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Export Processing Zones in Sub-Saharan Africa

Countries in East Asia, Central America and the Caribbean basin, have successfully used Export Processing Zones (EPZs) as an instrument for economic development. Attempts to do the same thing in Sub-Saharan Africa (referred to hereafter as Africa) have, with the obvious exception of Mauritius, been significantly less successful. Many reasons have been advanced to explain this situation. To examine this conundrum, the literature on the subject was examined and Export Processing Zones in Mauritius, Tangiers, Panama, and the Dominican Republic were visited to interview investors in the zones, developers of the zones and government officials to determine what were the conditions that had resulted in their success.

Africa on the world economic stage

Africa is a minor player on the world economic stage. Its total GNP is equivalent to around 1 percent of world GDP—a little more than that of Belgium—but covering a population of just over 600 million people. Nor, with a few exceptions, is Africa really well-endowed with natural resources. Significant private foreign capital has not been attracted to Africa and its traditional investors have been deserting it. Most African exports are concentrated in oil, gas and minerals; diversification is clearly needed. The result is dependence on aid and trade—an unhealthy situation for a region that needs to accelerate its economic growth.

So is there any hope for Africa? The answer is a resounding "yes"—if she can make progress in penetrating world markets. Some African countries have managed to diversify into non-traditional exports, typically vegetables, fruits, flowers and textiles. Others have made progress by adding value to local raw materials before exporting them. Yet others have established a niche for adding value to imports and re-exporting them. However, these activities are taking place on too small a scale to make a real difference. Countries need to adopt a resolutely pro-export stance, and put in place the prerequisites to induce entrepreneurs, both national and foreign, to take up the challenge. What role should and can Export Processing Zones play?

The economics of EPZs

The literature on EPZs shows 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. Under propitious circumstances and good management, EPZs can achieve the two basic goals of creating employment and increasing foreign exchange earnings. 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 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 employees tend to be much higher than their opportunity cost.

The downside: constraints to the establishment an EPZ Program

The role of geography: Tropical regions underperform non-tropical regions substantially—their GDP per capita is only one-third of that in non-tropical zones. This is partly due to the inherent liabilities of tropical regions in climate, agriculture and health, substantial transport barriers for much of the continent, demographics, and the lack of urbanization. But geography does not tell the whole story. Otherwise, how would one account for the successes of Singapore and Hong Kong? They are not exactly ideally positioned in relation to their markets. Even more telling is the case of Mauritius.

The role of infrastructure: Transport in many African countries is made difficult by long distances and difficult terrain. This has implications for international competitiveness where transport costs are a critical factor. But Mauritius is farther than Dakar or Accra from the European markets that it has successfully penetrated. South African and Zimbabwean fruit and vegetable exporters are farther from their markets than Ghana or Nigeria. So, the length of the shipment cannot be the critical factor.

What does distinguish success from failure is the quality of the infrastructure. Much of Africa’s transport infrastructure is in poor condition. Services have been run into the ground, and governments have neglected investments and shortchanged basic maintenance. Moreover, transport infrastructure is not the only bottleneck. Electricity and water supplies are frequently unreliable, and telecommunications are expensive.

The role of government services: Investor surveys highlight the obstacles to Foreign Direct Investment (FDI) caused by poor quality services—customs, tax administration, land acquisition, building and occupancy permits, visas, and setting up a company. In addition to the time factor, money frequently has to change hands to speed things up or to get services provided.

The role of labor: It is said that Africa cannot develop an export-oriented strategy because of the low quality of African labor. Three factors show the flaws in this argument: large numbers of Africans do perform complicated and sophisti-
The core of services; the number of employees required is not enormous; and in other countries that have been successful in export processing, labor skills have steadily been improved.

The role of incentives: African countries have little leeway in deciding what incentives to provide; this is largely decided by international competition. Some donors urge them to replace simple exemption schemes with complicated duty drawback schemes. This is a misguided policy in Africa where incentive schemes should be internationally competitive and as simple as possible to operate.

The role of management: The management of EPZs must be responsive to the needs of entrepreneurs. Too often in Africa, EPZs have been designed and run by bureaucrats. EPZs are over-designed, raising costs and leading to the need for government subsidies. In Africa, it is prudent to insist upon private management for EPZs.

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, put in place competitive incentive packages, develop a skilled labor force, and overcome even the constraints of geography. Mauritius, Panama, the Dominican Republic, not to mention South Korea, Taiwan, Singapore and Hong Kong, have all become successful players on the world stage. This is why the EPZ concept is so attractive. It is easier to resolve problems on a small geographical scale than 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 so that only that port or airport—and the roads, power and communications that serve them—have to be upgraded and operated efficiently. There is no need to reform the entire port or civil aviation sector. Similarly, an EPZ does not require that the entire customs service be reformed. An EPZ can have a specialized customs service operating only on the EPZ. The same is true for other services. EPZs also serve a real estate function, relieving the entrepreneur of the need to deal with the local real estate and construction markets. An EPZ can facilitate the development of an effective labor pool, create both competition and synergies between firms, and facilitate the marketing of a country to foreign direct investors.

Lessons for Africa

EPZs can play an important role in advancing export-oriented growth. But the creation of a successful EPZ program does not require removing one or two obstacles; it requires removing most, if not all, of them—and simultaneously. The authors of this study believe that the inability to orchestrate this is largely responsible for the failure of most African countries to develop successful EPZs. EPZs clearly have a much higher probability of success when there is solid management of both the design and establishment and of the operations of the EPZ.

Four factors are critical: vision, consensus, concerted action, and continuity.

Vision: In the 1960s, Panama decided to reinvent itself as a trading base for Latin American markets. In the 1970s, Mauritius decided to adopt an export-oriented approach, positioning itself as the base for manufacturers supplying European markets. In the 1980s, the Dominican Republic decided to establish itself as a manufacturing center providing cheap labor and facilities, mostly for American firms seeking to reduce costs.

In each case, the vision was clear, resolutely pro-business, export-oriented, and aimed at a well-defined market. Contrast this with many African attempts to establish EPZs in the absence of a clear vision of economic development, ambivalence over moving from primary exports and import substitution towards non-traditional exports, and an environment that is 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.

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. Interviews revealed that, in the successful EPZ programs, this consensus building had been taken very seriously. The persons interviewed were unanimous that everybody had been in agreement; they also said that building consensus had taken time.

Contrast that with many African countries where programs have moved ahead under the impetus of a key player in the administration only to be frustrated by the failure of the other actors to play their roles. It matters little whether people act out of malice or igno-
rare. The result is the same, and the program will fail.

Concerted action: It seems axiomatic that bringing about change requires action; yet many programs have failed because of inaction with respect to critical elements of the program. People are unlikely to act if they do not know what they are supposed to do or if they do not agree with it. It can also happen because the persons concerned do not have the ability or tools to do what they are supposed to do—or simply as a result of inertia. In Mauritius, actions to set up the EPZs took place on a broad front, involving a large number of actors. In Morocco, the Tangiers Free Zone worked with all the regional stakeholders to establish a legislative framework and concession agreement. In Panama, interviewees stressed the importance of the enabling legislation for the Free Trade Zone and the participation of local financial institutions in extending credit to entrepreneurs.

Contrast this with some EPZs in Africa where land was not made available to the zone operators for more than a year, where suppliers of electricity, telecommunications, transport or water hampered or blocked the development of EPZs through their tardiness or their insistence on not allowing any external private suppliers to enter the market.

Continuity: The final critical element that the interviewees mentioned frequently was continuity. In Mauritius, the government continued supporting EPZs by maintaining and enhancing the measures that first attracted investors to Mauritius. In Panama, private management ensured continuity for the users of the zone; government policy and regulations were maintained, and the banking sector provided continuous support. In the Dominican Republic, government maintained both the policy framework 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.

Contrast this with investor perceptions of Africa. Investors, both those in the EPZs and those who have yet to invest, express fears not only that African governments would not maintain incentives, infrastructure and services, but that they would erode them by changing the "rules of the game." African countries have to concentrate on providing continuity in incentives, infrastructure, services, and the business environment.

The role of development partners

Africa’s multilateral and bilateral development partners have often exacerbated these problems more than they have alleviated them by failing to endorse a clear vision of economic development, identifying the key ingredients for success, and establishing how success will be judged. Donors argue with each other as to development priorities. Narrowly focused sectoral programs tend to block integrated, coordinated, and synchronized action. Donors urge countries to speed up their actions, but are frequently slow in responding to requests for changes stemming from legitimate changes in circumstances. Donors typically maintain continuity, although their lack of flexibility can sometimes constitute inflexibility when change would be more appropriate.

Conclusion

There is substantial potential for African countries to take advantage of opportunities to benefit from export-oriented growth based on the development of EPZs, but to taking advantage of these opportunities will mean putting together a coordinated package of incentives, infrastructure, and services that will be attractive to foreign investors. This requires articulating a vision of the country’s development, building a consensus around this vision, moving to action to implement all the elements of the vision, and sustaining incentives, infrastructure, and services. It is also important to enlist the coordinated support of development partners. Evidence from outside Africa shows that countries that can pull it all together reap substantial economic benefits.

For more information, please contact peterwatson@devsol. The full text of the publication, "Export Processing Zones? Has Africa Missed the Boat?" May 201, ARWPS 17, Africa Region, World Bank, is accessible at www.worldbank.org/afr/wps/index.htm