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Transforming African Agriculture Through Special Economic Zones: Opportunities and Challenges

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11.1 Introduction

This chapter interrogates the effectiveness of the special economic zones (SEZs) in bringing about African agriculture transformation. The chapter opens with the presentation of the materials and methods used in its development, and this is followed by a section on the inclusiveness of agriculture for industrialization and economic growth. In this section, literature from various scholars is presented showing the importance of agricultural transformation in ensuring desirable socio-economic outcomes. The historical development of SEZs is traced; their typologies and also their merits and side effects based on practical implementation realities from the selected case studies. The last part of the chapter gives the recommendations for the successful implementation of SEZs for agricultural transformation in Africa.

African governments are under pressure to transform agriculture in order to fight the protracted food and nutrition insecurity and also meet both regional and global commitments such as Sustainable Development

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Goals (SDGs), Comprehensive Africa Agriculture Development Programme (CAADP) among others. Notwithstanding the significant progress in transforming agriculture, the continent remains the net food importer and has experienced an increase in the number of undernourished people over the past 30 years. In effect, sub-Saharan Africa (SSA) is the region with the highest prevalence of hunger with one person in four being undernourished (FAO 2015). It is axiomatic that the world's population is growing and Africa's population is expected to grow the fastest with UN Department of Economic and Social Affairs report of 2015 estimating that Africa will have two billion people by 2050. FAO (2015) cautions that the demand for food is expected to grow due to population growth, thus calling for stronger interventions to arrest the situation and finally eliminate hunger, achieve food security and improve nutrition, and promote sustainable agriculture. Agricultural transformation should become a top priority since agriculture is the backbone of African economies accounting to over 30% of the gross domestic product (GDP) for many African countries and remains the primary activity of over 60% of the African population (ACBF 2012: iv; AfDB 2016: 1). Regardless of the fact that agriculture accommodates the prime share of most African economies and supports both rural and urban livelihoods, it still endures a horde of challenges. To this end, the transformation of agriculture is imperative and SEZs are one of the vehicles that can position African Agriculture on a growth trajectory. Empirical evidence suggests that successful implementation of SEZs in agriculture results in employment creation, GDP growth, improved standards of living, technology, and industrial development.

11.2 Materials and Methods

This chapter is basically a reflection on the resources obtained from various sources such as the World Bank (WB), United Nations Development Programme (UNDP), Food and Agriculture Organization (FAO), International Labour Organization (ILO), African Development Bank (AfDB), and African Capacity Building Foundation (ACBF) among other development organizations. This was cemented by various reports

from agricultural research organizations coupled with the reputable journal publications. Key informants' interviews were also done with officials working with the Ministry of Macro-Economic Planning and Investment Promotion in Zimbabwe and also economic experts of other government ministries, University of Zimbabwe, and Great Zimbabwe University on the concept of SEZs. Both the descriptive and comparative methods together with thematic analysis were used in developing this chapter.

11.3 Agricultural Transformation for Inclusive Growth

While the role of agriculture in economic growth and structural transformation is widely acknowledged, its characteristics in recent years have created a daunting task for policymakers in order to realize its gains. To Olaoye (2014), agriculture plays a critical role in the socio-economic activities of any given country. The WB (2007) reinforces that agriculture directly contributes to economic growth and enhances growth in other sectors through consumption and production linkages with agro processing and food marketing boosted, while backward linkages increase demand for immediate inputs and services. At the 2009 World Food Summit, the heads of governments unanimously agreed that poor countries needed to develop economic and policy tools to boost their agricultural production and competitiveness. Furthermore, a call for an increased agricultural investment was made at this summit since for majority of poor countries a vibrant agricultural sector is essential to overcome hunger and poverty. In fact, the agricultural sector is a prerequisite for the overall economic growth for most African countries. Olaoye (2007) took the argument further indicating that agriculture can enhance an increase in GDP, provide food and employment for the people and thus reduce poverty. In light of the African Union's (AU) Vision 2063, accelerating industrialization is a critical cog for African countries to reduce poverty and achieve economic growth (UNDP 2015: 10). Therefore, SEZs are an imperative route that African governments can utilize in overcoming the constraints of scale and competitiveness.

In essence, SEZs foster the creation of an enabling business environment, improved policies, infrastructure, and competitive transaction hence resulting in enhanced agricultural transformation.

11.4 Historical Developments of Special Economic Zones

The development of modern SEZs can be traced as far back as the 1950s in Ireland. SEZs then later spread to Latin America and East Asia in the 1970s under the various formulation and sectorial focus with governments trying to find pathways to industrialization (Baissac 2011). Today, SEZs are now a common global feature to solve many economic woes with most African countries embracing them by following the successful Chinese model. From a few dozens in the 1950s, today, the number of SEZs has ballooned to more than 3000 as instruments for the industrialization process, especially as a way of attracting foreign direct investments (FDIs), creating jobs, and generating exports and foreign exchanges (Zeng 2015: 3).

11.5 Typologies and Scope of Special Economic Zones

Though literature is awash with definitions of SEZs, Baissac (2011) coined that SEZs refer to a policy concentrate designed to increase growth by creating an economic environment which offers significantly better investment and operating conditions than the rest of the domestic economy, and ensures that conditions of international competitiveness are created. SEZ refers to a geographical region that has economic laws that are more liberal than a country's typical economic laws, and in many cases, it offers high-quality infrastructure facilities and support services and allows duty-free imports of capital goods and raw materials (Singh 2013; Farole 2011). The key characteristics of SEZs according to the World Bank (2008) include the following: (a) a physically secured

and demarcated geographical area, (b) a single management or administration, (c) offers benefits for investors physically within the zone, and (d) streamlined procedures with duty-free benefits. Inherently, SEZs differ in terms of types, objectives, markets, and activities. Zeng (2015: 3) argues that SEZs manifest in an extensive array of forms including free-trade zones, export processing zones, industrial parks, economic and technology development zones, high-tech zones, science and innovation parks, and free ports, among other enterprise zones. Intrinsically, World Bank's Foreign Investment Advisory Service (FIAS) now (Investment Climate Assessments (ICAS)) did a comprehensive mapping on the performance and typologies of SEZs in 2008 with the common ones being enterprise zones, free enterprises, free trade zones, free ports and export processing zones (FIAS 2008).

11.5.1 Free-Trade Zones

Free-trade zones, also known as commercial free zones, are small, fenced-in, duty-free areas, offering warehousing, storage, and distribution facilities for trade, transshipment, and re-export operations and are usually located in most ports of entry around the world. In fact, free-trade zones are the most ubiquitous and oldest form of SEZs and a famous example is the Colon Free Trade Zone in Panama.

11.5.2 Export Processing Zones

This type of SEZs can be traced as far back as 1950s and were initially implemented in South Korea and Ireland. Export processing zones (EPZs) aim at accelerating industrialization mostly for export markets and classically take two forms. In the traditional EPZ model, the entire area within the zone is exclusively for export-oriented enterprises licensed under an EPZ regime. Hybrid EPZs, in contrast, are typically subdivided into a general zone open to all industries regardless of export orientation and a separate EPZ area reserved for export-oriented, EPZ-registered enterprises.

11.5.3 Free Ports

These are commonly broader and classically encompass much larger areas and may include both urban and rural territories. This type of SEZs incorporate large transport facilities like ports, airports, and goods and services-related trade activities and a good example is the large-scale free ports in China. Free ports thus incorporate entire economic regions, the population that live and work in these regions, and the entirety of the economic activities that take place there.

11.5.4 Free Enterprises

These are also called single-company zones and are a variation of the EPZs, where the EPZ status is afforded to single enterprises outside the zone. Implied in this type of SEZs is that it provides incentives to individual enterprises regardless of location; factories do not have to locate within a designated zone to receive incentives and privileges. Primary examples of countries relying exclusively on a single factory scheme include Mauritius, Madagascar, Mexico, and Fiji; other countries such as Costa Rica, the United States, and Sri Lanka allow both industrial estate-style zones and single factory designations.

11.5.5 Enterprise Zones

Enterprise zones are a type of SEZs meant for economic revitalization of distressed urban or rural areas through the provision of tax incentives and financial grants. This type of zone is in developed countries, for example, the United States, France, and the United Kingdom, although South Africa is developing a similar mechanism. In effect, enterprise zones in these case studies have sought to bring regeneration and economic diversification to once striving regions.

11.6 Virtues and Potential Side Effects of Special Economic Zones in Agricultural Transformation

Despite the increased rhetoric and enthusiasm for SEZs in recent years, the practical implementation realities indicate that they bring about mixed results. Zeng (2015) applauded SEZs as highly effective tools for job creation. Empirical evidence suggests that SEZs are more significant sources of employment in smaller countries with populations less than five million such as Mauritius, Seychelles, and Jamaica than in large countries (FIAS 2008: 3). Zeng (2015: 3) reinforces that the popularity of SEZs is registered by two main benefits: that is, static economic benefits which include employment creation, export growth, increase in government revenues, and foreign exchange earnings, while the broader dynamic economic benefits include skills upgrading, technology transfer, economic diversification and innovation, and productivity enhancement of local firms.

They are capable of contributing to export development in terms of both accelerating export growth and diversification, and this is particularly important for poor developing countries reliant on export of primary products. According to Export Promotion Council for SEZs of India, SEZs exports accounted for 26% of India's total exports in the year 2011 with the Ministry of Industry and Commerce arguing that between 2013 and 2014 total exports from SEZs generated USD 82.35 billion. Moreover, SEZs can be instrumental in attracting FDI, offsetting some aspects of an adverse investment climate by offering worldwide class and best practice policies. UNDP (2015: 10) vows that African SEZs offer a number of advantages to investors, such as reduced customs duties and value-added taxes; simplification and centralization of administrative procedures through "one-stop-shops"; access to key national and international infrastructure; secured access to and reduced factor costs for electricity, water, and telecommunication services; relaxation of foreign exchange regulations; preferential interest rates offered by local banks; and reduced freight rates. In return, African governments are putting regulations in place that oblige investors to create local unskilled and

skilled jobs, ensure linkages with the local economy and transfer technology and knowledge, while complying with local social and environmental regulations.

Despite the virtues of SEZs, there are some potential side effects that African governments can avoid in pursuit of the agricultural transformation agenda through SEZs. Zeng (2015: 7) highlights that SEZs may result in environmental degradation, for example, in China, the GDP performance used to be the top priority for the government officials without looking at the effects of SEZs' implantation process to the environment. The WB estimates that the environmental costs are about 8% of GDP and, to address this, China has since implemented tougher environmental standards and tried to use fiscal policies to force firms to adopt "green technologies" and conduct innovations (*ibid.*). ILO (2012) cautions that in some countries, SEZs have been castigated for deleterious socio-economic results especially to the women, youth, and working environments. Some of the SEZs probable pitfalls include labor exploitation especially among women and youth coupled with low wages, inadequate training and skill upgrading, use of trainees to lower wage costs, subdual of labor rights, and lax environmental standards (*ibid.*). Singh (2009) observes that if SEZs are set up on agricultural land, they create obstacles for the social and economic development of the country, especially if fertile land area under agriculture is acquired. A notable case is India's Singur and Nandigram where the government acquired land forcibly from the farmers at lower prices and gave SEZ developers at a subsidized rate, thus resulting in farmer agitations against the government (*ibid.*).

11.7 Global and Regional Experiences of Special Economic Zones

11.7.1 China

China is regarded as a global classic case in the successful development and implementation of SEZs with the country recording the leading destination of FDI in the developing world. Baissac (2011) advances that

China records more than 200 SEZs of various types, sizes, and industrial focus and has started expanding the model to other developing countries of the world including Africa. Shenzhen is one of the cities that were transformed by SEZs from agriculture-based economy in the 1970s to an industry-based economy in the early 1980s. Recently, Shenzhen is regarded as one of China's mainland cities in terms of economic returns amounting to USD 27.88 billion in local revenue in 2013, up 16.8% from 2012. Inherently, based on the overall statistics obtained from China Development Bank in May 2015, the contributions of SEZs to technological progress and innovation in the agricultural sector stands at 55.2%, while in agro-tech parks and agricultural demonstration zones, the contribution rate of technology reaches roughly 70%, nearly the average level of developed nations. In addition, these parks have also significantly contributed to the increase of farmers' income—on average, agricultural incomes within these parks are over 30% higher than incomes in surrounding villages, (Zeng 2015: 5).

11.7.2 India

SEZs are seen as engines of economic growth in India, and they play a vital role in the country's export strategy. Ideally, SEZs in India existed before the promulgation of the SEZ Act in 2005, which became operational in 2006 (Dohrmann 2008). This piece of legislation aims to give an all-inclusive policy framework to the key players in the SEZ program. SEZs in India aim at promoting industrialization and economic growth through tax rebates, fiscal incentives, and lands at subsidized rates. Agriculture-related SEZs in India include Falta food processing unit at West Bengal and Hassan with an area of 157.91 hectares. Despite all odds, exports through Indian SEZs grew further by 15.4% to reach USD 66 billion. As at 2011–2012 fiscal year, investments worth over USD 36.5 billion have been made in these tax-free enclaves. Exports of Indian SEZs have experienced a phenomenal growth of 50.5% for the past eight fiscals from a meager USD 2.5 billion in 2003–2004 to about USD 65 billion in 2011–2012 (accounting for 23% of India's total exports). Despite the benefits enjoyed by the Indian government through

the SEZs, there are issues that need to be addressed, especially from the indigenous smallholder farmers who are losing their agricultural productive land to pave way for the establishment of SEZs, thus putting their food security and livelihoods at stake. It is thus imperative for the government of India to make sure that land acquisition and SEZs must prove beneficial for the local people.

11.7.3 Mauritius

The Government of Mauritius is considered as one of the success stories of SEZs implementation in Africa. Since the beginning of the 1970s, the Mauritius government has been committed in the SEZ development process by creating an enabling environment for investment and attracting FDI. Since their inception, the government has implemented two models of SEZs as turnaround strategies for their economy, that is, export processing zones and free port zones. The Mauritius government signed agreements to attract investors from China through joint ventures with local companies resulting in export-led growth and quick knowledge transfer (UNDP 2015: 11). In 2006, the government introduced the Business Facilitation Act to give more incentives to players in all sectors of the economy, and today, the whole country is regarded as an SEZ with the highest ease of doing business profile in the region according to the 2016 WB ranking.

11.7.4 Mozambique

In a bid to restore macroeconomic stability after the 1992 peace agreement, Mozambique's experience with SEZs is relatively recent evidenced by the Government Decree no. 75/2007, which established the Office for Accelerated Economic Development Zones. Kirk (2014: ix) informs that in 1998 additional specific incentives were introduced for SEZs and Industrial Free Zones in 1999 following the Chinese model with comprehensive fiscal benefits which included tax holidays, customs duty and indirect tax exemptions, along with tax credits. In 2015, about five SEZs have been established in the country with the other development corri-

dors identified for the possible creation of SEZs for agriculture. According to the Minister of Agriculture and Food Safety (José Pacheco), agricultural development corridors were determined based on agro-climate conditions, strategic location vis-à-vis markets, existing or planned infrastructures, and the need to diversify farm products. He further highlights that opportunities in the value chain for products such as potatoes, wheat, beans, maize, soy, rice, and others deriving from poultry, cattle, and forestry activities have been identified in the six corridors (<http://www.macauhub.com.mo/en>).

11.7.5 Zimbabwe

Since the year 2000, Zimbabwe has experienced an economic downturn characterized by a hyperinflationary environment, low industrial capacity utilization, decline in agricultural production, and high imports to meet food and industrial raw materials among others (IISD 2009, <http://www.afdb.org>). The Government of Zimbabwe recently re-established SEZs in order to address the myriad of economic challenges, restore the productive sectors' status, and also improve exports through beneficiation and value addition which resonates with the country's blueprint, the Zimbabwe Agenda for Socio-Economic Transformation (ZIMASSET). The earmarked SEZ for agriculture targets Mashonaland Central and West Provinces focusing on food crop production and processing on such crops as maize, wheat, and soya beans, among others, with the Eastern Highlands specializing on fruit processing. Though the concept of SEZs is not entirely new in Zimbabwe, the government has once implemented EPZ initiative from 1996 to 2006 under the auspices of Export Processing Zones Act of 1995. The SEZs Bill was approved and signed in a law by the President on November 1, 2016, and this paved the way for the establishment of the SEZs Authority. Despite these developments, the establishment of SEZs had ushered mixed views from different stakeholders including labor unions especially clause 56 of the SEZs Bill which proposed to exempt investors licensed in these zones from the provisions of the Labor Act, as well as the Indigenization and Economic Empowerment Act which requires 51% stake from foreign investors. The Zimbabwean

government has to create a favorable environment and ensure that there are sound policies in order to realize the gains that come with SEZs. This should be augmented by systematic research and dialogue among various stakeholders to ensure that SEZs have a transformational impact in Zimbabwe.

11.8 Conclusions and Recommendations

There is huge potential in developing agro-based industries for inclusive growth through SEZs and success stories from the implementation of SEZs for agriculture in China, India, Mauritius, and other countries should be a motivating factor for other African countries to embrace them. In essence, SEZs are instruments for the industrialization process, attracting FDIs, creating jobs, and generating exports and foreign exchanges that are critical in tapping the nascent agriculture in Africa. However, the mixed results of SEZs in many countries demonstrate that they are not an automatic antidote to the socio-economic challenges but rather have to be appropriately executed and tailored to suit the specific country context. Given the intricate and assorted contexts in which SEZs exist, it is essential to do research, study tours of successful SEZs, and establish the legal and instructional frameworks in order to guide their development and implementation. The findings from the 2015 comparative study by UNDP and International Poverty Reduction Center in China about African SEZs suggest the following recommendations in order to ensure SEZs' success in Africa:

- Ensure high-level political commitment and support for effective inter-ministerial collaboration
- Integrate SEZ programs into national development strategies and plans
- Support all industries that have a comparative advantage through SEZ development
- Ensure sufficient funding for infrastructure development within, and availability of good infrastructure outside, the SEZ prior to the SEZ approval

- Provide incentives for the creation of joint ventures between foreign SEZ companies and local companies
- Respond to SEZ labor requirements by aligning curricula of universities and Technical Vocational Education and Training (TVET) institutions
- Set high environmental standards in line with the United Nations Industrial Development Organization's Guidelines for Green Industry Parks and put a system in place to ensure their enforcement
- Establish low minimum SEZ investment thresholds for established local companies

Notwithstanding the imperative need to understand the effects of SEZs on agricultural transformation in Africa, the empirical data are still limited, thus calling for further research to inform policymakers and various stakeholders on the realities of their practical implementation.

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