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Policy Briefing

China–Africa Economic Zones as Catalysts for Industrialisation

Chinese-sponsored Economic and Trade Cooperation Zones offer African countries opportunities for new sources of investment, employment, skills transfer and technology transfer that promote industrialisation. For more than 15 years, these economic zones have provided a window into the complexities of transforming African aspirations for industrialisation into realities. Through policy frameworks and incentives, Chinese firms have been encouraged to link with local economies. Despite varied outcomes, African support for industrial parks remains strong. To be sustainable, African Special Economic Zones need constructive partnerships and strong African governance, backed by high-quality data to inform both Chinese and African government decisions.

Key messages

– **China has used its expertise to build a strong trading relationship** with many African nations and increase its foreign direct investment (FDI) in Africa through vehicles such as Chinese-led Special Economic Zones (SEZs).

– **SEZs have had varying degrees of success across Africa**, compelling proponents to adapt the Chinese SEZ model to the local context. Challenges include social infrastructure, displacement, and skills transfer for local communities.

– **Closer integration between SEZs and national development strategies** for African governments is increasingly recognised as crucial to success.

– **Aligning Chinese investment and development assistance** with broader national development planning would strengthen host government commitments and enhance the impact of China's development contributions.

"Sustainable African Special Economic Zones need constructive partnerships and strong African governance.

Chris Alden and Jing Gu

Glossary

AfCFTA	African Continental Free Trade Area
AfDB	African Development Bank
AGOA	African Growth and Opportunity Act
EPZ	Export processing zone
ETCZ	Economic and Trade Cooperation Zone (a Special Economic Zone developed cooperatively between China and countries agreeing to host a zone)
EU	European Union
Industrial park	An area of land developed for factories and other industrial businesses
SEZ	Special Economic Zone (a designated area where business and trade laws differ from those of the rest of the country, and which are designed to attract foreign investors)
TEDA	Tianjin Economic-Technological Development Area
UNECA	United Nations Economic Commission for Africa
US	United States

Varying success of SEZs

The utility of SEZs as policy tools to promote industrialisation and integration into global value chains has been much debated for decades. Structured around an array of fiscal and non-fiscal incentives, streamlined administrative procedures, preferential policies and logistical commitments, this approach aims to attract foreign investment to a country to promote employment, technology transfer and innovation. Wide variation in policy frameworks and national or regional economic conditions has produced significant disparities in outcomes and impacts, and African SEZs have been no different.

Beyond what are export processing zones (EPZs), a host of related initiatives have come online, such as spatial development corridors to boost supply chains and strengthen inter-regional trade. Undoubtedly, the much-vaunted success of China's SEZs and their contribution to domestic industrialisation and economic integration into the global economy has captured the most attention.

Starting in the late 1970s, what had been a patchwork of SEZs operating in countries such as Senegal, Liberia, Mauritius and South Africa expanded to more than 3,500 by 2006. Behind this renewed surge of interest was the passage of legislation in the United States (US) and the European Union (EU) in 2000, specifically the African Growth and Opportunity Act (AGOA) and the Everything But Arms preferential agreement, both of which boosted African access to these key markets. This encouraged the opening of a new range of industrial parks and EPZs, principally in the low-cost labour production sectors such as textiles, shoes and agro-processing, although there were a few cases of economic zones being set up in the mining and services sectors as well.

Notably, reflecting the changing position of Asia in the global economy, investors from Malaysia, South Korea, Turkey and China also featured in this latest round of economic zones.

African Economic and Trade Cooperation Zones

Overall, African SEZs have performed weakly, especially when compared to counterparts in other regions. They have failed to attract sufficient investment, generate significant employment, foster technology transfer or create linkages with local suppliers. Behind these shortcomings lie a host of problems, including weak regulatory regimes, poor power supply provisions, complex trade facilitation processes, and unresolved land disputes. The physical location of economic zones, sometimes far from power and transport infrastructure, worked against maximising the positive spillovers. Some economists even considered Asian imports of competitive products such as textiles to be undermining African efforts to pursue export-oriented industrialisation. Despite these issues, by 2020, there were economic zones in 38 African countries, with a combined annual turnover of US$680m.

China's role in the creation of Africa's SEZs has been substantial, yet there are 'push-and-pull' factors for Chinese firms. The 'push' factors include: the intensification of domestic competition in the Chinese market; growing skilled-labour shortages and rising labour and overall production costs; and central and provincial government encouragement to go abroad to seek markets and resource. The 'pull' factors include: the market-driven identification of new market opportunities in an increasingly affluent Africa; generous host government incentive packages; opportunities for creating 'clusters' of integrated businesses and services in industrial parks; viable infrastructure; increased political, social and economic stability; improved local governance; and export opportunities for preferential access to the US market under the AGOA.

In 2006, China announced the establishment of 50 overseas SEZs – or Economic and Trade Cooperation Zones (ETCZs), as they were officially known – including six in Africa. After a slow start, the opening of the Huajian Group's shoe factory in Ethiopia's Eastern Industrial Zone in 2011 proved to be a game changer. The success of the ETCZ spurred on the development of more than a dozen industrial parks situated along transportation corridors across the country. At the same time, selective issues with Chinese developers and local conditions in host countries impacted negatively on the speed of the rollout. For example, in Mauritius, despite relaunching the ETCZ under new Chinese management in 2009, there remained only limited activity. The once booming ETCZ attached to Egypt's Suez industrial zone was suspended during the political upheavals in 2011 due to domestic unrest, and is beginning to revive.

> **“Wide variation in policy frameworks and national or regional economic conditions has produced significant disparities in the outcomes and impacts of Special Economic Zones.**

African perspectives on ETCZs

African perspectives on ETCZs are broadly positive, seeing them as an opportunity to fulfil long-held aspirations for industrialisation. Trends towards accelerating urbanisation in Africa (albeit not driven by productivity gains) present opportunities to harness labour to promote industry. Connecting urbanisation and industrialisation through specific policy initiatives – in particular, leveraging the growing consumer power of the middle class – offers an opportunity to transform the structural basis of African economies.

The leading regional economic institutions in Africa – the United Nations Economic Commission for Africa (UNECA) and the African Development Bank (AfDB) – have produced research reports on Chinese contributions to Africa in this area. Academics and research institutions, as well as African policymakers, the media and civil society, have also provided analysis of ETCZs, both in general and for particular cases.

UNECA's 2017 flagship *Economic Report on Africa* pointed to the central role played by industrial zone clustering in promoting the growth of manufacturing and services in countries as diverse as Morocco and Ethiopia. At the heart of these successes is cross-sectoral coordination of national development planning, which aligns investment with support for infrastructure in targeted urban areas.

More recently, UNECA argued for coupling of industrial policy with the emergent continental trading regime under the African Continental Free Trade Area (AfCFTA) and, in that context, the reorientation of economic zones to ensure that they take full advantage of these changes. UNECA has also advocated for the clustering of creative industries, as was the case in Nigeria's Nollywood, while South Africa's fashion industry could serve as a model for other regions and generate employment for Africa's growing youth population.

Learning from ETCZs

There is a body of literature and public commentary coming out of Africa that is critical of the design and other aspects of the implementation of ETCZs.

1. There are concerns about the general policy framework of industrial parks and/or EPZs and their macroeconomic impact. Industrial parks and EPZs have a mixed track record in realising their potential. Development economists – including those examining African plans and actual instances where industrial parks have been established – regularly point to their mixed outcomes. For instance, incentives such as tax holidays and other financial inducements aimed at luring foreign investment may not, in the end, generate much revenue for the state. Concurrently, the suspension of regulations in the labour sector or the environment are often criticised as bringing downward pressure on wages or environmental standards in the rest of the national economy. Finally, there is evidence of only limited backward linkages to the local economy.
2. There have been problems at the level of policy formation and implementation. Critiques point out issues such as the gap between signing a memorandum of understanding (authorising the setting up of the ETCZ) and the difficulty in getting top-flight Chinese firms to invest. In Mauritius, for example, confusion over land leases meant that two years passed without any concrete steps to develop the designated site, discouraging Chinese investors. In another example from Zambia, the location of the ETCZ (in Chambishi), which lacked proximity to upgraded power and transport infrastructure, limited its impact on the local economy in the first decade of its existence. The specific conduct of some Chinese firms involved in ETCZs also fell under the spotlight – for instance, criticism of how Chinese mining practices led to contamination of local water sources in Chambishi, and accusations of illicit conduct by the China Civil Engineering Construction Corporation in Nigeria's Lekki ETCZ.

China's role in the creation of Africa's Special Economic Zones has been substantial, yet there are 'push-and-pull' factors for Chinese firms.

The ETCZs that have the greatest success are those which either fit themselves into the host country's development plans or effectively embed themselves into pre-existing industrial parks or EPZs. As an example of the former, Huajian Group's decision to invest in a site – Ethiopia's Eastern Industrial Zone – which at the time was still undeveloped and had limited links to electricity and transportation infrastructure, was a bold move. The Ethiopian government mobilised Chinese development finance to construct and improve key transport infrastructure aimed at fostering industrial and agro-industrial clusters.

Integrating the Tianjin Economic-Technological Development Area (TEDA) ETCZ by attaching it directly to Egypt's Suez Industrial Zone proved to be a successful strategy. In this case, the policy frameworks, legal requirements and physical infrastructure were already established, which reduced uncertainty for potential Chinese investors and contributed to extracting benefits.

The Ethiopian Eastern Industrial Zone and TEDA ETCZ both involve Chinese initiatives integrating into African-designed and African-led industrial zones. Other successes include South Africa, where the Hisense assembly plant was located in the long-standing Atlantis industrial park and, more recently, the Beijing Automotive Industry Corporation investment in Coega Industrial Zone in the Eastern Cape.

The next stage

The launch of the AfCFTA in 2021 will set in motion the opening of markets through trade liberalisation, generating a new cycle of development in Africa. UNECA advocates a proactive alignment of economic zones with the upcoming changes to industrial and trade policies so that they are better able to exploit linkages between trade and industry.

It has been suggested that SEZs and industrial parks could be organised on a cross-border basis. This set-up would provide incentives for related local and foreign industry investments to take full advantage of trade liberalisation under AfCFTA. Infrastructure development – coupled with the clustering effect that economic zones can have on manufacturing, processing and services – needs to assess the opportunities presented by greater access to regional markets and consumers.

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Tied to these developments, the AfDB is promoting the expansion of Special Agro-Industrial Processing Zones as a means of strengthening inter-regional agricultural production and processing, as well as improving the livelihoods of Africans in the continent's largest employment sector.

Ethiopia has taken the lead with its four agro-industrial parks as part of its industrial growth corridors, while Togo has set up a Special Agro-Industrial Processing Zone hub for food processing in West Africa. With more than 20 Chinese Agricultural Technical Demonstration Centres operating around the continent, there is ample opportunity to tap into their combined technical expertise and nascent commercial production networks.

Furthermore, the growth of e-commerce platforms that facilitate cross-border trade is moving at a rapid pace. In Kenya, an online shopping website called Killimall, set up by Chinese businessman Yang Tao in 2014, now hosts 5,000 Kenyan businesses and has reportedly created 10,000 jobs. The lowering of barriers to trade through the AfCFTA offers opportunities to integrate the expansion of e-commerce into SEZs.

Policy recommendations

These recommendations for decision makers in China and Africa offer ways to improve and strengthen SEZs.

– **Cross-sectoral national development planning should feature in the development of China–Africa SEZs**, especially the promotion of backward linkages to local economies, to deepen value chains and foster closer ties with communities. Social infrastructure such as housing, education and health provisions need to be integrated into the early stage of the planning process of economic zones.

– **China–Africa SEZs should be aligned with AfCFTA innovations, including reduction of trade barriers, to take advantage of the expansion of inter-regional and intra-regional trade.** There should be greater cooperation on trade facilitation, regional trade integration and the building of ETCZs. China and the UK could work together to help African countries improve their customs, tax, inspection and quarantine facilities, as well as achieve efficiency gains and improve trade facilitation.

– **Expansion of China–Africa SEZs should include Special Agro-Industrial Processing Zones and integrate e-commerce provisions.** Aims should include enhancing the construction of agricultural infrastructure, improving the trading capacity of agricultural products, cultivating agricultural markets, and helping to speed up production times and reduce costs. There should be technical support for processing of African agricultural products and industrial raw materials, including support for capability in complying with and certifying compliance with EU, British and Chinese norms and regulations. This will strengthen Africa's production of higher value added goods, as well as providing better market access for African countries' exports. Encouraging the integration of e-commerce platforms will help strengthen this emerging area of business opportunities and foster innovation in intra-regional and extra-regional trade. ■

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Further reading

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