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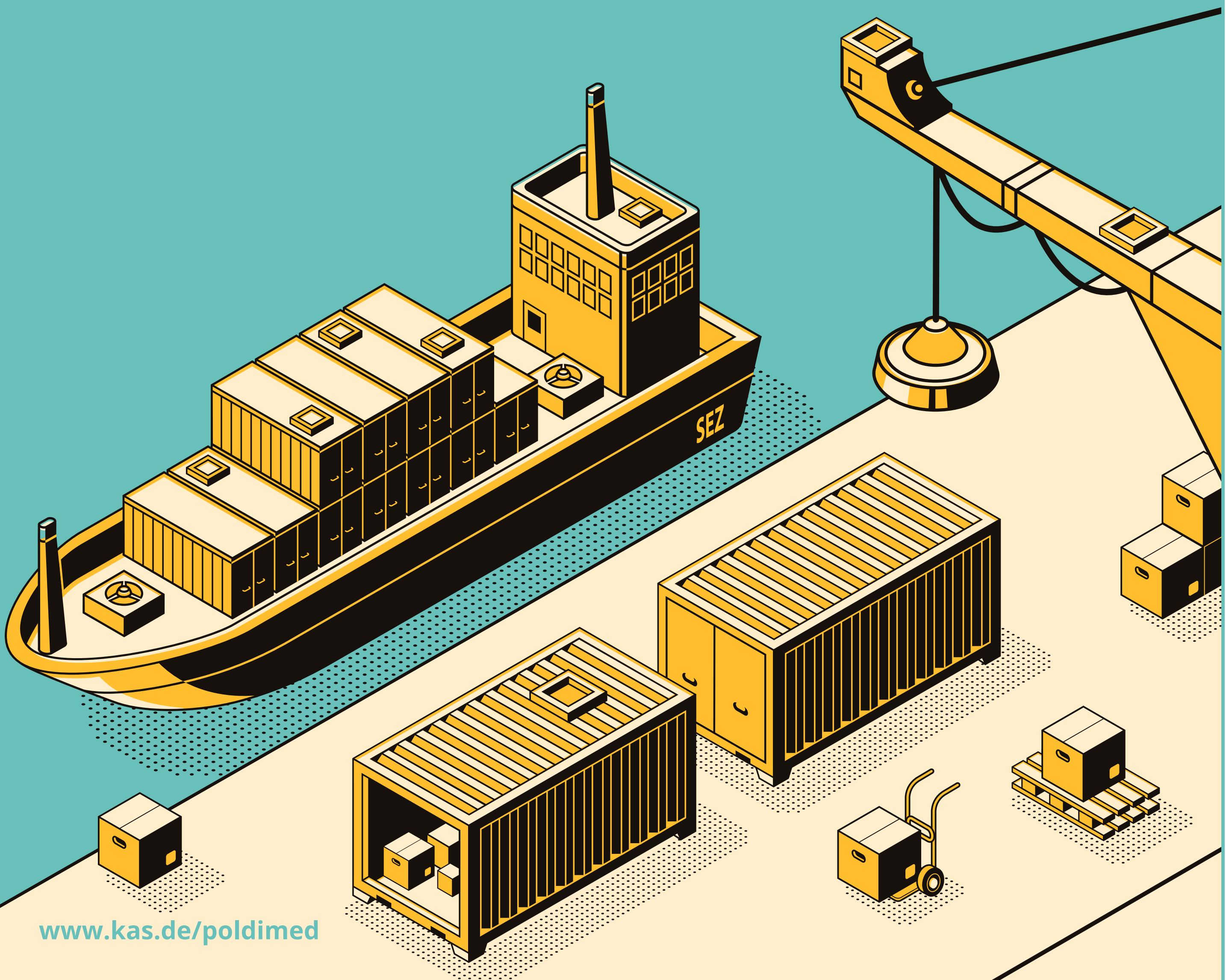
SPECIAL ECONOMIC ZONES

A MODEL FOR THE MIDDLE EAST AND NORTH AFRICA



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September 2019

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FOREWORD

The Middle East and North Africa (MENA) have enormous economic potential with remarkable natural resources and industrial production capacities. While considerable progress for economic reforms has been reached already, a deeper regional integration and stronger cooperation can provide the needed impetus for facilitated development and upgraded national as well as regional economic structures in the wider region. One economic and business tool that could help generate growth and encourage regional integration is the "Special Economic Zone" (SEZ). SEZs can be a stepping-stone for greater sectoral change as infrastructure development and streamlined regulation alongside heightened investments can open job opportunities, strengthen value chains and enable greater inter-regional dialogue and cooperation in the MENA region.

This study is based on the collaborative efforts of the Regional Program South Mediterranean of the Konrad-Adenauer-Stiftung (KAS Poldimed), the EastWest Institute and the Policy Center for the New South that explored together how SEZs can make greater contributions to national and regional economic development in North Africa during a conference in Rabat with distinguished experts and practitioners.

This study identifies practical and actionable reform approaches and develops policy recommendations that are suited for the MENA context. It further provides the reader with an insightful Case Study Annex with four country and zone examples from the world that serve as a best-practice guide for the implementation of Special Economic Zones in the MENA and beyond.

We extend our gratitude to the author of this study Dr. Carl Aaron for his devotion to this ambitious project and are thankful for his outstanding expertise on the subject matter. We would also like to thank Dr. Jean-Paul Gauthier for his valuable comments and suggestions that contributed to streamlining the key lessons for exploring the untapped potential of Special Economic Zones.

The workshop and the publication are part of the Konrad-Adenauer-Stiftung's Regional Program South Mediterranean (KAS Poldimed) activities undertaken to promote greater understanding of cross-national and cross-regional developments in the Mediterranean and to further the dialogue between the countries of the region. KAS Poldimed cooperates closely with local partners in the pursuit of a common vision for human development, economic progress as well as political and social stability. Our commitment to a vision of a more prosperous development in the wider Mediterranean will also be a source of inspiration for our activities in the future.

Dr. Canan Atilgan
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EXECUTIVE SUMMARY

The countries of the Middle East and North Africa (MENA) have clear needs in the areas of industrial and wider sectoral upgrading, regional economic integration, local economic development, economic inclusion and job creation. Special Economic Zones (SEZs) present significant untapped potential, within the region, to address all of these needs.

SEZs have a long history of attracting foreign investment and contributing to host country economic development. They have traditionally offered some combination of appropriate and upgraded infrastructure, streamlined regulation, and incentives. In recent years, the SEZ concept has evolved to be more creative, and emphasized integration with the local economy rather than existing outside it as "extraterritorial enclaves". International trade and tax rules, which began to be phased in from 1995, and are now almost impossible for most countries to circumvent, also increasingly limit the provision of incentives to attract investors, which was a principal attraction of economic processing zones (EPZs).

This Policy Brief investigates whether and how the countries of the Middle East and North Africa can use Special Economic Zones (SEZs) more effectively to promote growth, inclusion and regional integration. After reviewing the characteristics and benefits of different types of zones, we look at lessons from global SEZ experience, and consider the particular needs and challenges of the MENA environment. We conclude that SEZs have significant and untapped potential to support industrial upgrading and diversification, and to provide social and employment benefits.

There are moreover some basic steps that can be taken in this context (based on established good practice) in order to ensure a greater probability of success, such as building greater SEZ linkages with the local economy, as well as more innovative strategies including public private partnerships (PPPs) to develop new industries and services. The Policy Brief consists of two parts: the main Policy Brief including suggested implementation ideas; and an Annex, which presents four case studies of the evolution and impact of SEZ regimes in South Korea, Morocco, Mauritius and Costa Rica. The case studies all have lessons for MENA countries, and serve as examples of what can be achieved, and what challenges face all SEZs.

Our investigation of the growth and evolution of SEZs finds that whilst old style export processing zones (EPZs) have been (and some still are) successful, the most effective zones have transformed themselves over time. This is partly because new trade regimes have forced them to change, but also because SEZs can be an effective tool of industrial upgrading strategies, and economic and social policy. Table 1, for example, attempts an overview of the range of types of zone and their characteristics available to countries today. There are several core themes in this evolution of SEZ strategy including.

➔ Countries are, or should be, increasingly pursuing quality foreign direct investment (FDI), and seeing it as part of an integrated industrial strategy, using SEZs to bring transformational change to the country as a whole. Quality FDI helps create economy-wide jobs, better skills, industrial upgrading and a productive local private sector.

➔ On the investor side, an important development in global FDI trends is the rise of "efficiency seeking" investors. These sorts of investors (as opposed to "market seeking" ones) are increasingly looking for a wide range of productivity incentives – in terms of a skilled workforce, efficient logistics and supportive infrastructure – rather than fiscal benefits – as they seek to offset their long supply chain costs. Already there are good exploratory examples in the region of donor agencies brokering powerful partnerships between local institutions (universities, governments) and leading-edge foreign companies so as to help create more globally competitive, export-oriented clusters within the region.

➔ The relationship between regional trade/integration, and the sorts of economic outcomes SEZs can help generate is complicated and challenging. Quality, SEZ-based foreign investment would certainly be encouraged by greater regional integration, which would offer a larger 'nearby' market and greater sourcing opportunities for investors. This would in turn support local private sector development and employment creation in regional economies. However, this chain reaction needs to be catalysed by some high-level political movement towards greater integration, whether it be an active regional initiative, or better commercial relationships between selected neighbouring countries.

In the final sections of the Policy Brief, we summarize zone strategies of particular value and relevance to MENA countries, and suggest possible next steps. We identify various policy areas and approaches where MENA countries could actively use SEZs to promote inclusive economic growth through industrial and broader sectoral upgrading. Donor supporters, foundations and international organizations can play a catalytic role in this process. Such initiatives could seek to:

1. Pursue public private partnerships (PPPs) to develop and strengthen SEZs, where host governments and SEZs work with investors to provide tailored skills, soft and hard infrastructure and other offerings, for the benefits that the foreign investor brings.

2. Use SEZs as vehicles for policy experimentation. This can be either in terms of basic regulatory development or innovative experimentation in new sectors.

3. Develop new industrial strategies that see quality foreign investment, SEZs and linkages with the local economy as essential interrelated components of a single, overarching and integrated approach.

4. Investigate productivity partnerships where investors and host country institutions collaborate to develop the raw materials of competitiveness – technical and managerial skills – within SEZs or their broader host communities. Donor agencies and foundations can help broker these partnerships.

5. Update, repurpose or redesign existing EPZ or free trade zones (FTZs) regimes in view of the above considerations, moving from old-style EPZs and industrial parks towards any of many new approaches that can bring countrywide economic and social benefits.

6. Explore strategies, and the political appetite, for regional economic integration and collaboration. SEZs can be valuable tools for lengthening value chains and attracting more investment focussed on a regional market, but a higher-level commitment to some degree of regional integration is an essential condition for SEZ impact.

7. In post-conflict situations, be aware of cross-border and other zone opportunities as and when they arise, for example as Libya recovers from conflict.

8. Investigate opportunities for government-to-government partnerships in zone development, and how they can actively engage and develop the local economy. Chinese-African zone partnerships have great potential, and China is the global expert in exploiting the potential of SEZs, but sound policies and actions on the host-government side are essential.

1. INTRODUCTION

What we are exploring, why and how

The objective of this Policy Brief is to propose how the countries of the Middle East and North Africa can use Special Economic Zones (SEZs) more effectively to promote growth, inclusion and regional integration. By growth we mean both greater output, and industrial upgrading or diversification as part of an industrial strategy. By inclusion, we mean a focus on quality jobs and investment, as well as geographical diversification, and a symbiotic relationship with local communities. Finally, the objective of regional integration is important; MENA is one of the least integrated regions in the world, and this Policy Brief considers how SEZs could help encourage regional economic cooperation.

This Policy Brief uses a very broad definition of Special Economic Zone (SEZ): "In broad terms, SEZs can be defined as demarcated geographic areas contained within a country's national boundaries where the rules of business are different from those that prevail in the national territory." (COMCEC, 2017, p. 1). Breaking this down further, at a basic level, every SEZ has offered some combination of the following characteristics:

➔ Provision of appropriate and upgraded infrastructure (e.g. refrigerated warehousing, training facilities, telecommunications infrastructure, laboratory space, onsite business services and logistics).

➔ Simplified laws and regulations (e.g. delivered through one-stop shops, dedicated regulatory authority, regulations to international standards).

➔ Incentives (e.g. fiscal, financial, reduced tariffs, subsidized land costs, profit repatriation). It should be noted that many traditional types of incentives are increasingly seen as ineffective, even counterproductive, in that they can attract non-dynamic, footloose investment that may create jobs, but ones which are vulnerable.

SEZs have been important to the countries of MENA, although the reasons for that have evolved over time, and their full potential is far from fully tapped. Free Trade Zones (FTZs), for example, prevalent in the Middle East (e.g. Jebel Ali Free Zone in the UAE), have supported trade and trade-related income through transhipment and reexport opportunities. Traditional Export Processing Zones (EPZs) were and remain important for their ability to create jobs in reasonable numbers. The Qualifying Industrial Zones (QIZs) in Jordan and Egypt are examples of such EPZs but depend for their viability on preferential access to the US market. Increasingly, countries are seeing a broader range of modernised SEZ applications as important because of their ability to attract transformative foreign investment, which is intended to be part of a broader industrial strategy with economic, industry upgrading and diversification, social, employment and other benefits.

To this end, this Policy Brief will selectively review evidence from both the region and further afield, and suggest what policies and initiatives could be introduced or changed. It also brings in the opinions and findings of the recent International Workshop on SEZs, Growth and Integration in North Africa, organized by the Konrad Adenauer Stiftung's Regional Program South Mediterranean in collaboration with the Policy Center for the New South and the EastWest Institute, and makes some concrete suggestions on next steps.

2.Background and Analytical Framework

Origin and Proliferation of Zones

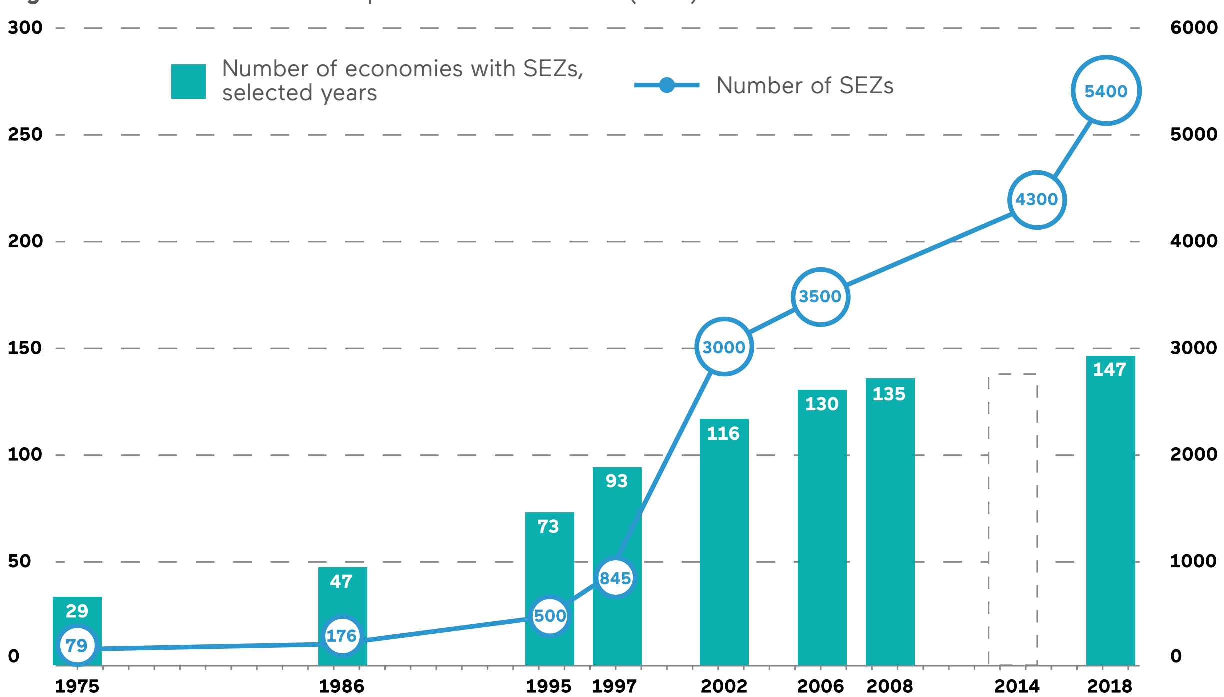
'Special Economic Zone' has evolved as a term to cover a wide variety of modern industrial and other economic zones. Modern zones, adjacent to seaports or airports, began to appear around the 1960s (e.g. the Shannon Free Zone in Ireland established in 1959), and multiplied in the 1980s, as much of East Asia embraced this development model (UNCTAD, 2019, p.128). Export Processing Zones became an important part of Global Value Chains (GVCs), offering low labour costs, and relief from customs and fiscal duties. Following the global financial crisis (2007-8), there was only a brief pause in the proliferation of SEZs. Countries are now responding to greater competition for mobile investment activity with more SEZs and more types of SEZs. UNCTAD estimates that there are today nearly 5,400 SEZs globally, of which over 1,000 established since 2013. China hosts over half of the total, with India, the Philippines and the US hosting substantial numbers as well.

Definition and Typology of Zones

As noted above, the term 'Special Economic Zone' has been used to refer to a range of zone types that are geographically delimited, and offer some combination of incentives, infrastructure (soft and hard), and streamlined administrative procedures.

There has been an evolution of the benefits expected from SEZs over time, and countries are becoming more thoughtful and strategic in deploying this tool. Low-cost manufacturing EPZs continue to be important, but mainly in situations where there is some market access benefit involved also (e.g. Jordan's QIZs with their US Market Access, and more recently European market access in the context of the Syrian Refugee Crisis). But they too are evolving to be more competitive and responsive to export market demands, for example, in terms of labour standards, sustainability (e.g. Cambodia's Better Factories program in partnership with IFC and ILO).

Figure 1: Global Proliferation of Special Economic Zones (SEZs)



Source: UNCTAD, 2019, p.129.
Note: Figures for number of SEZs are based in part on country self-reporting (often using different definitions) as well as estimates captured by different organizations for different years (including the ILO, The Economist, the World Bank and UNCTAD), and are therefore only estimates.

Table 1: Selected Typology of SEZs

Type of SEZ	Example	Focus/Comment
Free Trade Zones	e.g. Jebel Ali, UAE	Fenced in, duty free areas offering warehousing, storage, transhipment, and re-export operations
Export Processing Zones (EPZs)	e.g. Qualifying Industrial Zones (QIZs) in Jordan and Egypt; EPZs in Mauritius, Costa Rica, South Korea	Export processing of garments and other manufactures to US and European markets, based on some preferential trading arrangement
Hybrid EPZs	e.g. Saudi Arabia; Lat Krabang Zone, Thailand	Sub-divided zones with one part open to all industries regardless of export orientation, and another specifically designed for export-oriented firms. Limited emphasis on, or effectiveness of, using linking local and foreign companies and local companies.
Single Factory EPZs	e.g. textile and other manufacturing operations in Mauritius, Mexico, Madagascar	Designation for individual enterprises; allows easy expansion/replication of zone regimes.
Integrated Industrial Zones or Freeports	e.g. TangerMed, Morocco	Include manufacturing, services, even accommodation. Export and sometimes domestic markets.
Enterprise or Urban Zones	e.g. Cairo's Greek Campus, Egypt	Smaller scale zones – sometimes a general focus, sometimes sector-focussed (e.g. technology-enabled businesses).
Cross Border SEZs	e.g. China-Kazakhstan Horgos Zone	Trade Facilitation.
Green/Sustainable Zones	e.g. various South Korean Industrial Parks	Upgrading of well-established industrial parks, especially given increased focus of foreign investors on the UN's Sustainable Development Goals (SDGs) and reputational risk.
Public Private Partnership (PPP) Zones	E.g. Intel in Costa Rica (electronics industry)[1]; Ben Guerir in Morocco (virtual reality industry)	This designation captures the role of key investor(s) in an industrial development programme, where a zone is built up around a partnership between an investor and local institutions / authorities.

Source: Expanded from FIAS (2008, p.10) and UNCTAD (2019, p.137)

1-Intel's 1996 investment into Costa Rica did not go to an existing EPZ. Rather it was accorded the benefits of an EPZ and given EPZ status as a "satellite". This approach had already been applied to dozens of other companies, and is an approach commonly used in China. See Costa Rica Case Study in Annex.

In many countries, SEZs are increasingly part of a more sophisticated approach to industrial strategy, in which the aim is to embed zones in the domestic economy rather than keep them separate. The domestic content requirements in past strategies counted labour costs as the domestic content, but often considered contributions beyond that as a bonus, but not the core objective. In the context of new industrial strategies, SEZs depend on the economic integration of foreign investors for their success. Those investors can play a critical role in upgrading the local economy and making it more inclusive. As we consider how SEZs can play a greater role in fostering growth, inclusion and regional integration in the Middle East and North Africa, it is useful to further expand the concept of SEZs, and to think more about the strategic objectives of SEZs rather than simply their characteristics.

The strategies of successful countries (and sometimes particular zones) will evolve from one type to another, and even leapfrog from Type 1 to 3. The case studies of Mauritius, South Korea, Morocco and Costa Rica (see Annex) are examples of how different countries have navigated this process, or are struggling with it.

➔ South Korea, for example, had in mind integration with the surrounding economy from the outset;

➔ Mauritius exploited a particular trade situation to develop textile and garment EPZs but has now leapfrogged in some ways into financial services, high end tourism and logistics, and not only through SEZs;

Table 2: Evolving Strategic Objectives of SEZs

Type 1 Traditional Objectives / Static Benefits	**Type 2 Dynamic Objectives / Benefits**	**Type 3 Creative Transformational Benefits**
➔ Attracting FDI ➔ Large scale employment ➔ Market access BUT, ➔ Limited benefits to surrounding economy ➔ Vulnerable to relo cation and "race to the bottom" SO, ➔ evolution is essential to survival!	➔ Beachhead to wider economic reform strategy ➔ Experimental laboratories for new regulatory policies and industrial/ economic approaches	➔ Changing mindsets (fostering entrepre neurship and innovation) ➔ Generating new industries and sector-based clusters through focus on training, bespoke infrastructure and 'value added' services ➔ Green (Industry 4.0 /Eco) zones to leapfrog dirtier industrial activities ➔ Focus on social inclusion and equity (e.g. women, youth and rural populations)
e.g. Jordan QIZs; Ban-gladesh Garment Zones	e.g. Shenzhen and other Chinese Zones in the 1980s; VW's 2018 investment in Rwanda, experimenting with ride-sharing models and car production[2]	e.g. Greek Campus, Cairo; Onsan Industrial Park, South Korea; Ben Guerir Virtual Reality High-Tech zone, Morocco[3].

2-See: "Volkswagen launches the first integrated mobility concept in the eastern African country. Local production, service, sales and new types of mobility offerings – a model for the entire region." Available at: https://www.volkswagenag.com/en/news/stories/2018/07/rwanda_s-mobile-revolution.html
3-See: https://www.eonreality.com/morroco-idc-inauguration-usaid/

➔ Morocco invested heavily in a large integrated industrial SEZ but struggles to a degree with integrating with the broader national economy, though some of Morocco's older industrial zones are pushing into Type 3 creative, transformational SEZs.

➔ Costa Rica's EPZ regime is a particularly good example of moving through the three stages. In the early 1980s, the government strategically sought to move beyond simple export processing zones into higher value-added (electronics) industries in order to upgrade the economy as a whole. With Intel's major investment in 1996 it did this, and used the investment symbiotically to deliver to Intel and raise technical skill levels in the country. Nevertheless, it has only been since 2013 when the assembly and testing facility was moved elsewhere, and the R&D and shared services function started up, that Costa Rica began to occupy new industrial sub-sectors with much higher value-added.

The world in which SEZs exist, and their potential contribution to inclusive growth and regional integration is changing rapidly. Before considering global good practice in zone design and implementation, and potential opportunities for MENA, let us review briefly the relevant MENA context and the experiences with zones to date.

MENA SEZ Context and Needs

MENA is an unusual region in having been able to rely, at least in many of its countries, on natural resource income and savings for many years, and the imperative of job creation and private sector development has until recently been less pressing than elsewhere. As a result, it is also one of the least economically integrated regions of the world (with limited intra-regional trade), and a notable "missing middle" of industry, meaning the indigenous private sector is weak.

A wide variety of SEZs exist in the MENA region with varying degrees of success and contribution to national economies. In general, however, MENA zones have been divorced from their national economic context. This is true for logistics and warehousing zones (e.g. Jebel Ali Free Zone), export processing zones (such as the Qualifying Industrial Zones in Egypt and Jordan), or manufacturing EPZs in Tunisia, where investors had few domestic supply chain linkages due to the market access restrictions and import duties payable on domestic sales, including on domestic inputs (COMCEC, 2017, pp.60-65).

The nature of SEZs in MENA is now changing, and indeed there have been some exciting initiatives in recent years. Examples include Technology Parks in Tunisia ("Technopoles"), the Dubai Internet City and Dubai Media City, and Egypt's new Smart Cities initiative. Largescale SEZs, like the Aqaba Special Economic Zone in Jordan (established 2001) have had some success in building linkages to and strengthening the national economy. Newer ventures such as the Suez Canal Economic Zone around Ain Sokhna Port with DP World and Chinese investment also have great potential. There are also newer zones with a more sustainable focus such as the Masdar City Free Zone (with a renewable energy focus).[4]

Such solid and exciting initiatives notwithstanding, there is still much room for evolution, and lessons to be learned about making SEZs sustainable and supportive of national economies. MENA countries are also experimenting with government-to-government (G2G) ventures notably with Chinese entities: for example, part of the Suez Canal Economic Zone in Ain Hokhna; and the Algeria-China Jiangling Free Trade Zone. Finally, as discussed in the Case Studies of Tanger Med (Morocco) and South Korea in particular, many existing zones are working hard to become more strategic and developmental. Some opportunities from SEZ innovation include:

➔ Successful SEZs can be based on government to government partnerships, thereby leveraging more investment capital, foreign development partners, shared risk and greater access to the foreign partner government's outbound investor marketplace, for success. That said, such zones

4-The author is grateful to Jean-Paul Gauthier of Locus Economica for these observations during several interactions, and peer review of this Policy Brief.

involving significant borrowing commitments can become difficult to manage, and the jury on their long-term success in Africa, and contribution to host economy growth and sustainability, is still out.

➔ Successful zones can also emerge from public private partnerships (PPPs) that donor agencies, international organizations, business organizations and others can play a role in brokering. This approach can increase access to private capital whilst holding down associated transaction advisory costs.

➔ SEZs can be used to experiment with innovative policies, and new trade-facilitating and efficiency-enhancing technologies.

➔ Finally, SEZs can be used to promote and strengthen regional integration in parallel with necessary policy reforms.

3.GLOBAL GOOD PRACTICE AND INNOVATION IN SEZ DESIGN AND IMPLEMENTATION

This section considers how SEZs have evolved over time, and what lessons can be derived for MENA from global experience to date.

Evolution of Zones

The world in which SEZs exist, and the nature of what they can achieve, has changed. Many of the economies that grew rapidly using SEZs in the last century, such as Ireland, Taiwan, South Korea, the Philippines and Indonesia, have reformed their old-style EPZs in the context of global trade and investment arrangements, as well as nationwide economic policy reforms. Export-oriented zones are increasingly dependent on particular trade arrangements with Europe, America or China; and there is a decline in pure export processing or assembly platforms with limited value added. Service industries are increasingly the focus of zones, and corporate social responsibility (CSR) issues and Sustainable Development Goals (SDG) considerations are increasingly important. There is a trend towards government to government cooperation, especially with China, as China exports its development and SEZ model globally. For example, there are Chinese-African zones in Algeria, Egypt, Mauritius, Uganda, Nigeria, Ethiopia and elsewhere.

Overall, competition amongst zones for investment has greatly increased, and countries are becoming more sophisticated in how they use zones in industrial, economic growth and inclusion policies.

Quality FDI and Zones

Countries still look to zones as a source of FDI, jobs and exports, but increasingly they want SEZs to play a more integrated and sophisticated role in the host economy, and as a way of attracting quality FDI.

Strategically focussed SEZs should look to attract quality FDI, in contrast to natural resource extraction or pure export processing FDI. Thoughtful countries that have long-term development plans or aspire to a new industrial strategy (that embraces quality FDI as a growth factor) seek more sophisticated benefits from foreign investments, and can use SEZs as a transmission channel of economic benefits to the local economy. They realize that domestic private sector development alone cannot achieve the industrial upgrading, diversification, growth and socio-economic benefits they want or need. Transformative or "quality" FDI:

1. Contributes to the creation of long-term, well-paid, value-adding jobs;

2. Enhances the skill base of host economies;

3. Facilitates the transfer of technology, knowledge and know-how;

4. Boosts competitiveness of domestic firms and enables their access to markets; and operates in a socially and environmentally responsible manner.

What Makes an SEZ Effective – Enduring Characteristics and Newer Developments?

Enhanced objectives notwithstanding, the basic factors that make SEZs effective, especially those that seek to integrate the investment within them with the local economy, remain fairly constant. They include:

➔ Linking SEZs to the local economy, and using them as a tool for upgrading the local economy, by allowing and encouraging backward and forward linkages

➔ The existence of skills and local economy upgrading programmes, strengthening local supply chain links to SEZ enterprises

➔ Thoughtful, sector-focussed infrastructure, aimed at catalysing the development of competitive sectors

➔ A clear and transparent legal and regulatory framework, enabling long-term business planning, reinvestment and growth

➔ Efficient zone management and administration, facilitative of the sound governance of the investment ecosystem investors require for their day-to-day business operations

➔ A broader, high quality investment climate

➔ Getting the right investors, through good marketing and strong zone management with good investor contact, and proactive investor facilitation and servicing

The subtle but important change in SEZs and SEZ policy in recent years is that their potential positive economic spillover and 'demonstration effect' benefits to the local economy are no longer considered as incidental, but are instead viewed as the core rationale for a country to develop SEZs.

Countries need to be more thoughtful about the potential role of SEZs as a tool in their country's social and economic development, and industrial strategy. For instance, is there a sectoral focus? What anchor investors or suppliers are being targeted? What infrastructure and labour force skills are needed to attract quality investors?

In an ever more competitive world for attracting mobile investment, where SEZs are proliferating, what are the differentiating factors that make one SEZ more attractive than another? How are the possibilities of SEZs changing, and previous models becoming replaced? How can SEZs be made more effective, and more developmental for host countries? A number of lessons learned and evolving practices are worth underlining in this respect:

➔ Some of the incentives previously deployed in zones are no longer permitted under various international rules and trading blocs (UNCTAD, 2015, p.ii): e.g. the low tax rates Ireland originally used to attract investment are no longer allowed. Incentives are still important, but are more in the nature of an entry ticket to the competition rather than the deciding factor for investors amongst different potential operating locations. Quality investors will expect a "standard package" of incentives, but beyond that will be more interested in minimizing a broad set of investment risk factors and in forging partnerships for their business' success.

➔ As SEZs are increasingly part of a new industrial strategy[5] where foreign investment is seen as part of the solution or partnership to upgrade the local economy, and to make it more inclusive, it is increasingly counterproductive to have an SEZ isolated from the local economy.

5-A "new" or a "light" industrial strategy is in contrast to a "heavy" industrial strategy that seeks to promote domestic industry as much as possible to the exclusion of foreign investment, or under very strict conditions (e.g. local content requirements, trade-related investment measures, etc.).

→ Similarly, although one-stop shops and simplified regulations in an SEZ are an advantage, sufficiently supportive business and administrative regimes for the country as a whole are also a positive and necessary locational factor. Indeed, SEZ investors can never truly thrive in a broader ecosystem devoid of good governance, transparency, strong local supply chains, innovation and skills.

→ Foreign investment must increasingly strive to perform in such a manner as to meet international standards, and in particular the aspirations enshrined in the UN's SDGs. There is increasing reputational risk for international investors, who cannot be seen to be operating in exploitative or environmentally unsound ways. Thus, the ILO's "better factories" programme in Cambodia, which began in 2001, for instance, has been found to be effective in promoting good jobs and inclusion in Cambodian SEZ-based garment factories, and has since been replicated in other countries[6]. More recently, the SDGs have set a much broader standard for responsible, socially inclusive investment. Strategies have been proposed, for instance by UNIDO, in terms of how to apply these in an SEZ context.[7]

What do Quality Investors want from an SEZ?

What quality investors look for in an investment location, including in SEZs, is changing. Efficient infrastructure, utility, administration and logistics services remain important. But beyond this, quality investors are now looking for sophisticated, creative value propositions. For example:

→ Policy experimentation partnerships. For example, Zipline and VW invested in Rwanda (in and outside the Kigali SEZ) because the Government of Rwanda was willing to engage in joint policy experimentation for commercial drone and ride-sharing product development for the African market.

→ Productivity partnerships. For example, Intel in Costa Rica was looking for a partnership with the government and education institutions to develop and upgrade an industry through, amongst other things, joint development of electronic engineering skills.

→ Productivity incentives.[8] Quality investors, beyond a modest basic set of allowable fiscal incentives, are more interested in the productive viability of an investment. The existence and strengthening of aeronautical training institutes in Morocco has helped attract new and repeated investments by Canada's Bombardier and other companies in the Tanger Med Free Zone.[9] Furthermore, under international trade rules competitive incentive bidding wars are becoming more difficult (Koyama, 2011), and zones naturally need to compete more on productivity incentives.

→ Market access. The nature of market access being sought by investors is changing. Specific (free) trade agreements with advanced markets, like the QIZ regimes, or broader arrangements, such as Morocco's FTA with the US (2004) and Association Agreement with the EU (2000), are therefore important. However, investors are now also increasingly interested in the size of regional markets, and in the existence of regional trade agreements (RTAs) accessible from the SEZ in which they choose to locate.

Zone Strategies for MENA Countries

This section seeks to bring together the evidence and thinking on what makes zones effective and sustainable, and highlight an approach that could help unlock the greater potential of SEZs in the MENA region.

6-See: https://betterwork.org/where-we-work/cambodia/. The now renamed "better work" programme subsequently expanded to cover seven countries (Bangladesh, Cambodia, Haiti, Indonesia, Jordan, Nicaragua, and Vietnam), some 1,600 factories, and 2.2mn workers.
7-See: https://www.unido.org/international-conference-industrial-parks-inclusive-and-sustainable-industrial-development and https://www.unido.org/sites/default/files/files/2018-05/UNIDO%20Eco-Industrial%20Park%20Handbook_English.pdf.
8-See: Healy, 2018.
9-For media highlighting of establishment of Morocco's aeronautical training institutions, see: https://www.moroccoworldnews.com/2015/10/169769/morocco-to-launch-new-institute-for-its-nascent-aeronautics-industry/

The predicaments facing the different countries of the MENA region are varied, and the nature of SEZ strategies to deal with their respective challenges will naturally differ. Some MENA countries are emerging from conflict and require enclaves of stability and opportunity. The challenge to countries in the region with greater stability and more advanced economies lies more with integrating SEZs and their investors into their host economies and industrial strategies. Amongst those countries proactively engaged in economic development, there are divergent approaches. For example, Jordan has a significant QIZ export processing sector that includes foreign labour; Egypt also has export processing but is experimenting with joint SEZ programmes with China; Morocco has an efficient and rather advanced set of zones around Tanger Med alongside a range of smaller, innovative sectoral zones. At the same time, foreign investment and SEZs across the region face some common identifiable challenges. First, there is the isolation of foreign investors from the local economy, both through divisive incentive regimes, and the general absence of SME suppliers that could be brought into foreign investors' value chains. Second, there is the lack of regional integration, both as a source of suppliers, and as a potential market. Third, there is a limited supply of skilled workers of all levels available to the manufacturing sector (though less so in the services sectors, which offer great potential).

The existence of countries at different levels of openness or development offers opportunities for zone strategies, in parallel to efforts at regional integration and trade. For example, any opening of economic relations between Morocco and Algeria would be fruitful, with Morocco's external connections, and Algeria's relatively sophisticated but isolated economy and workforce. Similarly, SEZs, in due course, might offer a gradual way to rebuild Libya's economy, which could be facilitated by improved cross border SEZs with Tunisia.

General Strategies

SEZ programmes have been effective in many countries seeking to attract investment and create jobs. As exemplified by the Chinese approach to zones, introducing the necessary stability, infrastructure and streamlined regulatory procedures in a limited geographical area is a good way of kickstarting economic growth. In setting up such zones, some of these things have remained the same, other things have however changed:

→ Finding good investors is critical. Successful zones in smaller countries in East Asia were often privately managed by companies from countries the host economy's investors come from (e.g. Singapore, Korea, China). A new and deliberate way to foster this outcome can be found in the government-to-government (G2G) zone arrangements between China and African countries forming part of China's Belt and Road initiative. Healy (2018) however observes that such Chinese investments have created linkages to the local economy in some countries (e.g. Ethiopia) but less so in others (e.g. Nigeria); so local linkages are a possibility.

→ The provision of incentives (a basic SEZ offering in addition to infrastructure) is on the whole becoming less critical. This is because investors value other factors more (e.g. streamlined regulatory procedure, "productivity incentives", etc.), and because international trade rules no longer permit the generous and unchecked incentives on offer in the past.

→ Links to other regional economies have the potential to aid regional economic integration. Originally, East Asian countries used export-processing zones to manufacture products and export them to the advanced economies of the US and Europe, in particular. More recently, East Asian countries and their SEZs have built deeper linkages with poorer neighbouring host countries. In MENA, if regional integration policies were to be introduced, such cross-border, integrated investment relationships could be very valuable in fostering a similar dynamic.

These strategies remain relevant to MENA countries but, as SEZ good practice has advanced, a number of other approaches should also be considered in SEZ regime design and implementation. For instance,

➔ SEZs should be seen as part of an industrial policy in which comparative and competitive advantages have been considered, and where the intention is to integrate quality foreign investors into the broader national economy. This is in contrast to a pure export-processing approach, although such activities do still have a niche in the region. The development of such an overarching industrial policy, the choice of target sectors and the place of SEZs within it, is an area where donor organizations can play a supportive role.

➔ In new industrial policy approaches, zones with a sectoral rather than general focus are an increasingly popular policy tool. This allows their associated support activities to be much more targeted, including investments in and support for relevant infrastructure and training institutions and, in due course, fostering linkages to start-ups or suppliers serving that industry. Leveraging such measures, zones in more advanced MENA countries can usefully focus on global value chain (GVC)-intensive industries (e.g. automotive, electronics) or services (business process outsourcing, call centres) (UNCTAD, 2019, Chapter IV).

➔ A more thoughtful approach to embedding SEZs in the local economy is now considered essential. Moran et al. (2016) point to examples of industrial zones for local suppliers being set up next to export processing zones or lead manufacturing investments (e.g. India, South Africa and Malaysia). To better attract quality FDI, it is therefore particularly important to avoid SEZ regulations that discriminate against the creation of local supplier relationships in any way, whether on the basis of physical or regulatory barriers. It can also be effective to encourage databanks and "matchmaking" to assist with supplier selection (Moran et al., 2016).

Expectations are also increasing of SEZs on the inclusion and sustainability front. Labour and environmental standards are today much more carefully monitored by NGOs and in the media, such that the reputational risk to international investors of underperforming in these areas is now much greater. UNCTAD, for one, argues that SEZs, through partnerships between national governments and investors, need to become more sustainable, consistent with the SDGs, suggesting that "EPZs can enhance competitiveness through a 'role reversal': switching from a narrow focus on cost advantages and lower standards to become champions of sustainable business" (UNCTAD, 2015, p.ii). It offers an exploratory framework for Sustainable Economic Zones giving ideas of what countries, SEZs and their supporters can do for zones to become more sustainable (Table 3).

Some Specific SEZ Approaches and Ideas for MENA

Based on the economic context and challenges of the MENA region, global good practice in SEZ strategy, and discussions with regional practitioners around the International Workshop, five particular SEZ approaches are proposed for consideration.

1. Public Private Partnerships and their Underlying Productivity Incentives

Of particular interest to MENA countries is the public private partnership (PPP) approach to SEZs. This involves a host country or particular agent thereof (e.g. a research centre, subnational government) partnering with a foreign investor to develop an SEZ opportunity jointly. For this to work, a country needs to do its industrial strategy homework thoroughly, to identify the viable sector or sub-sectoral opportunities, and then seek out a good commercial partnership to take advantage of them. This partnership might be the genesis of a smaller zone (e.g. EON Reality's deal/investment to support a virtual reality research centre at the Ben Guerir zone in Morocco), or help with the deepening or repurposing of an existing zone (e.g. Bombardier's investment in TangerMed zone, alongside an industry-wide/government partnership to build up sectoral skills in the aeronautics industry).

Countries provide incentives and infrastructure, and investors provide jobs and economic returns. However, these deals and partnerships have the potential to be much more purposeful and developmental. Intel's investment in Costa Rica, established as a Free Trade Zone as part of the attraction process, is a good example of a PPP approach. Costa Rica agreed to provide tailored training and a conducive business environment; Intel

Table 3: Framework for Sustainable Economic Zones

	Policies/Standards	Infrastructure assistance	Administrative assistance
General Approach	**Create multi-stakeholder partnerships to identify opportunities and develop an action plan**		
	Maintains and enforces policies and standards, including:	Provides services or specialist to insure compliance/offer assistance, including:	Provides guidance and training to companies, covering how to:
Labour	➔ Minimum wage ➔ Working hours and benefits ➔ Respecting right of unions to be active within the zone ➔ Gender equality and related issues ➔ Incentives for third-party certifications	➔ Labour inspectors ➔ Conflict resolution specialists ➔ Reporting hotlines ➔ Gender focal points	➔ Improve conditions ➔ Engage in social dialogue
Environment	➔ Emissions ➔ Waste disposal ➔ Energy use ➔ Incentives for third-party certifications ➔ Promoting circular economy	➔ Centralized effluent treatment ➔ Water reclamation systems ➔ Recycling services ➔ Hazardous waste management services ➔ Alternative energy sources ➔ Reporting hotlines ➔ Enabling circular economy	➔ Further reduce natural resource use ➔ Reduce waste ➔ Increase waste ➔ Increase recycling ➔ Improve energy efficiency ➔ Adopt renewable energy
Health & Safety	➔ Employee health and safety protection ➔ Incentives for third-party certifications	➔ Medical clinic ➔ Fire brigade ➔ Reporting hotlines	➔ Prevent health and safety emergencies
Corruption	➔ Anti-corruption standards and policies	➔ Hotlines ➔ Information on reporting corruption	➔ Build capacity to detect and avoid corrupt business practices
Economic Linkages	➔ Employer support for staff training and development	➔ Assistance with local sourcing	➔ Identify and upgrade local suppliers

helped design electronic engineering curricula, and inserted Costa Rica into the global semiconductor value chain. EON Reality's partnership with the university and relevant government agencies to set up a Virtual Reality training centre to support investment in Ben Guerir is a good example from the MENA region.

Such public private partnerships can help develop brand new industries. For MENA, where the local private sector suffers from the "missing middle" phenomenon, partnerships focussed on building up the raw materials of competitiveness in new industries – i.e. human resources – are essential. Thus, a careful analysis of target SEZ industries and viable technical skills upgrading strategies is important.

Donor agencies, foundations and international organizations can play a valuable and rewarding role in brokering such partnerships. For example, USAID played an important role brokering and supporting the Moroccan partnership with EON Reality. Generally speaking, both good host country investment promotion agencies (IPAs) and effective foreign government commercial services have become much more sophisticated in identifying investment sub-sectors and potential individual investors. Donor agencies can play an as yet underdeveloped role in brokering effective partnerships and facilitating the "productivity incentives" to make such partnerships successful. The US Commercial Service's website for Morocco shows the quality of commercial research and information available to support this process.[10]

2. Policy Experimentation Partnerships

Host governments can use SEZs as policy experimentation partnerships. This can range from experiments in basic economic regulation and openness, along the lines of what the original Chinese zones accomplished, to more sophisticated experimentation with new industries. The former scenario is relevant to post conflict countries such as Libya, whilst the latter is an exciting way forward for proactive governments seeking new opportunities, perhaps in IT, pharmaceuticals, or targeted service sectors. The example from Rwanda of both the drone service company, Zipline, and VW, show what is possible. For this to deliver the best results, countries need to do their homework on industrial strategy and realistic sub-sectoral opportunities, create a healthy sectoral business environment for them within their zones, and then proactively pursue target investments. Again, there is a very clear potential role for donor agencies in supporting industrial strategy development, and the development of either basic zone regulations or more sophisticated experimental regulation.

3. Using SEZs to Support Regional Integration

SEZs can (through regional sourcing and supply chains) help to promote regional trade and integration, but this role needs a higher-level policy commitment to building economic relations between countries. More successful exporting countries in the region like Morocco, Tunisia and Jordan currently focus on bilateral relations with their key export markets such as Europe and the US, but have limited commercial relations with neighbours. SEZ and investment growth could be much stronger if investors could target a regional market or source inputs from across MENA, for example from other zones focussed on complementary industrial sub-sectors in neighbouring countries. For example, Moroccan investors could source high-quality moulded plastics from Tunisia.

At a more basic level, cross border zones linking such countries as Tunisia and Libya could also play a developmental role as Libya recovers from conflict. Cross border zone proposals such as the planned Khorgos Zone on the Kazakhstan/China border are a challenging concept, given the need to somehow coordinate different regulatory and fiscal regimes (COMCEC, 2017, p.29). However, they are a powerful idea, and in the context of reconstruction should be explored with the help of donor agencies.

Pure cross-border zones can be very challenging. A simpler variation might involve proximate zones near the border with streamlined flows of inputs and products between them. Thus, perhaps brokered by donor organizations, raw materials and semi-finished manufacture inputs from an SEZ in Libya could be used by manufacturing investors in Tunisia. Also, border zones could be a focus for trade and conferencing.

The larger role of SEZs in supporting regional integration, and benefitting from it in a virtuous cycle, depends on an active regional economic cooperation strategy. This could be region-wide or begin with something more modest like the commercial opening of the border between Morocco and Algeria. One challenge with SEZs operating in different countries in customs unions has been the coordination or harmonization of fiscal and customs incentives/regimes (Koyama, 2011).

4. Hybridization of Zones to Serve Domestic and Export Markets

SEZs in the MENA Region have tended to be isolated from the domestic economy. Many MENA zones are actually implementing best practices in allowing dutiable sales of SEZ products into the domestic economies of their host countries – for example, Aqaba (ASEZA), Jebel Ali Zone, the Suez Canal Zone at Ain Sokhna, and so on. That said, the flow of inputs/manufactures in and out of SEZs has not happened. This has partly been because of the absence of a strong SME private sector to support and benefit from quality investment. However, there do seem to be other challenges that need to be investigated (see Morocco Case Study in Annex).

New zones and current ones should work towards emphasizing productivity partnerships rather than fiscal deals, and gradually implement policy reform to remove tax treatment differentials. In their future SEZ strategies, MENA countries should emphasize such incentives as sector-targeted infrastructure, productivity partnerships and streamlined regulation.

5. Government to Government Partnerships

China is the main proponent of SEZs worldwide: as original model, as principal exponent, and more recently as major sponsor of collaborative zones worldwide. In the context of its Belt and Road strategy, in particular, China is actively partnering with MENA (and Sub-Saharan African) governments to establish zones in the region. Such zones have the advantage of being well-managed, with investors readily identified. For example, China was instrumental in constructing and populating the Hawassa industrial Park in Ethiopia and, thanks to collaboration with the host government, there have been linkages established with the local economy.

Countries and their investment promotion agencies need to be proactive to make sure that linkages to the local economy do take place, and that proper social and environmental standards are met.

10-See, for example: https://ma.usembassy.gov/business/commercial-opportunities-morocco/

11-See, for example: https://www.bloomberg.com/news/features/2018-03-02/china-is-turning-ethiopia-into-a-giant-fast-fashion-factory. Healy (2018) notes that Ethiopian SEZs have been more successful than Chinese-supported zones in Nigeria, where linkages to the local economy have been less evident.

4.WHAT NEXT?

Ideas for Enhancing the Contribution of SEZs to Inclusive Economic Growth in MENA Countries, and to Regional Economic Integration

MENA countries have clear needs in the areas of industrial upgrading, diversification, regional economic integration, local economic development, economic inclusion and job creation. SEZs have significant untapped potential to address all of these needs - albeit to different degrees for different zones in different locales. Depending on a country's needs and situation, the following recommendations could enhance the contribution of SEZs to these needs and objectives. Donor agencies, foundations and international organizations can be active and valuable partners in these initiatives.

1. Pursue public private partnerships (PPPs) to develop and strengthen SEZs. This involves a proactive IPA function, political will, and active commercial counterparts at EU missions and foreign embassies. Donor agencies can be valuable catalytic partners and instigators of such partnerships.

2. Use SEZs as vehicles for policy experimentation. This can be either in terms of basic regulatory development or innovative experimentation in new sectors.

3. Develop new industrial strategies that see quality foreign investment, SEZs and linkages with the local economy as essential interrelated components of a single, overarching and integrated approach. In MENA, this strategizing should also look closely at opportunities in the IT and service sectors. Donor agencies are well-resourced to assist in this type of industrial strategy review and recasting.

4. Investigate productivity partnerships where investors and host country institutions collaborate to develop the raw materials of competitiveness – technical and managerial skills – within SEZs or their broader host communities. Donor agencies and foundations can help broker these partnerships, especially with academic and training institutions, and subnational governments.

5. Update, repurpose or redesign existing EPZ or FTZ regimes in view of the above considerations; and emphasize and advertise social and environmental credentials. International organizations will enthusiastically collaborate to make zones SDG-compliant, and emphasize their responsible social and environmental standards. The ILO-IFC "Better Factories" programme, for example, has raised the standard for all manufacturing zones.

6. Consider strategies for regional economic integration and collaboration. SEZs can be valuable tools for lengthening value chains but a higher-level commitment to some degree of regional integration is an essential condition precedent to any SEZ impact on this front. Donors could be involved in investigating how divergent the various MENA SEZ regimes are, and developing a basic lowest common denominator plan for their alignment. One focus should be on how to level the differential tax treatment of SEZ investors. First steps to this end would be a mapping of SEZ regimes region wide; and developing a proposal for harmonized basic SEZ guidelines, and to remove differential tax treatments, thereby enouraging investment based on other investment climate factors.

7. Be aware of cross-border zone opportunities as and when they arise, for example as Libya recovers from conflict

8. Ojectively investigate opportunities for government-to-government partnerships in zone development, and how they can actively engage and develop the local economy. Chinese-African zone partnerships have great potential, and China is the global expert in exploiting the potential of SEZs, but sound policies and actions on the host-government side are required in order to derive real benefit from such initiatives.

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5. CASE STUDY ANNEX

Introduction

In recent years there has been some reassessment of the contribution of Special Economic Zones (SEZs) to the growth and development of the countries in which they are located. The bottom line is that SEZs can have a transformational impact on national economies, but that few countries have as of yet managed to achieve this. The main East Asian originators of the idea and practice (China, Taiwan RoC and South Korea) have been the best examples of success, whilst some others are proactively moving in the right direction.[12]

In fact, there is a continuum of success/failure in the implementation and exploitation for economic development of SEZs (see Figure 2). Some countries have successfully used SEZs to transform their national economies – a tool for industrial upgrading and growth. Others have had limited success in transforming their economies through SEZs despite significant FDI inflows, increased exports, and sometimes major employment generation. Of these some are proactively and continuously seeking to embed SEZ investors in the host economy and derive benefits, whilst others continue to treat/ accept SEZs as enclaves. Other countries have gone through the process of setting up SEZ regimes but either not attracted investment, or have sought to derive rents and income but no transformational benefits beyond that.

For example, Costa Rica's SEZ regime, and the incorporation of Intel's 1996 investment into it, has long been held up as an example of (i) how to do investment promotion well, and (ii) how to use such an investment in the context of an SEZ regime to a country's transformational developmental ends. Monge-González (2017) for one argues that the Intel investment had a limited developmental impact until 2013, but the latest upgrade to a research and development and shared services hub for Intel has much more transformational potential, if exploited well, for Costa Rica.

This Policy Brief focusses on four case studies that hold valuable lessons for the countries of MENA. They are South Korea, Morocco, Mauritius and Costa Rica. Additional case studies from countries that have successfully or less successfully exploited SEZs for national development would be valuable in due course. A standard format is used for the case studies to make them more useful/accessible. Also, it is worth noting that measures of impact vary in availability and reliability.

N.B. As in the main text, the term SEZ is used to denote the broader concept of a separate geo-graphical area benefitting from some combina-tion of administrative streamlining, soft and hard infrastructure provision, and incentive provision. It is used alongside, and sometimes interchangeably with, the particular term in a country, such as EPZ or Free Zone.

N.B. Selected key resources were used to compile each case study, and these are included after each Case Study, in addition to relevant in-text references and footnotes.

12-China is home to some half of the SEZs registered by UNCTAD, and other countries have much to learn from SEZ implementation in China. Some countries have worked closely with the Chinese government or Chinese SOEs to set up zones in Africa and elsewhere, which have brought benefits, but it is unclear whether those national economies are using these SEZs to transform their national economies, as China once did.

Figure 2: Continuum of SEZ Implementation Success in terms of becoming embedded in, and transforming, surrounding national economies

Transformational Success	**Limited Transformational Impact**		**Generally unsuccessful**
	moving in a positive direction	further progress unclear/ pending/ assessment required	
Characteristics: national policies adapted based on SEZ experiments; successful backward linkage programmes have upgraded surrounding economy	**Characteristics:** steadily shifting from enclave-type SEZs to embedded SEZs; more transformational SEZs being launched around the country; human resource policies being updated nationally thanks to SEZ success; active promotion of transactions and learning across the SEZ membrane.	**Characteristics:** SEZs have remained enclaves with limited/ stagnant domestic value added (DVA). Investments rather footloose, and vulnera-ble to relocation to lower cost locations. Limited progress in capturing higher parts of value chains	**Characteristics:** Limited success in attracting FDI; bureaucratic impediments; predatory state seeing SEZs/FDI as a source of rents rather than transformation; SEZ location unsuitable.
China Taiwan (RoC) South Korea	Costa Rica Morocco Mauritius	Vietnam Ethiopia	Kenya Liberia Central Asia

5.1 SOUTH KOREA

South Korea's[13] early EPZ regime (1970-1990) combined an enclave SEZ approach with a significant and effective backward linkage programme. From the 2000s, following the Asian Financial Crisis, EPZs were upgraded and a new breed of large open SEZs was introduced with a stronger sectoral approach as part of a comprehensive national industrial strategy modernization.

Introduction (Timeline/Rationale/Challenge)

The objective of South Korea's Export Processing Zone (EPZ) regime was to acquire world-class technology, and upgrade the surrounding economy, whilst maintaining an import substitution (IS) and export only strategy for the rest of the economy.

The EPZ regime was launched in 1970, with the Masan EPZ beginning operations in 1971. Domestic input to EPZ manufacturing operations increased steadily and quickly over the first decade, and by 1990, the surrounding economy had achieved the technological level of the EPZs. A new era of SEZs continued in South Korea after the Asian financial crisis. The upgraded EPZs and new Korea Free Economic Zones (KFEZs) took a more modern and nationwide approach. As part of a national industrial strategy they had a greater sectoral focus (including sector-focussed incentives), significantly upgraded administrative efficiency, and greatly improved logistics and transportation.

Policies and Strategy

The design and growth of EPZs in South Korea was a priority national initiative, and specifically targeted the upgrading of the local economy. In the 1970-90 era of mercantilist global development this technological learning approach could viably exist alongside a complementary import substitution policy. Key policies included the following:

→ Backward linkage / local supplier policies were fundamental. In the first era (1970-90), EPZs were seen as a technology learning opportunity, and the backward linkage programme was fundamental. "When the Masan Zone began operations in 1971, domestic firms supplied just 3.3 percent of materials and intermediate goods to firms in the zone. Four years later, they supplied 25 percent and, eventually, 44 percent. Consequently, domestic value added increased steadily from 28 percent in 1971 to 52 percent in 1979." (White, 2011, p.194)

→ The Government of Korea (GoK) had specific policies to encourage backward linkages. For example, local companies supplying SEZ firms had preferential access to intermediate and raw materials.

→ Most tax and duty incentives applied to the country as a whole, and were not the defining characteristic of EPZs. Thus, (i) tax and duty rebates were provided to domestic firms supplying EPZ firms, (ii) there was a machinery fund for companies supplying EPZ firms; and (iii) proactive local authorities supported training and capacity building initiatives.

→ EPZ firms did benefit from significant land and rent subsidies.

→ An enclave approach to EPZs (with an effective learning membrane) was complementary to the import substitution (IS) approach to the surrounding economy. SEZs/EPZs were marginalized by the late 1980s.

→ Following the Asian Financial Crisis (1997-9), from around 2002, Korean SEZ policy moved from enclave FTZs to large multi-use SEZs. Manufacturing zones were upgraded with enhanced logistic capabilities, and new logistics-focussed zones were established.

→ Korea Free Economic Zones (KFEZs) regime launched after 2002 reflecting a shift to open, multi-use zones (e.g. Incheon). Logistics capabilities were upgraded, administrative procedures significantly streamlined, and sectoral strategies emphasized. There was a significant emphasis on logistics and transportation access.

→ KFEZs have a more significant exemption regime, but targeted towards particular sectors in line with industrial strategy

Economic/Transformational Impact[14]

South Korea's EPZ programme was extremely successful, and was instrumental in stimulating nationwide economic transformation, especially over the 1970-90 period. The FTZs (Masan in particular) fulfilled an important role over that period. Since then, and in general terms, FDI has been of less importance to Korea than to other countries. As of 2016 Korea's stock of inward FDI amounted to 13.2 percent of GDP, much lower than the UK (57%), the US (31%) or Germany (31%) (Frederick and Lee, 2017).

Between 1973 and 1982 exports from Masan EPZ grew from $145mn to $601mn, whilst imports grew from $91mn to $281mn. This indicates a significant increase in the value of domestic inputs and sales to the local market, and a rise in value added per worker from $1,450 to $10,340. Employment at the Masan zone rose from 21,000 in 1973 to 26,000 in 1982, and just under 40,000 at its peak in 1986. Employment subsequently declined with the transition from labour-intensive to more capital-intensive industries. Most early investment was in textiles and clothing, but by 1993 90 percent was in electronics and electrical industries, with R&D and high tech investment growing steadily.

By 2010 the importance of zones for attracting FDI was significantly reduced. Over the period 2004-14 only 7 percent of firms (749 firms) and 21 percent ($95bn) of the total FDI inflows to Korea were through SEZs. Provincially driven Foreign Investment Zones (FIZs) were the main hosts.

Takeaways, Lessons and the Future

Korea's EPZs fulfilled a crucial role in the early decades of industrialization (1970-90), generating significant exports with ever increasing domestic value-added. The GoK actively encouraged domestic firm inputs to, and learning from, foreign firms. In the modern era since 2000, Korea has adopted a much more open approach to zones focussed around specific industries, research and development, and so forth. Companies are encouraged to locate there for their knowledge and expertise, whether they are domestic or foreign.

The GoK was strategically and fundamentally involved in building skills and the capacity of the domestic private sector using investing firms. This involved both strong policies, and financial and fiscal incentives. Backward linkages were very important, and the responsibility for that lay with the proactive integration of local and foreign firms though an effective industrial development strategy.

The nature of incentives has evolved over time towards a focus on innovation, skill building, appropriate logistical and industry infrastructure, and the encouragement of carefully identified sectors. In a world where trade-focussed incentives are more restricted, this sectoral and public goods focus is particularly appropriate for countries seeking to exploit zones today.

13-This case study draws heavily on an earlier detailed case study prepared by Locus Economica. The author would like to thank Jean-Paul Gauthier of Locus Economica for both sharing the case study, and providing invaluable comments on the Policy Brief itself.

14-From Locus Economica (2015)

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5.2 MOROCCO TANGER MED AND OTHER SEZS

Introduction (Timeline/Rationale/Challenge)

The creation and expansion of the Tanger Med complex of SEZs began with the enactment of the SEZ Law 19-94 (1995), a strategic speech by King Mohammed VI in 2002, and the establishment of the Tanger Med Special Agency (TMSA), a one-stop shop, in the same year. The zones are part of the hinterland of the vastly expanded Tanger Med port, with its significant logistical advantages.

The zones, focussed primarily on the automobile and aerospace industries, have generated much employment, and much trade; so far it has been less effective in upgrading the surrounding or national economy. Nevertheless, other recent initiatives, exemplified by a Virtual Reality partnership around the Ben Guerir Zone, point to efforts to upgrade and integrate other zones with the local economy.[15]

Policies and Strategy

Prior to the focus on SEZs from 1995, Morocco had experimented from the 1960s and 70s with industrial zones (IZs) across the country with the objective of supporting SME and regional development. An Investment Code in 1983 introduced grant incentives to support the growth of underprivileged towns. However, over the years the IZs received limited private investment, or infrastructure support from the government. Morocco's import substitution era until the early 1980s was followed by IMF-guided structural adjustment.

Morocco's efforts to establish and exploit SEZs and introduce significant foreign investment began with the enactment of the SEZ Law in 1995. This exempted investors from customs, forex and trade regulations affecting the domestic economy. This new strategy received the highest level support from the new King Abdullah in 2002, which led to the mass mobilization of resources to expand the Tanger Med port and the construction of an SEZ complex in its hinterland centred on the automobile and later aerospace industries.

In addition to the significant infrastructure and logistics investment, additional major incentives were provided in the form of the Hassan II fund which could provide grants of up to 30 percent of land and building costs, and 10 percent of capital expenditure. Administration procedures were streamlined, and marketing efforts ramped up, with the establishment of a highly professional Tangier Med Special Agency (TMSA) as a one-stop shop in 2002.

As part of the focus on key industries, the Government of Morocco (GoM), local authorities, and industry organizations, did recognize the need to build up human resource capacity and technical skills. Thus, the Moroccan Industry Association for Automotive Producers (AMICA) played an important role in training and skills development, including in the operation of the Institute for Vocational Training for the Automotive Sector (IFMIA). IFMIA is largely managed by Renault, but receives support from GoM and a variety of donor agencies and companies. A similar institute and arrangement exists for the aerospace sector.

Various evidence suggests, however, limited backward linkages to, and upgrading of, the surrounding economy. "(...) The bigger issue lies in foreign companies' lack of integration with the broader Moroccan economy (...), 'you manage to attract Renault (...) but Renault will try to avoid employing Moroccans in high-level positions within the factory because they don't trust Moroccan engineers – the quality of human capital in Morocco is pretty low – and the reason is that the education system in Morocco is largely insufficient.'"[16]

More importantly, the GoM appears to have paid limited attention to facilitating connections and trade – in terms of customs duties and taxes – between the SEZs and national territory (e.g. in comparison to the Korea case).[17] Sales on the domestic market are considered exports and attract applicable duties and taxes (WTO, 2015, p.66). No provision appears to be made to facilitate processing by companies outside the zone, and later re-inclusion in the SEZ value chain. Anecdotal evidence suggests that local imports to SEZ electronic engineering companies may be limited to non-specialized packaging material.[18]

From around 2015, the Government of Morocco has become increasingly aware of the importance of upgrading the local economy, including through greater integration with and greater benefits being derived from foreign investors, and the SEZ modality. The SEZ Law was updated in 2016, and various donors are helping with new zones and reviving old industrial zones.

Economic/Transformational Impact

Performance statistics on the Tangier Med Free Zone are somewhat elusive, and often subsumed in figures highlighting the significant export volumes passing through the port. In the interest of improving the performance of the SEZ in terms of its contribution to strengthening the national economy there is a need for independent tracking or think tank research in this area.

There are six SEZs or free zones in the Tangiers area, all managed by TMSA, of which the Tanger Free Zone (TFZ) is the largest. TFZ hosts some 475 firms of the total of 800, and has created some 70,000 jobs (Oxford Business Group, 2018). Total private industrial investment is in the region of $3.5bn.[19]

The five other free zones in the region are Renault's Melloussa Park, Tangiers Automotive City (TAC), Fidneq Commercial Free Zone, Tétouan Park and Tétouanshore. The combined social impact of these zones is sizeable. Renault is responsible for around 10,000 jobs, and the Tanger Med operation is the largest auto production facility in Africa.

Takeaways, Lessons and the Future

The six SEZs in Tangiers are extremely efficiently and professionally managed by TMSA, and have generated significant investment and employment. The zones serve their industrial clients well, and Tangiers is an impressive industrial enclave.

15-See: https://www.usaid.gov/morocco/fact-sheets/bridging-skills-gap-through-virtual-reality

16-Riccardo Fabiani of the Eurasia Group political risk consultancy, quoted in the U.S. News, 5 July 2016. See: https://www.usnews.com/news/best-countries/articles/2016-07-05/is-bigger-the-best-path-to-development (accessed 23 Sept 2019).

17-Vidican-Auktor and Hahn (2017, pp.28-31) try to evaluate the degree of local integration and capacity building, note that reliable information is hard to come by, but conclude based on extensive field interviews that integration is very limited, and much lower than had originally been targeted. The issue appears to be partly technological sophistication, partly taxes and duty issues; but clearly the GoM needs to be more proactive in building technical capacity of the workforce and local industry.

18-Site visit as part of Policy Brief preparation and conference, June 2019.

19-See also TangerMed's 2018 Investment Presentation (p.68). Available at: https://www.tangermed.ma/wp-content/uploads/2018/10/Memo_investissement_TM_2018.pdf

It is less clear how effective Tanger Med zones have been at building the capacity of the local economy and national economy outside the zones. Capacity building efforts are focussed on skill-building, and feeding trained employees into the auto-manufacturing ecosystem contained within the zones. There seems to be limited impact on building up a more diversified engineering sector.

➔ Given the weakness of the domestic SME sector in Morocco this focus on human resource skill building is appropriate, but local and national government should further increase work on training and linkages outside the SEZ.

➔ It would also be useful to investigate and address aspects of the tax, customs and other systems that seem to hinder the greater exchange of goods and services across the SEZ membrane.

➔ Given the difficulty of getting useful performance figures on the zones themselves, but more importantly their impact on and contribution to the national economy, some institution (e.g. local think tank, investment promotion agency, or university) should begin to assess zone performance. This should also lead to policy recommendations.

Beginning in 2014, the GoM has begun to reinvigorate its nationwide industrial strategy, and the role of various types of SEZ within it.

➔ The New Industry Plan was drawn up for 2014-20 with a strong emphasis on nationwide skills upgrading and attracting foreign investment.

➔ In 2016, the GoM adopted a business charter that amended the 1995 Zones legislation, and committed to establishing SEZs in all 12 regions of the country. The idea is to attract more international firms to Morocco for production, and to upgrade industrial capability nationwide (Oxford Business Group, 2018).

➔ In Tangier, Morocco and China have partnered to develop a new industry-focussed zone – Mohammed VI Tangiers Tech City, aiming for investment of up to $10bn, and creating 100,000 jobs.

➔ America's Millennium Challenge Corporation (MCC) is helping set up a $127mn Fund for Sustainable Industrial Zones that will seek to improve infrastructure and services in many of the 100 old and underperforming industrial zones.

➔ Regional authorities and other government agencies have also begun to develop SEZ-type public private partnerships (PPP) involving foreign investment and skills provision/development. For example, EON Reality, a leading US Virtual Reality firm is partnering with The Mohammed VI Polytechnic University (UM6P), the Agency of Digital Development (ADD) and USAID to invest $28mn in an Interactive Digital Centre in Ben Guerir near Marrakech.[20]

Moving forward, the Tanger Med SEZ complex will expand further, but more importantly in the last few years it is being seen as part of a much more comprehensive national industrial strategy. This involves the rejuvenation of other zones alongside a major focus on skills upgrading, and it is hoped efforts to strengthen the local private sector through both foreign investment and a more "open" zone approach.

20-See: https://www.usaid.gov/morocco/fact-sheets/bridging-skills-gap-through-virtual-reality

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5.3 MAURITIUS

Introduction (Timeline/Rationale/Challenge)

Mauritius'[21] Export Processing Regime (MEPZ) was set up in the 1970s but grew most strongly in the 1980s benefitting from the Multifibre Arrangement (MFA) and the subsequent preferential trade regime with the US – the Africa Growth and Opportunity Act (AGOA) from 2000.

The MEPZ regime was wound down with the end of the MFA, and Mauritius has been effective in moving towards a new broader economic development strategy based on a more appropriate range of industries, such as transport and logistics for Africa, financial services, tourism and some agro-processing. Since the end of the MEPZ regime Mauritius has had much stronger FDI inflows, and used them to good effect.

Above all, Mauritius had a very proactive economically-minded government (and learned much from Singapore). It also has extremely capable and proactive lead institutions (Enterprise Mauritius and the Economic Development Board) and a very professional approach to public private dialogue.

Policies and Strategy

Mauritius' Export Processing Zone (MEPZ) regime was set up in 1971 in the context of a socialist import substitution economic development strategy, and very much driven by the government. Domestic firms were allowed to invest, funded by sugar rents (from inflated prices), sometimes in joint ventures. In fact, unlike the East Asian zones, in 1984 for example, only 12 percent of employment was accounted for by wholly foreign-owned firms (Frankel, 2012).

By 1982, economic policy had turned away from import substitution, and the MEPZ regime became a core economic activity amid an export-led growth era that lasted until about 2005. Over this period, growth accelerated under the MFA (1974-2005) based on exports primarily to Europe, and later under AGOA (from 2000) to the US.

The Government of Mauritius had an active industrial policy that built upon the MEPZ regime even whilst it was deriving enormous benefits from MFA arrangements. It began to develop an offshore financial sector in the 1990s, a Cybercity/IT initiative in the early 2000s, and an integrated resort scheme around 2005.

Institutional management of investment built upon the original MEPZ regime, and became increasingly effective and professional as the zone regime matured and evolved beyond textiles and garments. The Export Processing Zone Development Authority (EPZDA) was formed in 1992, and merged with the Mauritius Export Development and Investment Authority (MEDIA) in 2000 to form the Mauritius Industrial Development Authority (MIDA). MIDA became Enterprise Mauritius in 2005.

The tax and tariff regimes inside and outside the MEPZs were gradually harmonized, and the Export Processing Zone scheme was phased out in 2006. Enterprises that operated under the scheme were subsequently known as Export Oriented Enterprises (EOEs) and no longer received any special benefits or incentives (WTO 2015).

Mauritius' Freeport, established in 1992, has meanwhile grown in size and significance in line with the country's strategy to become a warehousing, redistribution and logistics centre for Africa. This is in line with its Africa Strategy to become a trade and investment platform for the African continent. China has also chosen Mauritius as one of its Africa Trade and Economic Cooperation Zones.

21-This case study draws heavily on the excellent longer investigation by Baissac (2011).

Economic/Transformational Impact

Mauritius and the MEPZ regime can be considered an economic success story. Zafar (2011) gives a good summary of the economic impact of the EPZ regime.

→ By the late 1980s, 60 percent of Mauritius' gross export earnings came from the zones, and they employed a peak of approximately 90,000 in 1988. This was one third of the 270,000 Mauritians employed in establishments with more than 10 employees, or 22 percent of the total labour force of 411,000 in 1988. EPZ employment dropped to 80,000 in 1995, and to 50,000 in 2011 when EPZ firms had lost benefits and become EOEs.[22]

→ In the boom years of 1983-88, there was an annual increase of some 30 percent in domestic value added (Zafar, 2011).

→ Much investment into EPZs was domestic from sugar industry rents with FDI inflows only around $2mn, increasing to $24mn by 1988. Inward FDI fluctuated but in the $200-400mn per annum range after the global financial crisis.[23]

Takeaways, Lessons and the Future

MEPZ was part of a strongly government led industrial strategy with an increasingly professional institutional management, ultimately directly overseen by the Economic Development Board of Mauritius. Mauritius was substantially inspired by Singapore's experience and model, and the current Mauritius EDB CEO, for example, was on the Singapore EDB Board for many years.

Mauritius had a well-articulated policy framework that led to a strong private sector response, and the government acted as a facilitator of private sector expansion. Domestic investment in the EPZ dominated. Mauritius has struggled to evolve the manufacturing base, but has done well with an appropriate strategy involving financial services, other professional services, tourism and transhipment and logistics for Africa.

The decline of the MEPZ regime was a function of the end of the MFA; it was followed by the strategic development and roll out of a national industrial strategy more appropriate to Mauritius, and not dependent on a distortion in the global trade regime. The MEPZ regime was a success in many ways.

→ The MEPZ regime did catalyse significant domestic private sector investment into non-traditional export industries, resulting in a dynamic world-aware, private sector better able to adapt to changes in the world economy.

→ It helped transform Mauritius into a premier country in many business and economic rankings such as Doing Business, which investors worldwide invariably consult when considering investment destinations.

→ It also made the government even more proactive in engaging in further economic diversification, and progressively opening the economy to trade and investment. In fact, it has fostered an active ongoing level of public private dialogue (PPD) which is, like in Singapore, invaluable to sustainable and balanced economic growth.

Finally, Mauritius' experience underlines the importance of a proactive government engaging in strong PPD with the private sector in order to build a vibrant, adaptable and sustainable economy.

22-For employment data see Statistics Mauritius: http://statsmauritius.govmu.org/English/Publications/Pages/LF_Emp_and_Unemp_Yr16.aspx
23-See UNCTAD database for FDI timeseries data: https://unctadstat.unctad.org/wds/
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5.4 COSTA RICA

Introduction (Timeline/Rationale/Challenge)

In 1996, the Intel Corporation announced it would set up a semiconductor assembly and testing facility in Costa Rica. Intel invested into the Export Processing Regime (EPZ) even though it would not locate in an existing EPZ – the process of designating new areas as EPZs is a common way of expanding a successful EPZ regime[24], and attracting anchor investors.

Costa Rica had begun focussing on strategic sectors in the early 1990s, in particular electronics investments, in the context of the EPZ regime. Costa Rica was particularly keen to avoid the intense competition of the apparel and textiles sector, and use its strong education system and technically-educated workforce to advantage.

Intel's semiconductor assembly and testing investment lasted until 2013 in Costa Rica when it was relocated to China; however, Intel has remained invested in Costa Rica with a smaller, but arguably higher technology (with more value added) shared services and R&D facility. Intel's presence had also served as a magnet for other investors in the electronics and other sectors.

Costa Rica has had an extremely sales-oriented and adaptable investment strategy, seeking to build on educational and other competitive advantages, and build strong public private partnerships (PPPs) between the government, educational institutions and the private sector. It has used its EPZ strategy very carefully: for example, ensuring that zone investors can use inputs from the surrounding economy, and making sure that the workforce is trained to the appropriate standards whether graduates work in EPZ companies or in the wider economy. When Intel left and reduced its workforce, in partnership with the government it went to great lengths to market ex-employees to other companies, or to help them establish their own businesses.

Policies and Strategy

By the early 1980s Costa Rica was quickly moving away from import substitution policies, embracing economic liberalization, and enthusiastically pursuing foreign investment. It began setting up a series of Free Trade Zones in 1981, accompanied by streamlined administration, upgraded logistics and industrial infrastructure, and generous tax and custom incentives. There were no ownership restrictions on foreign investment, and all companies were treated similarly.

In the early 1990s proactive officials at the investment promotion agency (CINDE) shifted investment promotion efforts from the apparel industry, which appeared to be a race to the bottom, to more strategic sectors. The government specifically and actively sought to build on two competitive advantages - the country's biodiversity and its well educated workforce – leading to efforts in ecotourism and biotechnology on the one hand, and medium- and high-technology electronics on the other. Costa Rica also had a very industry-oriented and pragmatic education policy that sought to tailor high-school and further education to the needs of prevailing industry.[25]

Costa Rica's attractive zone regime (which had grown modestly since the mid-1980s) was one of the key tools available to CINDE. The number of enterprises located in the nine zones grew from 11 in 1986 to 134 by 1993, and 190 by 1997. They were spread over a range of industries, with 43 percent engaged in textiles, electronics, foodstuffs and jewellery manufacturing in 1994. Enterprises located in zones benefitted from significant tax and customs incentives (see Spar, 1998; and Larrain and Rodriguez-Clare, 2000).

Even before Intel was attracted with the EPZ incentive, administrative streamlining and infrastructure package, some 33 companies were already operating outside the existing EPZ sites but under EPZ regime conditions (WTO, 1995, p.78). Nevertheless, the 1990 Free Zone Law was updated in 1998 to make some additional Free Zone benefits available to firms physically outside a zone.

CINDE understood well that investment promotion was a very competitive sales job, and the Costa Rican government ensured over time that it was properly staffed and trained. It employed industry and sales people in key positions rather than government officials; it was also supported at various times by donors including USAID, and received technical training and support for Irish consultants who had been involved in the successful Irish zone regime beginning with Shannon Free Zone (established in 1959).

The successful attraction of the Intel investment in 1996 was by far Costa Rica's biggest success, but some smaller electronics investments preceded it. Between 1992 and 1995 CINDE had begun to target small investments in the electronics sector. Investments by Motorola, Connair and Baxter Healthcare all preceded Intel. Regarding the Intel investment itself, high level political support and engagement from President Figueres (1994-98), aggressive pursuit of electronics investments by CINDE, and a collaborative institutional approach across government and non-government institutions were all critical.

By 2018, some 443 firms were operating under the Free Zone Regime and enjoying its benefits. There had been few changes in the legislation, although in 2016 some changes were made to income tax exemption benefits in order to comply with the WTO Agreement on Subsidies and Countervailing Measures (WTO, 2019).

Economic/Transformational Impact

Prior to the arrival of Intel, the number of firms in Free Zones or under the Free Zone regime grew from 11 to 134 between 1986 and 1993, with employment also increasing 12-fold to 18,500. Employment was 25,000 in 1995, and had risen modestly to 31,000 by 2000, including Intel's contribution. The WTO (2001) notes that actually much of this increase was due to small and medium-size (SME) employers (less than 100 workers), showing that the Free Zones were open to a wide variety of companies.

The impact of Intel alone on Costa Rica's economic performance was significant (Monge-Gonzalez, 2017). The net impact of Intel on Costa Rican GDP averaged 0.7 percent. It's 2000 workers were paid approximately three times the average manufacturing wage. Intel's contribution to Costa Rica's trade had been as high as 35 percent but domestic value added (DVA) had been a modest 18% until 2013. With the upgrade to shared services and R&D after 2013, DVA has increased to 44 percent. Writing in 2017, Monge-Gonzalez (2017) comments that, "during the 19 years in which Intel has operated in Costa Rica, the company has had a significant and positive macroeconomic impact on areas like growth of production, foreign trade, direct foreign investment, employment, salaries, contributions to social security, and by increasing the DVA." Importantly, some of the deeper impacts have come with Intel's functional upgrade in Costa Rica after 2013.

EPZs consistently held a large share of national exports - over 50 percent after 1999 boosted by Intel's performance. EPZs have been see as a key driver of Global Value Chain (GVC) participation.

24-This has been a standard approach in China.
25-The author thanks Armando Heilbron, formerly of CINDE (and currently at the World Bank), for valuable insights into the culture of CINDE and investment promotion in Costa Rica in the 1990s.

By 2018, some 443 firms were operating under the Free Zone Regime: 55.5 percent in the services sector, 44.8 percent in manufacturing and 3.6 percent in agribusiness. In 2018, 85 percent of Free Zone firms were located in the Greater Metropolitan Area of San Jose, despite efforts to spread investment. Finally, the WTO notes that, in 2017, the total cost of Free Zone exemptions was $866.8mn 69.2 percent more than in 2013. So how effective overall has the Free Zone regime been?

Takeaways, Lessons and the Future

Costa Rica had set up a strong and flexible EPZ/SEZ regime that ultimately attracted Intel, which became a great ambassador for further investment in the zones and Costa Rica generally. Costa Rica's Free Zone regime offered administrative streamlining, good infrastructure, and incentives. Intel was a successful anchor investor.

Alongside strong zone policies, the united, collaborative political and institutional front was extremely effective. CINDE was a strong IPA that had sales and industry technical skills; the new President was extremely proactive, and the different institutions of government, the private sector and civil society worked well together towards a common goal. The same professionalism has been applied to all investments in the Free Zones and outside – not just Intel.

Intel had a strong impact on trade flows, but only limited technological externalities until the investment upgrade after 2013.[26] The move from assembly and testing to greater value-added activities brings greater benefits to the local private sector.

Monge-Gonzalez (2017) and Gonzalez (2011) are both[27] sanguine about the continuing efforts Costa Rica needs to make to attract investment and derive national benefit from it. The zone regime will remain an important part of the country's industrial strategy as a focus for key industry activity, provision of incentives, organization of logistics, and so forth. What does Costa Rica need to do better?

➔ The country did not do a good job (these commentators contend) of making domestic firms and institutions ready for knowledge spillovers; and technological externalities have been low. The absorptive capacity of local suppliers needs to increase, which begins with increasing the supply of skilled workers.

➔ The institutional and policy framework supporting the local private sector also needs to be improved. This includes access to funding, telecommunications infrastructure, promotion of innovation, and human resources development.

➔ Costa Rica needs a national strategy for innovation, and should partner with key investors to help design and implement it. But, at heart, this is a core government responsibility.

➔ Given the general absence of regional production systems (also a challenge for MENA), Costa Rica needs to consider sectors carefully, as well as links with other regions.

➔ Given its "isolation", Costa Rica needs to offer absolute best in class logistics in order to be part of appropriate GVCs.

Costa Rica has shown what is possible with a good SEZ Regime, strategic and professional investment targeting, and excellent institutional coordination and political support. It is also clear that it needs to target higher quality investment alongside strong industrial and human resource policy, in order to upgrade the national economy and make it more sustainable and inclusive.

26-Intel's situation in the first era is similar to some aerospace companies in Morocco's Tanger Med zones. Testing activities add limited value domestically, and to derive transformative benefit to the broader economy, local value chains need to be enhanced and technological skills upgraded.
27-Ricardo Monge-Gonzalez is Professor of Economics and Head of a High Technology Policy Think Tank in Costa Rica, whilst Anabel Gonzalez is the former Minister of Trade of Costa Rica.

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