

Development of Free Trade Zones to Sustain Intermodal Transportation

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Abstract: Free Trade Zones has become one of the pillars for economic development for most countries in Europe and most of Asia. This has been the case for a country like China which has witness a super growth because of the policies they adopted that promoted the development of free trade zones in the country and it has contributed immensely its economic development. This paper exploits the potential for economic development that African countries stand to benefit from the Pan-African free trade agreement that was signed by 54 African countries. The study looks at the trend from other developed countries and suggest policy recommendations that would identify legal regimes that can adopt policies that will prevent conflicting interest between political parties so as to create a favourable investment environment for both foreign and local investors. The legal regimes should be able to accommodate different economic situations as they set investment rules and this can be carried out effectively under the guidance of the African Union.

Keywords: Free trade zone, economic development, transport corridors, African continental free trade zone, government policies, intermodal transport.

1. INTRODUCTION

The concept of Free Trade Zones (FTZs) or Special Economic Zones (SEZs) have been in existence for decades, and it has revolutionized the economies of many nations. Free trade zones or special economic zones have been in existence since the 1960s [1] and has rapidly increased due to globalization and increase of trade around the world (see **figure 1**). They are meant to reduce or eliminate trade barriers and tariffs between different countries. Free trade zones are essential for the development and sustainability of intermodal or multimodal transplantation because they generate goods for international trade. Intermodal transportation refers to the use of two or more modes of transportation by a single carrier (with a single contract) for the transportation of goods from a point of origin to a point of destination. On the other hand multimodal transportation refers to the transportation of goods using two or more transportation modes with different carriers (multiple contracts) from point of origin to destination point. FTZ's will boost the transportation industry by providing carriers with traffic which can be transported by road, rail, air or by waterway. The existence of free trade zones will also provide investment opportunities for foreign investors in collaboration with government agencies to develop the various transportation infrastructures to handle the increase in traffic. These infrastructures will generate income to the government through the payment of toll fees at the toll gates. Transportation corridors plays a role in the contribution to the GDP of local economies. Transport corridors will generate more income if there handle a relatively high level of traffic. The transportation of people and other imported or exported goods for the local markets can not really generate enough traffic to make a significant contribution to the local economy. However, the existence of established free trade zones between regions will boost international trade which will have a positive impact on the transport sector. Hence, it is vital for countries to develop economic zones to boost the local transport industries.

There exist different terms for free trade zones around the world to achieve the same goal though they might be slightly different in the way of their operations. The different types include Foreign Trade Zone (FTZ), Export Processing Zones (EPZs), Economic Development Zones (EDZs), Hi-tech Development Zones (HIDZs), Economic and Technical Development Zones (ETDZ), General Purpose Zones (GPZs) and Special Economic Zones (SEZs). No matter whatever form or name these zones take, they need to achieve the main objective of promoting development, increase in export of manufactured goods from the zones, high-tech innovations, free access of goods to these zones, access to free trading, and less complicated administrative procedures. The FTZ helps exporters and importers optimize their cost of operation through reduced or tax exemptions, less transport costs with little or no customs duties. Imported foreign goods in FTZs are not subject to the standard customs formalities unless these goods leave the FTZs for local markets; only then can customs duties apply to them [2].

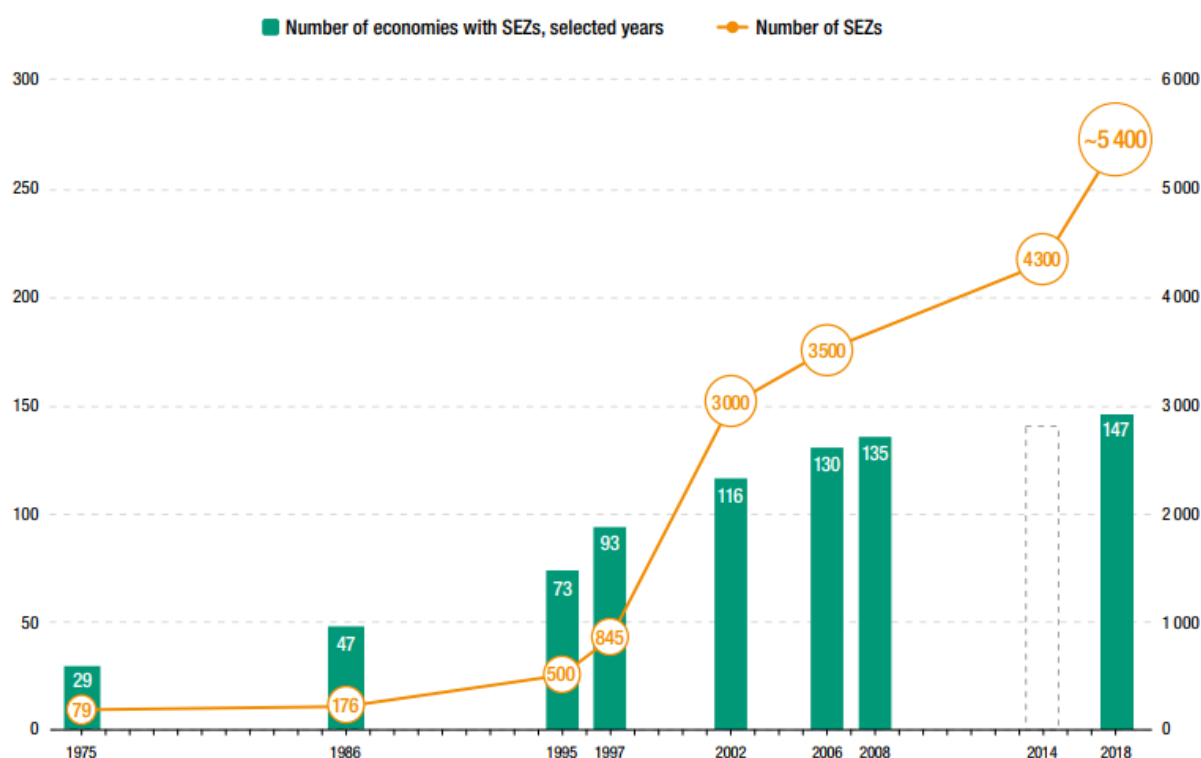


Figure 1: Historical trend in SEZs (FTZ) (Source: UNCTAD)

The location of a free trade zone is crucial for the success of its establishment. Most free trade zones are located along coastal regions with easy access to seaports or airports to facilitate the transportation of goods and people. All free trade Zones in the world are governed by trade laws stipulated by the World Trade Organization (WTO) in collaboration with the laws of host countries of the FTZs. This, therefore, means that the laws governing the free trade zone in an African country might be different from those of a free trade zone in Europe, America, or Asia. Organizations such as the World Customs Organization (WCO) have established some standard guidelines for the establishment of a free trade zone from the revised version of the Tokyo Convention [3]. Some countries might have a special area called Sub-zones, which hosts individual companies. A sub zone is usually a private site or an area that has a plant or a firm that cannot be accommodated in a free trade zone. The firm might be involved in manufacturing, warehousing, distribution. These firms enjoy the same privileges as do firms in free trade zones. Some countries like the U.S have experienced a high level of exports related activities from sub zone firms. Governments might permit a firm to operate in a sub zone in cases where the firm requires some vital investment involving huge capital or needs a suitable location (see factors influencing location selection for a FTZ by a percentage of companies in **table 1**) close to some natural resources such as the exploration of offshore oil and gas or agribusiness, or companies that need low-cost workers to work in their manufacturing firms.

Table 1: FTZs by a percentage of companies

	Percentage of companies considering location factors in			
	Choice of Country		Choice of Region	
	Critical	Important	Critical	Important
National and local characteristics				
• Financial assistance	11	20	19	20
• Promotion/government support	6	19	9	23
• Language	15	14	2	2
• Corporate taxation	6	15	3	-
Labor				
• Availability of general labor	8	26	15	32
• Availability of skilled labor	9	19	11	22
• Quality	8	22	9	29
• Labor relations	6	17	5	6
• Labor attitudes	8	14	-	17
Cost factor				
• Premises	5	17	11	18
• Labor	11	22	9	17
Infrastructures				
• Quality of road/rail services	23	20	15	32
• Proximity to port	8	11	6	15
• Proximity to a major airport	9	14	6	31
• Quality of telecoms	5	12	2	11
Quality of life and personal factors				
• Cultural factors	5	17	-	23
• Expatriate	2	11	2	9
• Educational facilities	-	6	2	12
• General attractiveness of area	5	6	6	8

Source: NEI/Ernst & Young, 1993.

As earlier mentioned, free trade zones help boost the economic development of countries and also transportation. But this is not always the case as some free trade zones or special economic zones have not been successful and remain underdeveloped, and some are underutilized (see survey in **figure 2**). The reason why some free trade zones are not successful can be attributed to the lack of attractive business environments such as poor governance, red tape, lack of appropriate infrastructures and services. Some times the cost of investing in these FTZs becomes very high than the benefits they provide (John & Finn, 2017). The economic benefits that successful free trade zones provide include; the growth and diversification of export from the zones, the generation and creation of income through a direct and indirect employment opportunities to locals, an increase in government financial resources and revenue, an increase in foreign direct investment (FDI) and the earnings of foreign exchange, the transfer of technology from expatriates to local employees which develops and increases their technical skills and regional growth. All this benefits the economy of the country hosting the FTZ and the benefits for foreign investors include; an increase in the income of their firms due to benefits from tax incentives, no customs tariffs on import and export goods, a reduction in the cost of duties and insurance, available space for free storage of goods, value-added services (packaging, labeling, processing, assembling, handling) and easy distribution of goods [3], FTZ one-shop stop that aims at targeting investors, preferential land access, special rights and obligation of zone users (see **figure 3**). Goods with quotas can be imported and transformed into goods with limitless quotas in the FTZ. Automobile manufacturers can import vehicle parts and assemble finished cars with minimal tariffs on them. Another important benefit of the FTZ is the elimination of market entry barriers to foreign investors. Free trade zones can be considered as an investment promotion to potential investors by a country signaling an attractive climate for foreign investment.

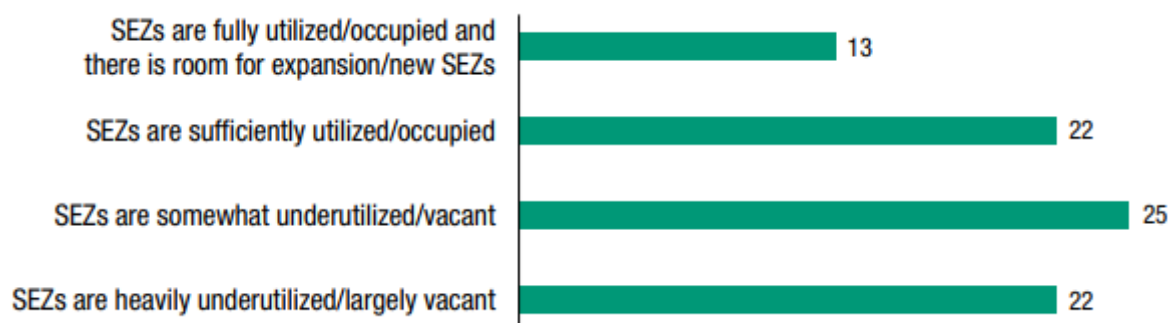


Figure 2: UNCTAD Investment Promotion Agencies Survey.

Note: The survey was conducted from February to April 2019. Results are based on information from 114 respondents.



Figure 3: Benefits of FTZ investors

Although most FTZs are involved in manufacturing, there is an extensive expansion of Hi-tech firms in special FTZs that gear at providing innovative technological services. These types of zones are known as science parks or Hi-tech parks. According to the International Association of Science Parks and Areas of Innovation, building science parks helps in cultivating cultural innovation and presents a platform for competition among Hi-tech firms and educational institutions [1]. Establishing a Hi-tech park is relatively expensive as compared to a normal FTZ. In 2013, there were about 366 science parks in European Union countries with an investment of about €11.7 billion between 2000 to 2012, covering an area of about 28 million m² according to an EU report.

In Asia, China by 2017, had developed 156 science parks (Hi-tech zones) in different cities such as Beijing, Shenzhen, and Shanghai, among others. Firms in these hi-tech zones benefited from incentives such as no payment of corporate income tax between the first two years of operations, no custom duties on imported high-tech equipment's, the provision of high-quality infrastructures that suits the firms activities, preferential treatments to employees among which include special housing contracts, no taxing on personal income, good schools for their children, car deals among other benefits depending on the zone. The hi-tech parks alone contributed 11.5% to the Chinese economy, an estimated amount of \$1.42 trillion in 2017 alone [1]. Firms in these zones received about 46% of the patent rights granted in China. The latest free trade zone developed in china is the Pilot free trade zone established in 2013 in Shanghai and has contributed a lot to the Chinese transport industry.

In Turkey, the science parks are referred to as Technology Development Zones, and their main contributions to technology are in the development of R&D products. There exist about 83 Technology Development Zones (TDZs) in Turkey which enjoy incentives such as VAT exemption from all software products that are produced and exported from

these zones, exemption from the payment of corporate income tax by the firms and personal income tax by employees in the zones who are involved in the production of R&D products, imported goods are exempted for tariff, and also they benefit from social security subsidies.

In India, the first FTZs were developed in 1965, which first served as EPZs. However, in 2005 an act was passed, which led to the conversion of the EPZs to SEZs so that private investors could diversify their investments to help develop industries in specialized sectors. Presently, there are 231 FTZs in India, and 60% of these zones are specialized in providing services in the information and communication technology industry.

Russia, on the other hand, had developed six Special Economic Technology Zones from 2005-2015. These zones have been very instrumental in contributing to the country's economy. These zones hosted 39 overseas firms with high employment of about 14,000 in 2018, according to the world investment report. These zones host top innovative firms in science research areas such as nanotechnologies and microelectronics. Like other firms in free trade zones, these firms benefit from various tax incentives. As earlier mentioned, different countries have different types of FTZs depending on the kind of activities and specializations they are involved with, as demonstrated in **table 2**.

Table 2: The different functions of FTZs

Organizing principles	Type	Description
Specialization	Logistics hubs (FTZs)	<ul style="list-style-type: none"> • Commercial, warehousing and logistics services • Trade facilitation services for trans-shipping and re-exports, at airports, seaports, borders • Can be located next to or within larger industrial estates
	Multi-activity SEZs	<ul style="list-style-type: none"> • General industrial development, non-specialized
	Specialized SEZs	<ul style="list-style-type: none"> • Focused on sectors (e.g., services, resource or agro-based) • Focused on industries (e.g., automotive, electronics, garments) • Focused on GVC activities (e.g., business process outsourcing, call centers, R&D centers)
	Innovation-driven SEZs	<ul style="list-style-type: none"> • Focused on industrial upgrading and new industries, e.g., high-tech zones, biotech zones, Eco-zones
Design and governance	Wide-area zones	<ul style="list-style-type: none"> • Large, integrated zones, often coinciding with a subnational administrative region or built as townships with residential areas and amenities • The original purpose of the largest zones was to pilot economic reforms
	OFDI/ODA-driven zones	<ul style="list-style-type: none"> • Established under a partnership between capital-exporting economies and lower-income economies
	Cross-border/regional development zones	<ul style="list-style-type: none"> • Established to foster regional economic cooperation and to exploit economies of scale associated with regional markets

Source: UNCTAD. (FTZ = free trade zone, GVC = global value chain, ODA = official development assistance, OFDI = outward foreign direct investment, R&D = research and development, SEZ = special economic zone).

There are a wide variation and distribution of Economic Zones that exist as earlier mentioned. These zones can either concentrate on a single activity or multiple activities depending on the requirements or the future aspirations of the countries hosting these zones. Often than not, most FTZs, changes according to the political climate of the host countries. This sometimes influences a shift in the activities of the zone, especially in transition economies [1]. Examples of these transitions are zones that were initially intended for Export Processing Zone (EPZs) and later transformed to Hi-tech zones and other zones that were initially designed as logistics parks have been modified to export processing zones. Countries develop SEZs according to the developmental stages of their economies, as demonstrated in **table 3**. Advances in innovation drive most zones in Asia, while most zones in the developed countries instead focus on the facilitation of logistics and trade. The type of zones adopted by any particular country is mostly dependent on the level of economic development of that country (UNCTAD). Countries that are new to FTZ or SEZ, especially in Africa, use these zone to support manufacturing to boost exports and industrialization.

Table 3: The different economic development stages of FTZs

Type of economy	Zone policy objectives	Prevalent zone types
High-income economies	<ul style="list-style-type: none"> • Provide an efficient platform for complex cross-border supply chains • Focus on avoiding distortions in the economy 	<ul style="list-style-type: none"> • Logistics hubs free zones only (not industrial free zones) • Innovation and new industrial revolution objectives pursued through science parks without separate regulatory framework, or though incentives not linked to zones
Upper-middle-income economies	<ul style="list-style-type: none"> • Support transition to services economy • Attract new high-tech industries • Focus on upgrading innovation capabilities 	<ul style="list-style-type: none"> • Technology-based zones (e.g., R&D, high-tech, biotech) • Specialized zones aimed at high value-added industries or value chain segments • Services zones (e.g. financial services)
Middle-income economies	<ul style="list-style-type: none"> • Support industrial upgrading • Promote GVC integration and upgrading • Focus on technology dissemination and spillovers 	<ul style="list-style-type: none"> • Specialized zones focused on GVC-intense industries (e.g. automotive, electronics) • Services zones (e.g., business process outsourcing, call centers)
Low-income economies	<ul style="list-style-type: none"> • Stimulate industrial development and diversification • Offset weaknesses in the investment climate • Implement or pilot business reforms in a limited area • Concentrate investment in infrastructure in a limited area • Focus on direct employment and export benefits 	<ul style="list-style-type: none"> • Multi-activity zones • Resource-based zones aimed at attracting processing industries

Source: UNCTAD

2. ESTABLISHING OVERSEAS ECONOMIC CORPORATION ZONES

There has been a proliferation of countries or major corporations moving overseas to develop bilateral and economic corporations to foster economic growth between the host countries and their partners. Often than not, the partners establish interest to develop a certain region in a host country which can be built as an economic zone. These zones are referred to as Government Partnership Zones (GPZs). Both parties demonstrate a high level of cooperation in the strategic developments of these zones in major markets. GPZ attracts high financial investment from foreign governments with foreign direct investments (FDI) and the transfer of skills and knowledge to the host economies. Some multilateral institutions such as the United Nations, the U.S Agency for International Development, the World Bank, and other

international banks have also assisted in the development of such zones. In 1999, the European Investment Bank, in collaboration with the World Bank, assisted in the development of the Gaza Industrial Estate to boost employment [1]. Other overseas cooperation includes Japan-India Investment Partnership, Russia-Egypt Partnership, where Russia aims to develop an industrial zone in the Suez Canal FTZ and other prominent cooperation like the China-Africa cooperation, Russia-Africa cooperation, Israeli-Palestinian cooperation, SINO-Asia cooperation (which is part of Beijing's One Belt One Road initiative), etc. **Table 4** demonstrates some of these co-operations, among others in the world. The participation of all key stakeholder of each zone is crucial for the success of each zone, and they usually include;

- Government: They establish the relevant decrees and policies that govern the zones and supervise their implementation.
- FTZ authority: They provide strategic assessment and planning for the FTZ and issue the necessary licenses to the private stakeholders.
- Zone developer: They are responsible for providing the right infrastructures and also for making the necessary land arrangements for potential investors.
- Zone operator: They are responsible for the management, administration, and the promotion of the zone to attract investors and are also responsible for the selection of those to use the zone.
- Zone users: These are the investors who have been selected to operate in the zone.

Table 4: Overseas Partnership Zones

Zone	Home economy	Host economy	Bilateral agreement	Development model
Batamindo Industrial Park	Singapore	Indonesia	1989	A joint venture between Singapore Government-linked companies and Salim Group, Indonesia
Suzhou Industrial Park	Singapore	China	1994	A joint venture between Singaporean and Chinese consortiums
Lekki Free Trade Zone	China	Nigeria	2006	A joint venture between Chinese consortium and the Lagos State Government
Bethlehem Multidisciplinary Industrial Park	France	State of Palestine	2008	A joint venture between the Agence Française de Développement, and French, Palestinian, and other private investors
Sihanoukville SEZ	China	Cambodia	2010	A joint venture between Chinese conglomerate and Cambodia International Investment Development group
Belarus-China Great Stone Industrial Park	China	Belarus	2011	A joint venture between a Chinese private developer and a Belarus public administration
Caracol IP	Unites States	Haiti	2012	Developed by the Government of Haiti, the Inter-American Developed by the government of Haiti, the Inter-American Development Bank, the U.S Government and Sae-A Trading (Republic of Korea), which is also the anchor tenant; managed by Haiti National Society of Industrial parks
One Hub Chennai	Japan	India	2013	A joint venture between an Indian public administrator, a Singaporean private development and a Japanese consortium
Sittwe SEZ	India	Myanmar	2016	Still in the planning stage
Russia Industrial Zone	Russia	Egypt	2018	To be developed by a Russian industrial developer

Source: World Investment Report

According to the World investment report, China has established over 20 overseas economic zones around the world known as China's Overseas Cooperation Zones in South Asia, Central Asia, Hungary, Africa, Russia, and South-East Asia. These overseas zones will help boost china's domestic markets, which have experienced a decline in sales of manufactured goods during the past few years. These zones will also provide china the opportunity to help develop the industrial skills of the less developed economies. This has offered Chinese firms the incentive to invest and assist in the development of these zones through infrastructural development, agriculture, energy, mining, and other prominent sectors.

When it comes to the development of a Free Trade Zone, there exist different models that could be implemented to ensure the success of the zone. Three main models are mostly used, which includes the public, private, and the hybrid model. The public model is being managed and controlled by the public (government) with the zone developers serving as the administrators of the zone who are usually selected by the governments. The FTZ authorities usually monitor their operations. For the private model, the FTZ authorities have limited authority in the regulation of the zone. They are responsible for selecting the private zone developer base on their competitive advantage over other developers. The zone developers are also responsible for the selection of the zone users. The private model is advantageous because the private developers bring in a high level of skills, which helps enhance the skills and the knowledge of the locals. When it comes to the hybrid model, there exists an element of the public and an element of the private models in the model. With this model, the zone developers could either be private or public, and they are still responsible for the selection of the zone users, and the government is highly involved in all the projects carried out in the zone. **Figures 4, 5 & 6** demonstrates the different models.

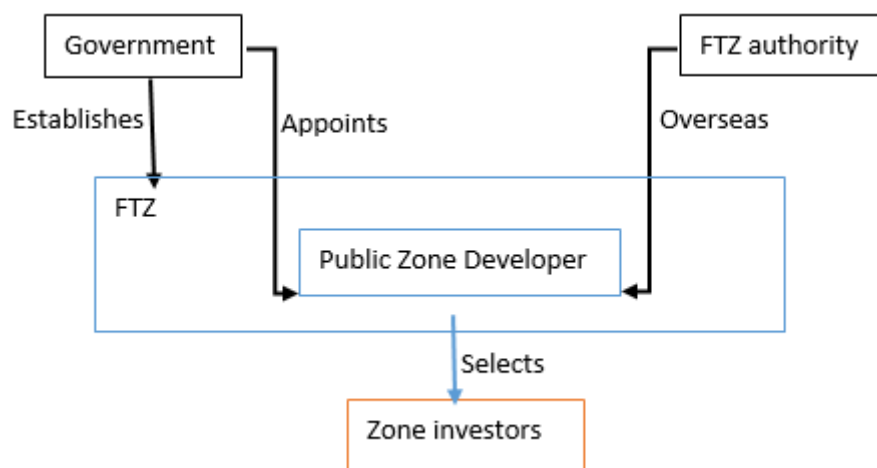


Figure 4: FTZ public model

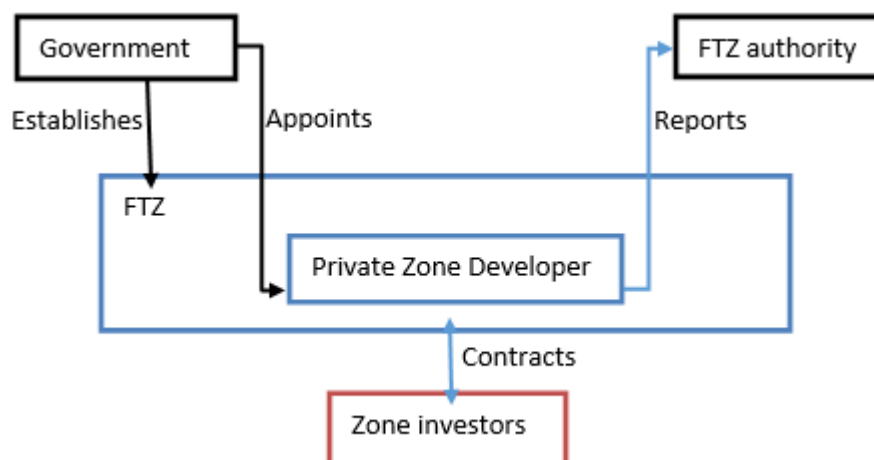


Figure 5: FTZ private model

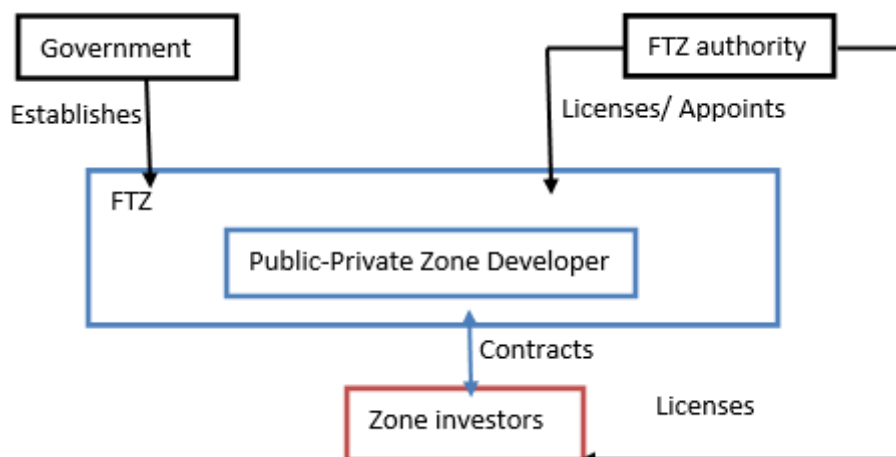


Figure 6: FTZ hybrid model

Some government uses FTZs irrespective of the institutional model they adopt as a platform to experiment new policies and economic development strategies, which when successful are gradually introduced countrywide. An example is China, which has used its pilot free trade zones to test some economic policies which have been gradually introduced countrywide because these policies have been successful in the pilot zones. Some other countries have also used their pilot zones to test unrestricted ownership by foreign investors. Governments adopt these strategies because the sustainable development of a free trade zone will gradually improve industrialization in the country.

3. DEVELOPMENT OF FREE TRADE ZONE IN AFRICA

The first FTZs that were established in Africa were in Senegal, Liberia, Mauritius, to name a few during the early 1970s [4] and the continent had the least number of free trade zones, but there has been a proliferation of export processing zones and industrial park over the years. Despite the increase in the number of these FTZs across the continent, most have not been able to fulfill their purpose by promoting these zones to attract potential investors to ensure possible development and improve on employment and exportation [5]. Apart from countries like Kenya, Ghana, Nigeria, Lesotho that have shown some level of sustainability, Mauritius is the only country in Sub-Saharan African that has been able to develop a Free Trade Zone that has enhanced economic growth since its establishment. A country like Madagascar has not been very successful with its FTZ because of political instability [6]. Unlike China and most East Asian countries whose FTZs became a success because of the era of globalization which led to most manufacturing firms moving from the U.S and Europe to Asia, most of the FTZs in Africa were established much later, and these zones had to face a much more organized Asian FTZs [4] which they can't compete with when it comes to manufacturing. This is one of the factors that have influenced the poor performance of most African FTZs coupled with poor policy implementations, poor coordination of institutions, the wrong choice of a FTZ location, lack of strategic planning, and lack of adequate infrastructures to support both economic and social activities. This does not mean that there was no sufficient research or consultancy from experts before these zones were established. According to Brautigam & Xiao [7], there has been extensive research carried out by development agencies, technical expertise offered by international consultants, and China with other Asian countries providing both financial and technical support to assist the African FTZs through bilateral developmental memorandums. Therefore the failure of most African FTZs can only be related to politics, location, and infrastructures. Sometimes policymakers are rather interested in what they can gain from the development of FTZs than for the economic or social welfare of the country. Such self-interest might include adjusting the rates of tariffs to a particular set of investors, diverting foreign aid for personal use due to lack of proper accountability, awarding of contracts to less credible investors and all these create room for a high level of corruption.

3.1 The political & economic climate of free trade zones in Africa

As earlier discussed, most FTZs in African have failed to develop to their potentials because of the poor political climate. Factors that influence these poor political climates include; less streaked governance policies, a lot of loopholes in the laws governing the zones, lengthy and inefficient paper works. This is mostly because most government officials or

policymakers do not have an interest in implementing laws or policies that will ensure the successful development of these zones. They are rather interested in setting deals that will benefit them, such as cheaper land acquisition deals in these zones, implementing regulations that will benefit their businesses, which results in all sorts of corruption malpractices. Some politicians use free trade zones or special economic zones as a means to foster their political campaigns for elections. They base their campaigns on the fact that these zones create more job opportunities for the locals and promise to do more if they retain power. They use the physical infrastructures developed in the FTZs as a sign that the country is developing because these are structures that the public can see. All these indirectly weaken the sustainable development of the free trade zones following inadequate regulatory regimes, as in the case of Senegal and South Africa which has one of the most developed FTZs in Africa [8],[9].

Another issue that affects the development of free trade zones is when agricultural land is used for the development of these zones. Compared to agriculture, FTZs are more economically profitable. Hence, governments have to displace local farmers or relocate them to different areas, and this often than not ends up in riots, which directly affects the developmental progress of the zone. Sometimes the local farmers or the communities that are displaced are promised compensation packages which are relatively insignificant as compared to their lands. In 2005, Vietnam relocated about 100,000 farmers to develop FTZs, and most of the farmers did not receive proper incentives [10]. In India in the same year, a lot of agricultural lands were converted into FTZs to promote industrial development [11]. The same phenomenon also occurred in Lekki, Nigeria, where riot occurred between the locals and the government for lack of settlement for land taken for the establishment of a FTZ.

Most African governments, in their quest to foster economic development, reduce the standards needed for investors to acquire permits to operate in the FTZs. This attracts less qualified investors who eventually do not fully commit to realizing the operations of their firms. This affects the competitive advantage of these zones with other zones. A lot of investors have not been able to operate in most of the FTZs in Africa because they were not adequately qualified to be issued licenses to operate in these zones. Sometimes, governments in their attempt to stay in power promise to establish zones in every region of the country irrespective of whether the location is suitable for the development of a FTZ or not. This attracts fewer investments in poorly located FTZs as the government runs out of funds to promote these zones; an example is Lesotho and Tanzania.

Conflicts between governmental institutions is another predicament for the progress of FTZs in some African countries. Poor coordination and communication among different government institutions create confusion in most FTZs as the FTZ authority and other ministries can have conflicting interests. In 2002, the National Development Corporation of Tanzania was responsible for coordinating a newly established EPZ. However, a few years later, the government decided to develop a FTZ to be coordinated by the Ministry of Planning, Economy, and Empowerment. This created overlapping interest, which led to the misappropriation of financial resources. Also, in Nigeria in 1992, there was a conflict of interest of authority between the Oil & Gas FTZ authority and the EPZ authority. Such conflicts are not a good signal to potential investors. Most of these conflicts occur during the implementation stages rather than the planning stages, especially between customs and other vital institutions when it comes to finances. In Ghana, the Tema FTZ was to be supplied with water by the Tema municipality water authority but they did not fulfill this requirement because of lack of incentives from the government, and investors had to seek alternative sources of water, which were relatively expensive [12]. This is as a result of misplaced incentives.

Governments sometimes have limited ideas on how to implement the right policies or regulations that can ensure the success of a FTZ. Most government officials are politically appointed into positions that are out of the expertise, and this influences the type of decisions they make. Their lack of knowledge in establishing a FTZ influences their poor decision in the type of industries to focus on causing them to focus on the wrong industry, the type of infrastructures to provide, the best location to develop a FTZ or the necessary factors that will attract potential investors to ensure a successful FTZ. In South Africa, the government invested about \$300 million in developing infrastructures in the Industrial Development Zone located in Coega which was not a good location, and it failed to generate substantial jobs for the locals (CDE 2012). The same applies to the FTZ in Calabar, Nigeria, where unused infrastructures hindered the growth of the zone. In some situations, governments think that replicating a FTZ model that is successful elsewhere will be successful in their economy, which is not always the case.

3.2 The African Continental Free Trade Area (AFCFTA)

The African Continental Free Trade Area (AFCFTA) is an initiative signed by 54 African countries in May 2019, to establish a continental free trade zone to facilitate trading within the continent (see **figure 7**). Not applying duties on goods traded between these countries (zones) can improve on the continent's income to about \$2.8 billion per year. In 2018, export between African countries (intra-African trade) was 19%, 59% between Asian countries and 69% between European countries [13]. A successful development of the continental free trade zone could make the continent the next stop for low-cost manufacturing, which could expand the economic growth of African countries. This, therefore, means that there is a need to improve the continent's transport infrastructures, especially railways and road networks, to facilitate the movement of goods between countries. In addition to transport infrastructures, there is the need to reduce complexity at the borders, reduce corruption mal-practices, reduce duties, and improve on security & political stability across the continent. Africa already has regional economic zones that compete among each other, which includes the ECOWAS in West Africa, MAC representing East Africa, CEMAC representing Central Africa and SADC representing Southern Africa. These regions will keep trading among themselves in addition to the other regions to satisfy the goals of the African free trade zones that aims to integrate all the African countries. However, conflicting interests among the countries might pose some challenges in negotiations as some countries stand to gain more from this continental free-trade zone than others. A country like South Africa with advanced manufacturing industries can easily scale their export to Central, West, and North Africa, giving them a competitive advantage over other countries. More so, South Africa, Egypt, and Nigeria are African giants, with about 50% of the continent's GDP. They will benefit more from the agreement than a smaller country with GDP's leaser than 3%.

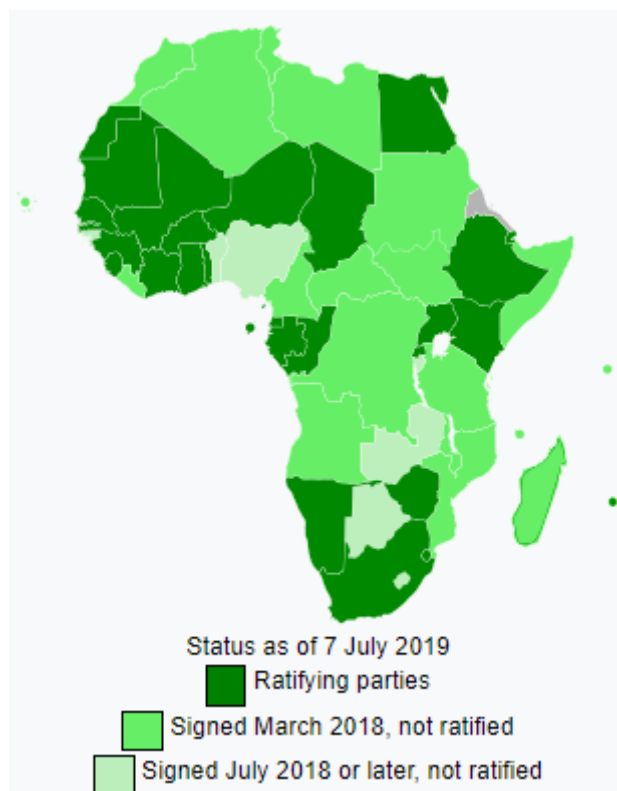


Figure 7: African Free Trade Zone (source: Wikipedia)

China has shown interest in being one of the largest investors in developing the continental free trade zone. About 40 African countries have entered into a bilateral agreement to carry out trade with China. Research by the China-Africa Research Initiative at John Hopkins University in Beijing shows that about \$10 billion worth of trade was carried out between China and African in the year 2000. It kept increasing to \$220 billion in 2014 even though there has been a decrease in trade to \$184 billion by 2017. **Figures 8, 9 & 10** compare the China-Africa trade and the U.S-Africa trade since 2002.

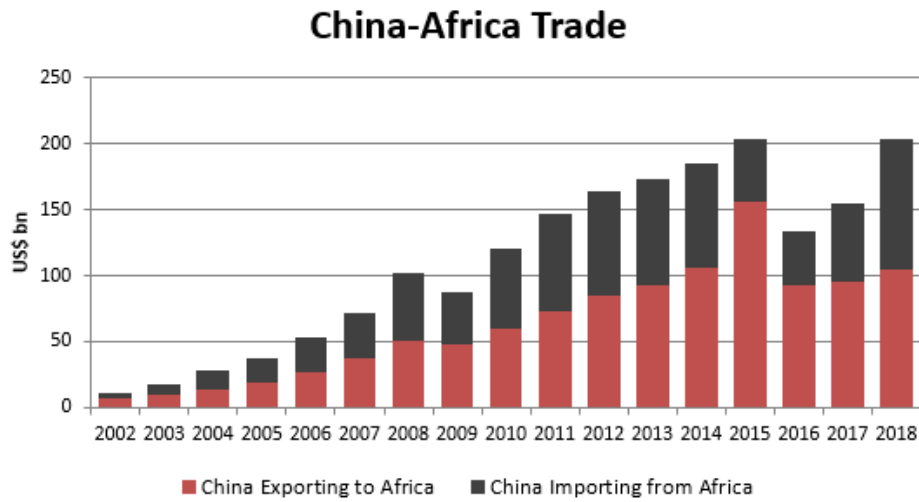


Figure 8: China-Africa Trade (source: China Africa Research Initiative, John Hopkin’s university)

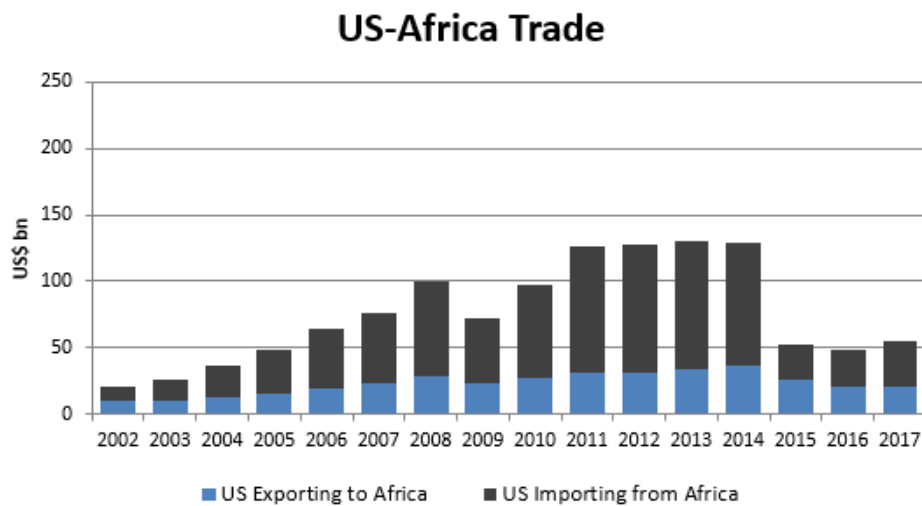


Figure 9: US-Africa Trade (source: China Africa Research Initiative, John Hopkin’s university)

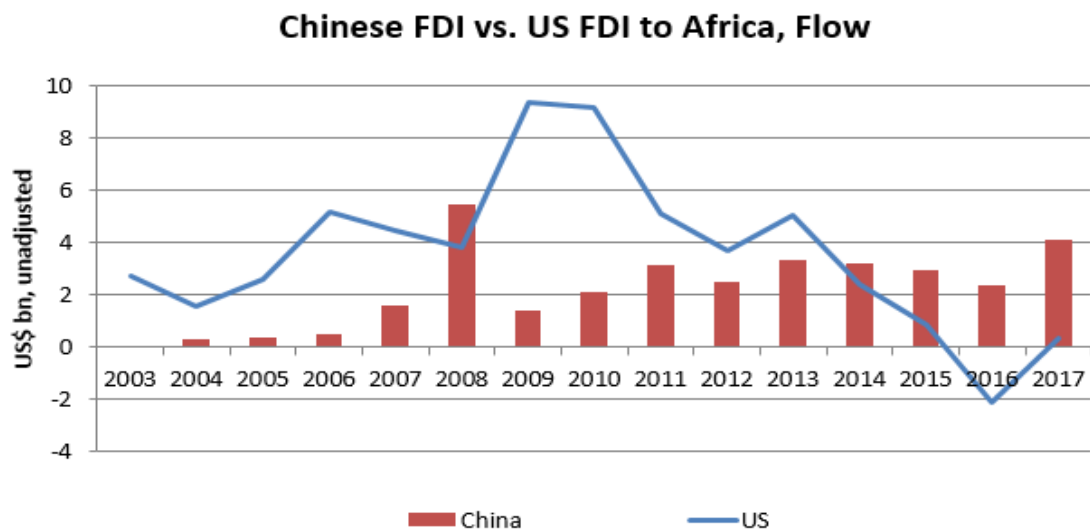


Figure 10: China vs. U.S FDI to Africa (source: China Africa Research Initiative, John Hopkin’s university)

Earlier in chapter four, the optimal route to link Central Africa to the Maritime Silk Road through the Kenyan port was established. The use of the inland transport route for the transportation of goods will be beneficial to the countries along the route to Bangui (Central African Republic). Since all these countries are part of the African free trade zone, they can directly benefit from the Maritime Silk Road, which will enable them to have access to Chinese markets. The free trade zone in Bangui can be developed to also serve as a dry port to handle the transshipment goods from the Mombasa port. This dry port can serve as a hub for the redistribution of goods to the other central African countries. The other countries with their FTZs along this route can also provide investment opportunities for investors as this route can play a vital role in the transportation of export goods. This creates a wide range of investment opportunities for Chinese investors and other foreign investors who can take advantage of the availability of these free trade zones. For this to be possible, investment in good transport infrastructures needs to be prioritized by the different governments and other organizations like the African development bank, UN Economic Commission for Africa, and other prominent organizations.

4. CONCLUSION

Free Trade Zones or whatever form it may take is one of the best strategies for a country to improve on its economy through manufacturing, hi-tech, and value-added services. There can also help enhance multimodal transportation. For FTZs to be successful, there should exist the right political atmosphere, location, policies, and incentives to attract FDI. Policymakers made up of a board of directors from both public and private sectors who are experts in their respective fields should be formed. They need to be careful when designing policies for zones by making sure they do not have conflicting interests between state institutions when setting incentives. Goals should be clear to ensure proper evaluation and monitoring. There should be a sharing of information among all participants in the designing stage of the FTZ to help implement the right decisions for a sustainable FTZ. There should be some form of public debate to ensure that the public is synthesized on the different activities and economic benefits FTZs brings. The public should be able to know the policies and incentives available for both local and foreign investors.

There is a need for a thorough feasibility study to be done by government, policymakers, and FTZ regimes before deciding to establish a FTZ, and these studies should be made transparent to ensure transparency. The governments should also do enough research on potential investors before choosing those who will receive special incentives in areas of financial capacity, legality and business models. Investors should be selected based on their expertise and not because of political links with the government. There should be an establishment of a flexible legal FTZ regime that can help carter for both political and economic issues to ensure the successful development of a FTZ. Policymakers should ensure that the legal regime should be able to accommodate different economic situations, and they should set investment rules. An autonomous government should control the FTZ regime with the head being the president or the prime minister of the country if it is going to be successful [14]. This will help take care of any conflicting interests between different governmental institutions that could hinder the development of the zone. However, there is no regime, policies or models that can guarantee the success of any FTZ but there are strategies that governments can implement to establish policies that can support the development of a FTZ which includes,

- Securing political support
- Selecting a good location
- Providing IT applications to simplify customs procedures
- Providing developed logistics infrastructures
- Ensure good collaborations with investors and stakeholders
- Develop an integrated intermodal systems
- Establishing good marketing and strategic models
- Establish treaties for free trade between countries.

The overall business environment should be favorable to attract investors and not only base on special tariffs or incentives. FTZs should be able to develop and grow without investors depending too much on incentives. Incentives are important but should not be the ultimate tool that attracts investors. Preferably, more emphases should be placed on strong governance, simplified procedures, providing sufficient infrastructures like transport facilities for goods and workers and services such as security services for logistics-related activities.

Governments should not only concentrate on developing FTZs but also developing businesses in other sectors of the country so that they can be stable economic growth throughout the country to generate enough traffic for intermodal transportation. The FTZs can be used as a model to create new business sectors in a country, and this could serve as a good strategy for sustainable economic development and boost the transport industry by increasing traffic of goods transported.

The signing of the pan African free trade zone by the 54 African states is a good indicator to foster economic development in the continent. Each African State should take advantage of this opportunity and provide an attractive business environment to investors, especially to big investors like China. As China is expanding its One Belt One Road (OBOR) project, it can invest in infrastructures and small businesses in these free trade zones for sustainable development and win-win cooperation.

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