Export Processing Zones: Has Africa Missed the Boat? Not yet!

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Abstract

Attempts in Africa to use Export Processing Zones (EPZ) as an instrument for economic development, with the exception of Mauritius, have been less successful than in countries in East Asia, Central America, and the Caribbean basin. This paper examines the literature on Export Processing and Free Trade Zones. Successful zones in Mauritius, Tangiers, Panama and the Dominican Republic, were visited and investors, developers and government officials in the zones were interviewed in order to determine what were the factors that resulted in their success.

The paper concludes that there is substantial potential for African countries to benefit from export-oriented growth based on the development of EPZs. Any country attempting to develop an EPZ program will have to enlist the concerted and coordinated support of its development partners in the implementation of its program.

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Introduction

Countries in East Asia, Central America, and the Caribbean basin have successfully used Export Processing Zones\(^1\) as an instrument for economic development. Attempts to do the same thing in Africa have, with the obvious exception of Mauritius, been significantly less successful. Many reasons have been advanced to explain this situation. Some have argued that economic theory should lead us to reject Export Processing Zones as a development option. Some have argued that the basic concept is flawed. Some blame Africa’s lack of adequate infrastructure and services to support the business community. Others blame the timidity and/or ignorance of investors or the lack of indigenous entrepreneurs. Some simply throw up their hands and write Africa off as a hopeless case.

In an attempt to resolve this conundrum, we examined the literature on the subject and visited successful Export Processing and Free Trade Zones in Mauritius, Tangiers, Panama, and the Dominican Republic to interview investors in the zones, developers of the zones, and government officials in order to determine what were the underlying conditions that resulted in their success.

We conclude that, while all of the issues cited above are important, attitudes and culture have also played an important role, that is, the issue is as much a socio-political one as an economic one. There are obstacles to establishing successful Export Processing Zones on the African continent, but they can be overcome through a better understanding of their essential pre-requisites, of their interactions with the rest of the economy, and of the steps required to establish them. Nevertheless, Africa, with its small markets and (in most cases) limited natural resource base, has no choice but to integrate its economies into the global economies. The simple fact is that those countries that succeed in this effort will grow and develop; the others will be left behind. Export Processing Zones can be a useful tool for those countries that wish to develop through greater integration with the global economy.

Africa on the World Economic Stage

Africa, unfortunately, is a minor player on the world economic stage. The total GNP of sub-Saharan Africa—approximately US$330 billion\(^2\)—is equivalent to around one percent of world GDP—and South Africa alone represents a substantial proportion of that figure. The total GDP of Sub-Saharan Africa is a little more than that of Belgium—but, while Belgium has a population of ten million people, Sub-Saharan Africa has a population of just over 600 million! It is evident from these data that SSA’s market is

\[\text{In this paper, the term “Export Processing Zone” or “EPZ” is used to refer to the whole range of Export Free Zones, Industrial Development Zones, and Trade Zones that exist. This prevents the paper from exploring the intricacies of the subtle differences between these concepts. At the same time, it spares the reader the need to get involved in an arcane debate that is in many cases purely semantic and that does not in the end throw much light on the essential issues being investigated.}\]

\[\text{1998; data from the World Bank WebSite.}\]
very small in absolute terms; in terms of per capita purchasing power, it is miniscule. Even the economic powerhouses of South Africa and Nigeria do not have large enough markets to sustain substantial economic growth. What prospects can there be for their smaller neighbors?

Nor, contrary to common belief, is the African continent exceptionally well endowed with natural resources. Certainly, there are countries with oil and others with mineral resources, and some have good agricultural potential. But the failure to diversify out of traditional commodity exports has left Africa highly vulnerable to declining commodity prices, adverse terms of trade movements, external shocks, and internal conflicts.

In addition, private foreign capital that has been an important source of development financing in East Asia and Latin America has not been attracted to Africa in any significant amounts (Bost, 1999). In 1997, Africa attracted only US$4.6 billion—one percent of worldwide foreign direct investment (FDI) and only three percent of FDI going to developing countries. Even out of this small total going to Africa, two countries, Nigeria and South Africa, garnered US$2.7 billion; only six countries received more than US$100 million (Angola, Botswana, Ghana, Namibia, Uganda and Tanzania) for a total of US$1.3 billion between them; leaving the rest of the continent to share the remaining US$0.6 billion.

Even traditional investors have been deserting Africa: in 1968 45 percent of French FDI went to SSA; by the 1990’s the annual percentage had dropped to less than five percent. In 1997, out of worldwide French FDI of French francs 208 billion, less than FF 3 billion went to SSA and less than half of that to the Franc Zone (Bost, 1999).

The economic marginalization of Africa is further reflected in the export statistics. Most African exports are concentrated in oil, gas and minerals; diversification is clearly needed. However, real per capita exports have been declining since the 1960’s, resulting in an SSA share in world exports of less than five percent. The result is a significant shift from dependence on trade to dependence on aid—an unhealthy situation for a region that needs to accelerate its economic growth.

So if Africa cannot grow by producing for African markets and external markets show a declining appetite for Africa’s traditional exports, is there any hope for Africa? The answer is a resounding “yes” if Africa can make greater progress in penetrating world markets. A few African countries have increased exports by diversifying into non-traditional exports, typically vegetables, fruits, flowers, and textiles. Some have made progress by adding value to traditional export products before exporting them. A few others have established a niche for importing raw materials, adding value and re-exporting them.

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3 François Bost, “L’Afrique subsaharienne oubliée par les investisseurs”; Afrique contemporaine, Number 189, 1st trimestre, 1999
4 It is worth noting, however, that Africa’s share of world FDI is commensurate with its share of world GDP.
However, except in Mauritius, these activities are taking place on too small a scale to make a real difference. What is required is for countries to adopt a resolutely pro-export stance—and then to put in place the prerequisites to induce entrepreneurs, both national and foreign, to take up the challenge. African countries need to place much more emphasis on export-oriented development programs that make them internationally competitive.

What role should and can Export Processing Zones play?

The Economics of EPZs

The debate on the merits of EPZs has been going on for at least two decades. If any consensus can be derived from the literature, it would seem to be that EPZs are a second best solution compared with generalized country-wide reforms, but that, where country-wide reforms are difficult to implement, they can be a useful weapon in the development arsenal. Two more recent papers update and confirm this view.

Madani provides an exhaustive treatment of the arguments for and against EPZs. She argues that both the neo-classical and new growth schools fail to capture the linkages and externalities of EPZs and opts for a cost-benefit approach expanded along the lines of a social accounting framework, reviewing the arguments for and against EPZs and looking at the evidence from a number of countries. She concludes that “EPZs did not fulfill the role of “engines of industrialization and growth” as some proponents had anticipated. They have been an instrument—among others—in the economy, where they have been given their proper place as a policy tool, and where proper perspective is taken as to their ultimate achievements and costs. She finds that, “under propitious circumstances and good management, EPZs generally achieve the two basic goals of creating employment and increasing foreign exchange earnings”.

Madani cautions, however, that claims based on gross foreign exchange earnings are likely to be exaggerated, since net foreign exchange earnings as a percentage of gross vary widely between countries, ranging from a high of 63% in South Korea and Taiwan in the mid-1980s to a low of 12% in Jamaica. It is worth noting that the more developed the local economy, the higher the net foreign exchange earnings since backward linkages are greater. In addition, sound macroeconomic policies and exchange rate regimes contribute to the success of EPZs.

She also notes that there will be fiscal revenue losses from incentives to entrepreneurs; however, it should be noted that giving a fiscal concession to an entrepreneur only creates a revenue loss if the entrepreneur would locate in the country without the incentive. It may well be argued that the rent revenue loss is likely to be minimal since, in today’s competitive incentive environment, the lack of incentives would probably mean that the country would not attract investors.

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7 Dorsati Madani, A Review of the Role and Impact of Export Processing Zones, World Bank, 1999
Finally she points out that EPZs have contributed to the development of human capital, both through skill acquisition and productivity gains\(^8\) by workers and through the development of managerial and supervisory skills. EPZs typically employ a large proportion of female workers so it can be argued that they play an important role in women's economic empowerment by getting women into the formal work force at reasonable wage rates.

Similar findings are reached by Jenkins, Esquivel and Larrain in their investigation of EPZs in Latin America\(^9\). They conclude that “EPZs are a second-best policy, whose welfare implications are often ambiguous”. They note, however, that the limitations of theoretical treatments of EPZs—ignoring distributional issues and dynamic elements such as transfer of technology and skills—render them inconclusive, turning to empirical investigations to shed light on the benefits of EPZs.

Their empirical investigations confirm that the generation of employment is frequently the main benefit from EPZs: “In developing nations with relatively high levels of unemployment, EPZs might represent an efficient mechanism for reducing the economic and social burden of large pools of unemployed people....EPZs can have significant net positive effects on the host economy since wages paid to people employed in EPZ firms tend to be much higher than their opportunity cost.”

They reinforce the notion that the EPZs are likely to be more successful when strong backward linkages can be developed: creating a demand for intermediate goods and services can enhance the viability of local industrial and service sectors and improve the host nation’s labor and managerial skills\(^10\).

In order to increase the probability of success of an EPZ program, they suggest focusing on the following policy conclusions\(^11\):

- the establishment of EPZs should not be regarded as a substitute for pursuing economy-wide reforms;
- the need to encourage more and stronger backward linkages between export-oriented firms and the rest of the local economy;
- the need to diversify the composition of the export-oriented sector; and
- the need to upgrade export-oriented legislation.

While much of the economic debate has focused on the issue of establishing the role of the EPZs, little attention has been paid to the issue of allowing them to play that role fully. Important reasons as to why there have been fewer major successes than one might have thought may lie in the degree of government interference and in the

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\(^8\) HII [reference] reports productivity gains in the Dominican Republic of 50% in the first year of operation, 30% in the second and 15% in the third


\(^10\) It is important to note, however, that the development of backward linkages must be a market-driven phenomenon. Governments that try to force backward linkages through legislation requiring, for example, that a certain percentage of inputs come from the hinterland are likely to hinder or distort the development of backward linkages.

\(^11\) Not in the original order.
increasing distortions introduced in the operation of "free trade and capital regimes". Some examples illustrate the point. Jamaica never really took off as an EPZ because of government interference and the introduction of regulations (e.g., labor markets among others). Panama never made it as an EPZ (although it is one of the most successful free trade zones) because of highly regulated labor markets and huge labor market distortions. The Gambia has a highly regulated labor market, which raises port loading and unloading costs sharply. In Brazil, likewise, entrenched union regulations mean that, in some ports, fifteen workers are required to unload a container although, with current technology, the number could be reduced to three or four.

The Downside: Constraints to the Establishment an EPZ Program

The Role of Geography

The role of geography is clearly important. The disadvantages of Africa's geography are set out by Bloom and Sachs. First, tropical regions underperform non-tropical regions substantially; their GDP per capita is only one third of that in non-tropical zones. Bloom and Sachs argue that part of this is due to inherent liabilities of tropical regions in agriculture and health, substantial transport barriers for much of the African continent, demographics and the lack of urbanization, and Africa's lack of openness to international trade.

Undoubtedly, geography plays an important part in explaining Africa's economic marginalization. Panama has been extremely successful in promoting economic development based on trade and services, capitalizing on the transport cost and time savings that result from its geographical location astride two oceans and at the crossroads of the northern and southern American continents. The Dominican Republic has built a substantial export processing industry based partially on its proximity to the North American markets. Tangiers plans to exploit its geography in doing the same thing for the European market.

African countries do not have these advantages—especially those that are landlocked like Chad or Rwanda. They will always be at a competitive disadvantage compared with a Panama or a Morocco.

But geography does not tell the whole story. Otherwise, how would one account for the successes of Singapore and Hongkong? They are not exactly ideally positioned in relation to their markets. Even more telling is the case of Mauritius, which might be described as a case of eccentric growth.

Clearly there are other factors that allow some countries to develop in spite of their geography.

13 Its free and largely unregulated labor markets were also an important factor.
The Role of Infrastructure

Bloom and Sachs have pointed out the disadvantages of Africa in terms of what might be termed “geographically determined” infrastructure. Only 19 percent of Africa’s population live within 100 kilometers of the coast; only 22 percent live within 100 kilometers of a navigable river (compared with 67 percent in the United States and 89 percent in Europe). In addition, developing transport linkages to the hinterland is made more difficult by the long distances and often difficult terrain. This clearly has implications for international competitiveness where transport costs are often a critical factor.

Nonetheless, Mauritius is much farther than Dakar or Abidjan from the European markets that it has so successfully penetrated. South African and Zimbabwean fruit and vegetable exporters are much farther from their markets than Ghana or Nigeria. So the length of the shipment cannot be the critical factor.

What does tend to distinguish success from failure is the quality of the infrastructure. When the Colon Free Zone in Panama was starting up, a good port already existed in Colon, and there was a reasonable road to the airport in Panama City. The Dominican Republic developed excellent air, sea, and road transport infrastructure in support of its EPZs. Mauritius also has excellent port and airport facilities. The fruit and vegetable exporters in Zimbabwe benefit from much better airport facilities and air services than their counterparts in Burkina Faso.

With a few notable exceptions, much of Africa’s transport infrastructure is in poor condition. Unprofessional parastatal operating companies have often run services into the ground; economic conditions have precluded government investments; and budgetary problems have shortchanged basic maintenance.

In addition, corruption is rife. Underpaid customs officials exact their own taxes in ports; and road transport is hampered by official, semi-official, and unofficial “tolls” often collected every few kilometers.

Moreover, transport infrastructure is not the only bottleneck. Electricity supplies are frequently unreliable, erratic, and unpredictable. Water supply may well be deficient. Telecommunications, although recently improved in some countries, are still expensive.

The bad news is that there can be no doubt that inadequate infrastructure is a major factor in deterring FDI in Africa. The good news is that, with good policies, this can be improved rapidly.

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14 For a detailed treatment of the state of Infrastructure in Africa, see the “African Development Report”, African Development Bank, Abidjan, 1999
Investor survey after investor survey in African countries highlights the obstacles to FDI caused by poor quality services. The list is long. Customs invariably feature near the top of the list, usually closely followed by the tax administration. Other services with which difficulties are frequently associated are acquisition of land, building and occupancy permits, getting visas for expatriate staff, and setting up a company.

The job of businessmen or women is to run their business. The more time that they have to spend trying to understand arcane bureaucratic procedures and following up with civil servants to get permits and approvals, the less time that they have to devote to the task in which they have a comparative advantage, that is, producing goods and services and creating jobs.

In addition to the time factor, money frequently has to change hands to speed things up or to get the services provided at all. Bribes to petty bureaucrats and payments to “fixers” all add to the cost of doing business and reduce competitiveness. And the problem is not limited to lower level civil servants. High-level government officials are all too frequently guilty of extracting monies for “party funds” as a price of doing business.

The Role of Labor

It is often said that Africa cannot develop an export-oriented development strategy because the quality of African labor is so low. Very low levels of basic education and literacy are often seen as an impediment to developing a modern labor force. The work force is said to be unaccustomed to the discipline of factory life. The African culture is said to be inimicable to the rigors of quality control, the maintenance of standards, the adherence to deadlines. The cultural imperative in many African cultures for large numbers of family and friends to attend protracted funeral celebrations, often in distant parts of the country is frequently cited as anecdotal evidence to support this argument.

Three factors show the flaws in this argument. First, simple observation is sufficient to show that large numbers of Africans perform complicated and sophisticated services on a daily basis in every country in Africa. They build buildings; they design computer programs; they run companies. Second, the number of employees required is not enormous. The Dominican Republic employs 20,000 workers in its forty-two export processing zones out of a population of eight million. To reach the same high proportion in Africa would involve finding 1.5 million workers on the whole of the African continent out of a population of 620 million. That is just one quarter of one percent. Surely that is not beyond the bounds of possibility. Third, in other countries that have been successful in export processing—in Asia and in the Caribbean—labor skills have steadily been improved. In the Dominican Republic, gains in labor productivity of 50 percent the first year, 25 percent the second year and 15 percent the third year have been recorded—demonstrating that a well-designed training program and the right kind of incentives can have a remarkable impact on the availability of quality labor.
The Role of Incentives

By and large, African countries have little leeway in deciding what incentives to give to entrepreneurs. This is largely decided by international competition. Costa Rica, for example, offers a large and wide range of incentives to industries interested in establishing operations there; in addition, it has invested heavily in education and has established a special regime for foreigners who wish to retire to the country. As a result, Costa Rica has an image of being very investor-friendly. If Taiwan or Costa Rica are offering a broad range of fiscal advantages, then African countries have to offer the same advantages if they are to have any hope of attracting investors. In essence, incentive schemes should be internationally competitive and as simple as possible to operate.

The Role of Management

It is clear that the management of EPZs must be responsive to the needs of the entrepreneurs who will set up businesses in the EPZ. Too often in Africa, EPZs have been designed and run by bureaucrats who have no experience with what it takes to run a business. EPZs are over-designed, raising costs and leading to the need for government subsidies. Delays are common, leading to losses for the businesses. Service levels reflect those practiced in parastatals, again leading to frustration and losses for the businesses. In short, management by the public sector in general does not respond to the needs of their private sector clients. There are exceptions. EPZ management in Mauritius is essentially public, but managers have made a point of listening to and responding to the requirements of their clients, with the Chamber of Commerce playing a key role in intermediating between the EPZ clients and its management. In Panama, in the Dominican Republic, and in Tangiers, EPZ management is private and has responded well in terms of providing the requisite facilities and services. In Africa, where public sector management has a poor track record in providing facilities and services, it would be prudent to insist upon private management for EPZs—either by concessioning the development and management of the EPZ or, at least, by contracting out its management.

The Upside: the Obstacles Can Be Overcome

None of the obstacles cited above are intrinsically African. Other countries elsewhere in the world have managed to create world-class infrastructure, to provide efficient government services, to put in place competitive incentive packages, and to develop a skilled labor force—and with these in place, even the constraints of geography can be overcome. Mauritius, Panama, the Dominican Republic, not to mention South Korea, Taiwan, Singapore and Hongkong, have all managed to overcome their obstacles and become successful players on the world economic stage. Many other countries, such as Mexico, Costa Rica, The Philippines, Morocco and Tunisia, have had some degree of success. It should be noted, however, that many of these “success stories” are from
islands or small countries, where, of course, it may be easier to overcome the obstacles than it would be in a larger country.

This is why the EPZ concept is so attractive. For a country that is having difficulty providing adequate infrastructure and government services, it is much easier to resolve the problems on a limited geographical scale than it is to resolve them countrywide. This is not a question of theory; it is a question of pragmatism.

An EPZ can be located next to a port or airport. Then only that port or airport has to be upgraded and operated efficiently. There is no need to reform the entire port or civil aviation sector. In a small country like The Gambia or Cape Verde, this may not make a major difference. In a large country like Nigeria, it could make a critical difference.

The same is true for energy or telecommunications. Even if the country's electricity supply is unreliable, an EPZ can have its own generating capacity, rendering it independent of the national grid. If telecommunications are unreliable—or simply expensive—a satellite dish can provide telecommunications, thus preventing the firms on the EPZ from being held hostage to inefficient services that reduce their international competitiveness.

If the EPZ is to add value to local materials, it is only necessary to improve the road system between the EPZ and the agricultural or mineral hinterland that supplies it. It is not necessary to rehabilitate the entire road system. The same is true for railways in the countries that have them.

As far as services are concerned, most African countries have been struggling for many years to reform and upgrade their customer services. This has proved to be an intractable problem that has rarely been dealt with successfully, despite the best efforts of countries—and their development partners. But an EPZ does not require that the entire customs service be reformed. It does not even require that the service at each border post be reformed. It is perfectly feasible for an EPZ to have a specialized elite customs service operating only on the EPZ. In Ghana, the authorities have brought in the port of Singapore to assist in upgrading customs services for the Tema EPZ. In Colón, Panama, the private operator of the port that serves the Free Trade Zone has been working with the customs service to improve operations. They have gone so far as to provide computers, programs, and training. Because the problem to be solved is of a small scale, it is feasible managerially and financially to treat it as a local problem; but it is one that the EPZ entrepreneurs and the port operator have a strong incentive to solve, especially since the fruits of the improvements are directly seen in improved time to market and reduced operating costs. The fact that improvements have a demonstrable impact on the bottom lines of the firms concerned transforms the problem into a practical one for businessmen to solve, rather than a vague one for bureaucrats to solve.

The same is true for fiscal administration. It is perfectly possible for the ministry of finance to second motivated and professional staff to work on the EPZ to provide top-flight services to firms. In addition, an EPZ usually brings exemptions from certain taxes reducing the administrative burden even further.
Physical isolation, that is, the enclave nature of an EPZ, also allows entrepreneurs to avoid a myriad of other ineffective local services. In Tangiers, the EPZ management takes care of telephone and electricity bills for the firms, eliminating an administrative burden for them. In Mauritius, the One-Stop-Shop provides an intermediation service to help firms that are having difficulties with the local bureaucracy.

Apart from the service element of an EPZ, there is also a real estate function, since the EPZ provides the services of an industrial park, relieving the entrepreneur of the necessity to master the intricacies of the local real estate and construction markets, if they exist. The burden of finding a plot, purchasing it (often a nightmare in countries where title to property can be an ephemeral concept!), getting building permits and dealing with construction contractors and building inspectors constitutes an unbearable burden for most entrepreneurs. Having to shoulder this burden, is often grounds for an entrepreneur to abandon the idea of locating in a country; eliminating it is a big plus for the country.

Locating firms on an EPZ, rather than having them scattered around a city, can facilitate the development of an effective labor pool. Having many firms in close proximity tends to create a more industrial environment that helps develop good labor habits and workplace discipline through demonstration and imitation. The fact that it can provide economies of scale for worker transportation is useful; the fact that workers travel to work together tends to reinforce timeliness and reduce absenteeism. Training programs can be pooled leading to further economies of scale. And the fact that firms are located together creates both competition for workers and managers alike and synergies between firms. There is one EPZ in the Dominican Republic that serves an industrial group permitting vertical integration of functions such as weaving, sewing, washing, dyeing, and even design so as to produce more efficient, more competitive textile production.

All newly created EPZs need to develop a marketing strategy to target industries, countries, and specific investors. An EPZ (or a series of EPZs), in contrast to a regime that designates the whole country as an EPZ, can facilitate the marketing of a country to foreign direct investors. An EPZ is easier to visit than a whole country and can go a long way to persuading new investors that all the required facilities and services will be readily available. In addition, they can easily talk to existing firms and get a good idea of how effective the zone and its management really are.

Lessons for Africa

The above discussion is both hopeful and discouraging. It argues that that EPZs can play an important role in advancing and promoting export-oriented economic growth. It also argues that none of the obstacles to the establishment of an EPZ program are, in and of themselves, particularly difficult to deal with. Clearly, one must not underestimate the difficulties of dealing with some of these obstacles, but reducing the problem to one of dealing with the obstacle on a zone-wide, rather than a countrywide, scale should go a long way towards rendering the problems more tractable.
But the establishment of a successful EPZ program does not require removing one or two or some of the obstacles; it requires removing most if not all of them—simultaneously. We believe that this factor is largely responsible for the failure of most African countries to develop successful EPZs.

Jenkins et al. have argued that the entrepreneurs who are successful on an EPZ have the ability to master a number of skills: production technology, management, labor relations, access to markets, finance. Not only that, but the entrepreneur must master them all at once, for failure in any one domain will lead to failure of the enterprise as a whole.

We argue that the same is true for a country wishing to establish a successful EPZ. The country must master the creation of a pro-business environment, the provision of infrastructure and services, international marketing, investor relations and master them all at the same time. So the scarce factor is not skilled labor or adequate infrastructure; it is the management of the socio-politico-economic process of bringing about coordinated change on a broad front.

The results of our interviews of entrepreneurs and civil servants involved in the development of successful EPZs in Mauritius, Morocco, Panama, and the Dominican Republic, combined with our development experiences on the African continent, point to the conclusion that EPZs have a much higher probability of success when there is solid management of the design, establishment, and the operations of the EPZ.

The interviews revealed most interesting insights into the process of establishing EPZs that allow us to contrast the successful with the unsuccessful. In essence, four factors are critical:

- vision
- consensus
- concerted action
- continuity.

Vision

It seems too obvious to mention that, to develop a successful program in any area, a country must have a clear vision of where it is going and what it wants to do. In the 1960s, Panama decided that its future growth would depend in large part on reinventing itself as a trading base to allow North American and Asian firms to penetrate Latin American markets. In the 1970s, Mauritius decided that it could remain in a low-growth rut as a sugar-based economy practicing import substitution or it could adopt an export-oriented approach to growth and aim for higher sustained growth rates by positioning itself as an offshore base for manufacturers supplying European markets. In the 1980s, the Dominican Republic, mired in a no-growth trap by poor economic policies, decided to establish itself as a manufacturing center providing cheap labor and facilities for mostly American firms seeking to reduce costs. In the 1990s, Morocco decided that, if its northern region was to develop, it would have to do so based on a development model
that took advantage of its geographical location to attract export-oriented firms to an EPZ, Tangier Free Zone.

In each case, the vision was clear, resolutely pro-business, export-oriented, and aimed at a well-defined market.

Contrast this situation with many African attempts to establish EPZs in situations where there was no clear vision of where the economy was going, at best ambivalence over moving from primary export and import substitution towards non-traditional exports and an environment that was in many cases hostile to business.

Without a vision, there is no way to rally different sectors of the economy or of the nation behind a strong drive for results. If different actors have a different idea of what the plan is and what the objectives are, then efforts will be diffused or, worse, work in opposite directions.

**Consensus**

However, a vision itself is not enough. Several African countries have articulated a splendid vision of export-oriented, EPZ-based growth, but without a consensus around the vision, progress is at best difficult, at worst impossible. If the private sector is trying to export and the public sector is focused on import substitution, the enabling policies, infrastructure, and services will not be put in place. If the Ministry of Industry and Commerce is aiming to facilitate exports and the Ministry of Transport is building infrastructure in the wrong places, entrepreneurs will become frustrated, and investors will not come. If the private sector is demanding job training and apprenticeship schemes and the Ministry of Education is focusing exclusively on primary education, an essential element for success will be missing.

We noted above that establishing a successful EPZ program would require change across a broad front. If there is not a solid consensus around the country’s vision, there is a high risk that critical elements will not be put in place and the program will fail. It is true that failure can stem from an inability to deal with entrenched opposition to a program from those vested interests that have something to lose. It should not be forgotten, however, that failure can stem equally from misplaced good intentions on behalf of people doing their best in ignorance of what objectives they are supposed to be pursuing.

Spending the time required to ensure that all relevant stakeholders know what the vision and objectives are can go a long way towards neutralizing the opposed vested interests and bringing on board those supporters who might have been on the wrong track.

Our interviews revealed that, in the successful EPZ programs, this consensus building had been taken very seriously. Repeated attempts to probe who had been against the programs produced no results. Strange as it may seem, the people interviewed were unanimous that everybody had been in agreement. Of course, they also said that building
the consensus had taken time, sometimes years, so it is possible that early opposition that
had been overcome during the consensus-building process had been forgotten.

Contrast that with experiences in many African countries where programs have
moved ahead under the impetus of an important player in the presidency or the
administration only to be frustrated by the failure of all the actors concerned to play their
roles. It matters little whether people act out of malice or ignorance. The result is the
same, and the program will fail.

The fundamental point is that moving forward before a consensus has been
achieved is virtually certain to be an exercise in futility.

Concerted Action

It seems axiomatic that bringing about change requires action, yet many programs
have failed because of inaction with respect to certain elements of the program. This may
be because of the failure regarding vision and consensus noted above. People are
unlikely to act if they do not know what they are supposed to be doing or if they do not
agree with it. It can also happen because the people concerned do not have the ability or
the tools to do what they are supposed to do. It may happen simply as a result of inertia.

In Mauritius, it is evident that actions to set up the EPZs took place on a broad
front, involving a large number of actors. The government established an attractive
legislative and incentive framework. MEDIA undertook the design, construction, and
marketing of the EPZs. The Development Bank set up business-friendly lines of credit.
The Chamber of Commerce provided constant feedback on the needs of the business
community. A “One-Stop-Shop” was set up in the Ministry of Industry and Commerce to
serve as a mediation center that would help businessmen resolve problems with the
administration.

In Morocco, the Tangiers Free Zone worked with the regional authorities to
establish a legislative framework and concession agreement. Local financial institutions,
such as pension funds and insurance companies were brought in as partners. The airport
authority made the land available. The water and electricity companies extended their
networks.

In Panama, interviewees stressed the legislation that was enacted to facilitate the
Free Trade Zone and the participation of the local financial institutions in extending
credit to entrepreneurs so that they in turn could extend credit to their customers.

In the Dominican Republic, emphasis was placed on legislation, etc.

Contrast this with some EPZs in Africa where land could not be made available to
the zone operators for a year or more, where the electricity connection was installed far
behind schedule, or where EPZs end up operating in the absence of a proper legal
framework.

Some of these problems stem from a lack of planning. If no one tells the
electricity company that it is supposed to extend a line to the EPZ, perhaps one can
understand why it takes the company time to adjust their investment program. Sometimes problems stem from a lack of consensus. If no one has brought parliament into the picture, it is understandable that it might have reservations about EPZ legislation that is expected to pass.

Sometimes the problems stem from a lack of political will. The concession agreement for the Tangiers Free Zone provides for the Free Zone managers to choose their own suppliers for electricity and telecommunications in the event that they judge the public suppliers to be incapable of providing the quality of service that they require. This provision allows the managers to meet their customers expectations in terms of service, improves the marketability of the EPZ, and sends a clear signal that the authorities are prepared to do whatever it takes to make the zone a success.

Contrast this experience with those in Africa where the intransigence of parastatal suppliers of electricity, telecommunications, transport, or water have hampered or blocked the development of EPZs through their insistence on not allowing any external private suppliers to enter the market.

Continuity

The final critical element that our interviewees mentioned time and time again was continuity. In Mauritius, the government continued to support the EPZs by maintaining in place the package of measures that attracted the investors to Mauritius in the first place. Indeed, they have improved upon them by building a technology park, by setting up a Textile Technology Institute to develop, adapt, and provide training in new technologies to help make the manufacturers more competitive.

In Panama, private management in Colón ensured continuity from the perspective of the users of the zone; government policy and regulations were maintained and enhanced over time; even the banking sector provided continuous support. In the Dominican Republic, again, government support was maintained in terms of both policy and the provision of facilities and services; the EPZ owners set up their own association to create solidarity, mutual support, and a basis for lobbying government.

These continued attempts to support the EPZs contrast starkly with perceptions of Africa. Investors, both those in the EPZs and those who had not yet decided to invest, expressed fears not only that African governments would not maintain the package of incentives, infrastructure, and services but that they would erode it. Their biggest complaint was that they had made or were making an investment under an unknown set of "rules of the game". They had little or no confidence that governments would not change the rules in the middle of the game, rendering their investments at least less profitable, at worst not viable. In general, investors are not talking about the political uncertainties. By and large, they are prepared to deal with those. They are worried about changes in minimum wages, and increases in the costs of other factor of production, especially utilities. They are worried about changes in incentive schemes. Investors are worried about deterioration in infrastructure.
If African countries are to attract significant FDI onto EPZs, they will have to make a concerted effort to provide continuity in incentives, infrastructure, services, and the business environment.

The Role of Africa's Development Partners

If African countries have had difficulties in articulating a clear vision, building a consensus around it, moving to concerted action, and providing continuity in incentives, infrastructure and services, it has to be said that their development partners have tended to exacerbate the problems more than they have tended to alleviate them. Despite efforts to improve strategic planning by many development partners, the fact remains that "country strategies" are too often vague statements of intentions to "reduce poverty by developing the private sector". The problem with vague statements of strategy is that they fail to provide a clear vision of where the country's economy is going, what the key ingredients for success will be, and how one will know when we have been successful. The result is that the program of activities in a country then tends to become a loose coalition of activities that may or may not combine to help the country meet its development objective. If the objectives are vague, then almost any activity can be argued to promote the objectives. Priorities are not clearly set and selectivity is compromised.

Narrowly focused sectoral programs, often the result of historical accidents in programming also tend to block collaborative efforts and coordinated, synchronized action. An EPZ program cannot come together because the transport division has a road project in its financing program, even though the higher-priority EPZ program calls for port improvements.

Conclusion

There is substantial potential for African countries to take advantage of the opportunities to benefit from export-oriented growth based on the development of EPZs. Taking advantage of these opportunities, however, will not be easy. Countries wishing to take advantage of these opportunities will have to be able to put together a coordinated package of incentives, infrastructure, and services that will be attractive to foreign investors. This will require articulating a vision of the country's development, building national consensus around this vision, moving expeditiously to action to implement the elements of the vision, and sustaining continuity of the package of incentives, infrastructure and services offered. Any country attempting to develop an EPZ program will have to enlist the concerted and coordinated support of its development partners in the implementation of the program.

Evidence from outside Africa indicates that those countries that are able to pull it all together can reap substantial economic benefits.


