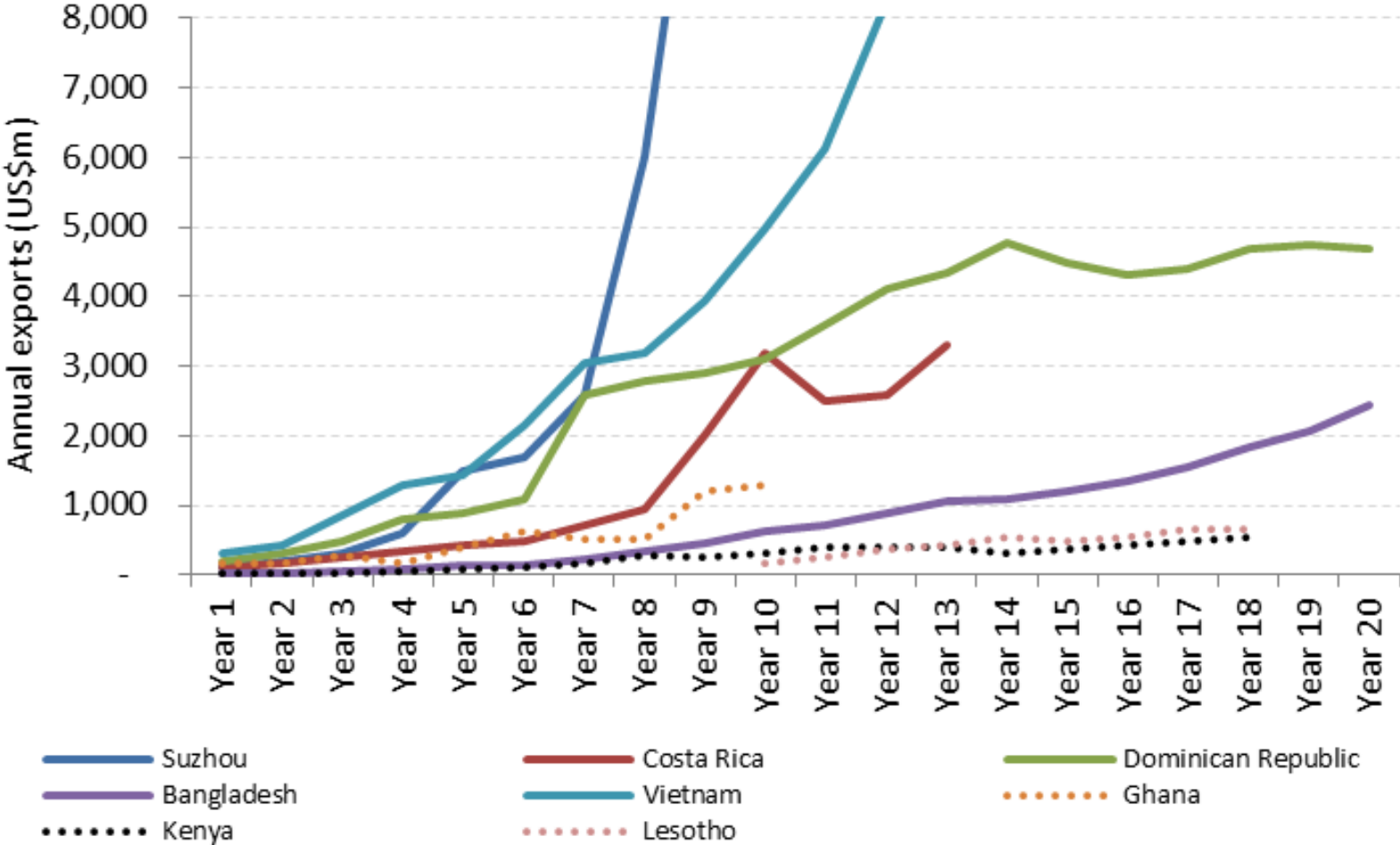
- **Somewhat old research:** started in late 2009, through 2011
- **Focus on Sub-Saharan Africa:** with some examples from other developing countries
  - Ghana, Kenya, Lesotho, Nigeria, Senegal, Tanzania
  - Honduras, Dominican Republic, Bangladesh, Vietnam
- **Research questions:**
  1. Have SEZs been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

# How do we think about SEZ success?



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

# 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
<b>Bangladesh</b>	218,299	3%
<b>DR</b>	124,517	30%
<b>Honduras</b>	130,000	30%
<b>Vietnam</b>	1,172,000	19%
<b>Ghana (Tema)</b>	2,025	3.5%
<b>Ghana (single units)</b>	26,534	
<b>Kenya (EPZs)</b>	15,127	15%
<b>Kenya (single units)</b>	15,551	
<b>Lesotho</b>	45,130	>80%
<b>Nigeria (Calabar- est.)</b>	1,156	<1%
<b>Nigeria (Onne- oil &amp; gas)</b>	20,000	N/A
<b>Tanzania</b>	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)

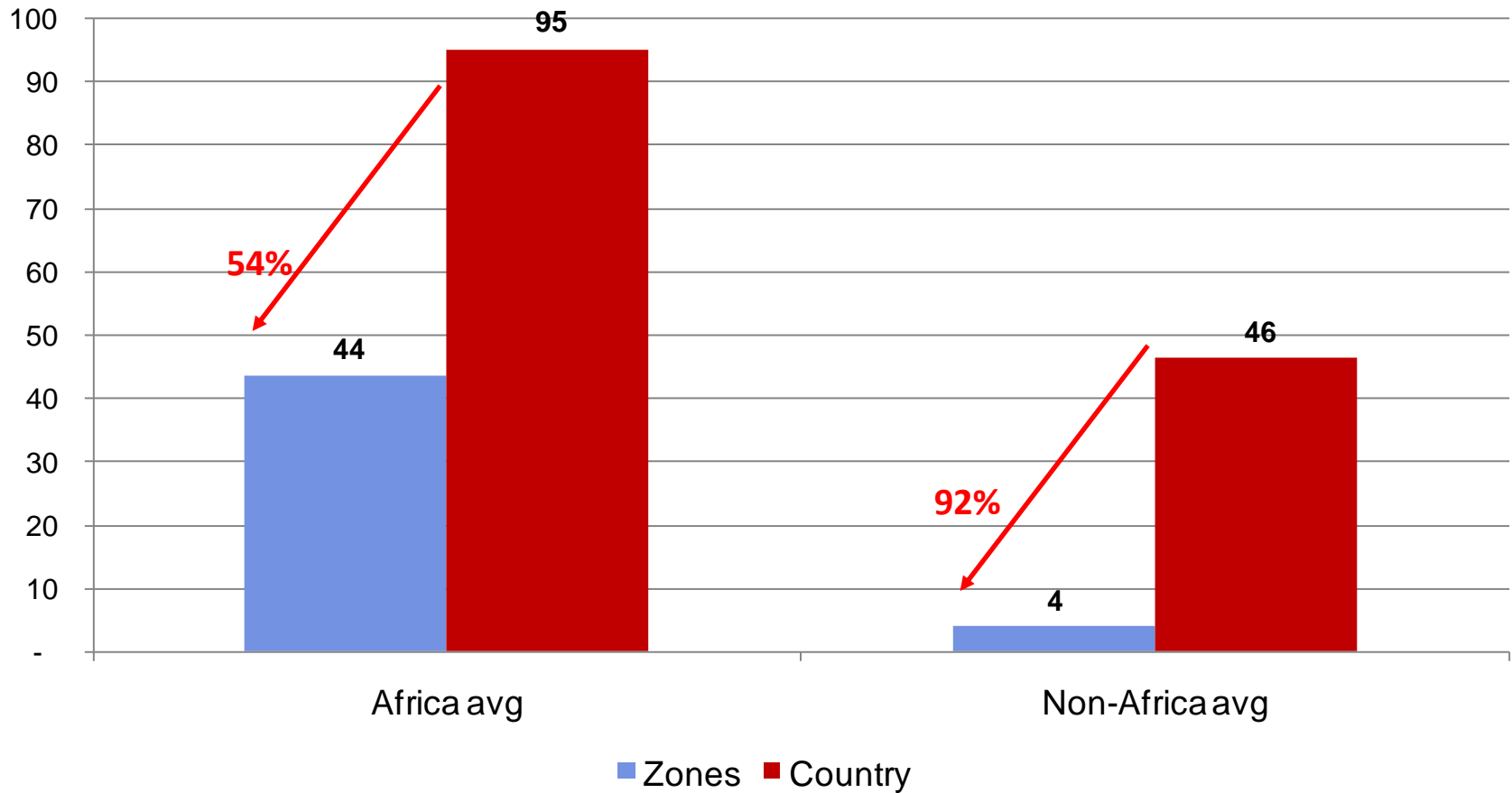
# What matters for SEZ program performance?

	exports	investment	employment	
Zone investment climate	infrastructure	<b>-0.654**</b>	-0.145	<b>-0.832**</b>
	customs	<b>-0.698**</b>	<b>-0.654*</b>	<b>-0.579*</b>
	logistics	<b>0.805**</b>	0.103	<b>0.843**</b>
	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	<b>0.396**</b>	<b>0.473**</b>	<b>0.486**</b>
	DB	-0.214	<b>-0.352**</b>	<b>-0.287**</b>
	WGI	0.195	0.141	0.155
Traditional factors	incentives	0.069	<b>-0.424**</b>	0.072
	wages	0.073	0.146	<b>0.289**</b>
	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	<b>0.402**</b>	<b>0.654**</b>	<b>0.431**</b>
	GDP/cap	0.100	<b>0.335**</b>	<b>0.331**</b>
	Access	0.165	0.074	<b>0.307**</b>
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

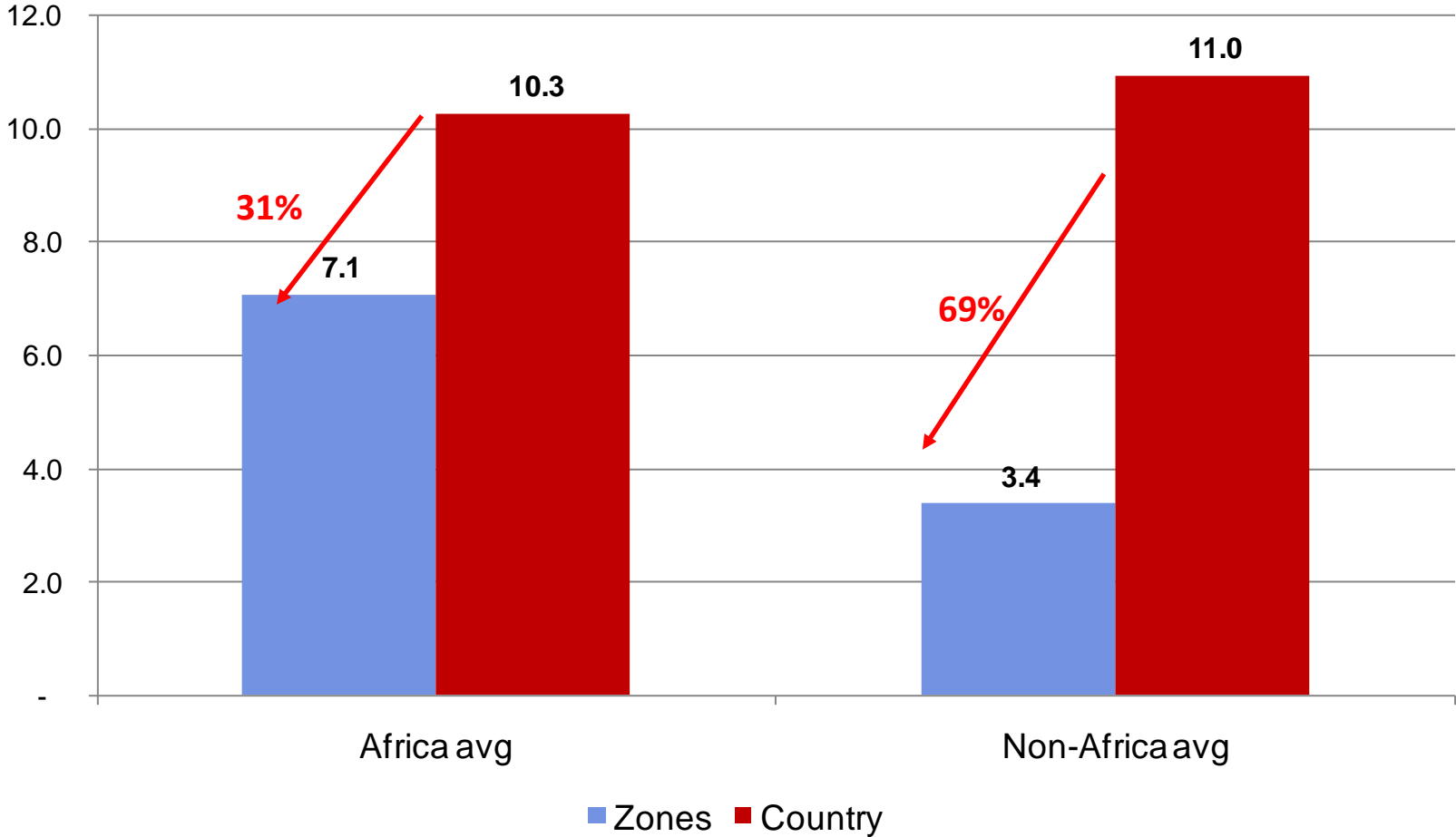


Source: Farole (2011)



# 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?

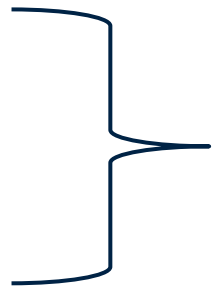
*“All happy families are alike; each unhappy family is unhappy in its own way.” -- Leo Tolstoy*

## 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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