

**PERCEPTIONS OF LOCAL FIRMS TO INVEST IN SPECIAL
ECONOMIC ZONES IN ZAMBIA: THE CASE OF LUSAKA
SOUTH MULTI-FACILITY ECONOMIC ZONE**

by

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A Dissertation submitted to the University of Zambia, School of Natural Sciences in partial fulfilment of the requirements for the award of a Degree of Master of Science in Spatial Planning.

THE UNIVERSITY OF ZAMBIA

LUSAKA

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DECLARATION

I, Namatama Mubiana (2019114925) do hereby declare that this dissertation is my own work. Neither the material nor any part of the dissertation has been previously submitted for a degree at this or another University. All published work or material from other sources incorporated in this dissertation has been acknowledged and adequately referenced.

I, therefore present this dissertation for examination for the Degree of Master of Science in Spatial Planning to the University of Zambia.

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ABSTRACT

Special Economic Zones (SEZs) after their success in Asia specifically China have been replicated worldwide to achieve the benefits realised by countries that successfully implemented them. The benefits realised from these zones range from technology spillovers, employment and attraction of foreign direct investment among others. In Zambia, the zones have been designed to encourage local and foreign investment including small and medium enterprises. However, the rate of uptake of land in the Lusaka South Multi-Facility Economic Zone remains low years after the zone was established despite the numerous incentives by the Government to encourage local firms to establish in the zone. The focus of this study was to investigate the perceptions of local firms to invest in the Lusaka South Multi-Facility Economic Zone. Purposive sampling was used to select respondents from relevant key institutions while convenience sampling was used for firms outside the zone. The data was obtained from all 24 companies currently operating in the economic zone and 39 firms operating outside the zone. The data was analysed using thematic analysis and descriptive statistics using percentages. The study revealed that the majority of firms were not willing to invest in the zone due to its location, limited water supply, inclination of the zone to favour foreign investors, inadequate capital to set up and lack of public transport servicing the area. Secondly, it was established that there is no interaction between firms in the zone due to their different line of businesses while 7.1% of firms operating outside the zone indicated that they had interaction with those within the zone. The study concludes that the firms in the zone perceive it positively while the firms outside perceive it negatively. Therefore, the study recommends addressing the existing challenges experienced in the zone and introducing clear policies that will be used in the operationalisation of SEZs.

Key concepts: Perceptions of firms, Agglomeration of firms, Static and Dynamic benefits, Special Economic Zones (SEZs)

DEDICATION

I dedicate this dissertation to my beloved daughter Tumelo-Gabriella, may this be an inspiration for you to achieve greater things in life. I also dedicate this work to the memory of my late father Mr Desmond Sitali Mubiana who believed so much in education, his words still live in our hearts.

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ACRONYMS

~~IDC Industrial Development Corporation~~

~~FDI Foreign Direct Investment~~

~~LS-MPEZ: Multi-Facility Economic Zone~~

~~MCTI Ministry of Commerce, Trade and Industry~~

~~MSMED Ministry of Small and Medium Enterprises Development~~

~~SEZ Special Economic Zone~~

~~ZDA Zambia Development Agency~~

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1.0 BACKGROUND TO THE STUDY

According to Rodríguez-Pose et al., (2022), special economic zones (SEZs) are mushrooming across the developing world. Increasingly, policymakers resort to zones intending to turn around their countries' economic fortunes. Zones are expected to deliver greater innovation, exports, knowledge and technological spillovers (Rodríguez-Pose et al., 2022). Kituyi (2013) states that there existed 176 zones in 46 different countries in 1986, and today, more than 3,000 SEZs exist in about 135 countries. Collectively, it has been estimated that these SEZs account for over US\$500 billion in global trade, employing more than 70 million people (Kituyi, 2013). Warr and Menon (2016) state that in 2006, there were 3,500 SEZs in 130 countries and total employment in these zones was 66 million, of which 40 million was in the People's Republic of China (PRC), 5.25 million in Mexico and Central America, and a further 3.25 million in bonded factories in Bangladesh.

Rodríguez-Pose et al., (2022) states that the recent proliferation of SEZs in the continent has rendered the need to ensure that SEZs deliver on their objectives, given the often-negligible opportunity costs associated with SEZ development. Kinyondo et al., (2016) add that firms located in SEZs are usually granted a range of incentives including tax breaks, subsidies and superior infrastructure. Their success is generally determined by the extent to which they attract FDI, create jobs, increase exports and lead to productivity spillovers (Kinyondo et al., 2016).

According to Mwansa et.al, (2020) domestic firms, located in the Special Economic Zone (SEZ) provide an opportunity to develop their capacity to produce for the export markets as well as access to international marketing and distribution channels. Special Economic Zone development is further motivated by attempts to reap the agglomeration benefits that arise from the concentration of industries close to one another, such as the development of supply and subcontracting relationships (Mwansa et.al, 2020).

Woolfrey (2013) states that the most cited goals of SEZs include the alleviation of wide-scale unemployment; supporting wider economic reform strategies; promotion and diversification of exports; attracting foreign direct investment (FDI); and allowing governments to test new policies. Mwansa et al. (2020) add that the provision of attractive incentives and benefits seeks

to attract multinational companies (MNCs) which in turn would transfer knowledge and technology to the domestic economy. Mahmood (2018) states that some of the notable challenges of special economic zones are harmonizing SEZ policies with Chinese SEZs and effectively implementing them to cut down cost of doing business and to enhance ease of doing business; location is the key success factor for SEZs, therefore establishing them where they are most suitable and viable is important; creation of an environment for fast and effective dissemination of technology and knowhow and finally, the success of the SEZs would depend on provision of cost-effective and uninterrupted utilities as well as proximity to road, rail, and sea and air-ports.

Mwansa et al., (2020) have described a Multi Facility Economic Zone (MFEZ) as they are called in Zambia as a Special Economic Zones which can be utilized for export and domestic production purposes by industries operating in the designated economic zone. Mwansa et al., (2020) further reveal that an MFEZ is characterized by a mixture of several enticing attributes ranging from facilities such as export processing zones, industrial parks, free trade zones and free ports, among others. Ideally, it is hoped that an MFEZ will kindle economic development in the selected location and consequently contribute to that country's gross domestic product (Mwansa et al., 2020).

Zeng (2016) has revealed that the Government of the Republic of Zambia introduced multi-facility economic zones (MFEZ) in 2005 to enhance Zambia's competitiveness and industrialization. Zeng (2016) further states that the zones were initiated to foster an attractive business environment, promote exports, and enhance domestic trade. The enactment of the Zambia Development Act which mandated the creation of the Zambia Development Agency (ZDA) provides a primary framework for the management of investment facilitation activities within the country Zeng (2016).

Mwansa et al. (2020) contend that legislation governing the establishment and management of Multi-Facility Economic Zones (MFEZs) is mainstreamed in the Zambia Development Agency (ZDA) Act No. 11 of 2006 under Section 18. However, this Act was repealed and replaced with the Investment, Trade and Business Development Act No. 18 of 2022 which declares special economic zones. According to Mwansa et al., (2020), the Ministry of Commerce, Trade, and Industry (MCTI) of Zambia has as of December 2019 created eight MFEZs in Zambia. These are the Chambishi Multi-Facility Economic Zone owned by the Zambia China

Commercial and Trade Cooperation Zone (ZCCZ) which is a subsidiary of the China Non-Ferrous Metals Group; the Lusaka East MFEZ also owned by ZCCZ; the Lusaka South MFEZ owned by the Government of the Republic of Zambia; Lumwana MFEZ owned by the Barrick Lumwana Mining Company (North Western Province); the Sub-Sahara Gemstone Industrial Park in Ndola; Roma Industrial Park in Lusaka; Chibombo MFEZ in Chibombo (Central Province); and the Maamba MFEZ in Maamba of Southern Province (Mwansa et al., 2020).

Zeng (2016) further adds that the Ministry of Commerce, Trade and Industry has designated several locations for the establishment of MFEZs including the Lusaka South Multi Economic Zone (LS-MFEZ) which is being developed as a mixed-use development ~~is~~ intended to promote manufacturing, exports, technology & knowledge transfer and job creation. The MFEZs are established to overcome the binding constraints faced by the private sector, including land, infrastructure, and business climate (Zeng, 2016).

In Zambia, the Lusaka South Multi-Facility Economic Zone (a special economic zone) was established in 2005 with the view of replicating some of the benefits that have been realized in other countries where special economic zones have been implemented successfully (Mwansa et al., 2020). Empirical research indicates that there is a continuum of economic zones, ranging from facilities such as free trade zones, industrial parks, export processing zones, economic and technology development zones, high-tech zones, science and innovation parks, free ports, enterprise zones among others (Mwansa et al., 2020).

The Lusaka South - Multi-Facility Economic Zone has great potential to attract investment and create employment opportunities for citizens in various skill areas, considering that it is a government-owned facility (Mwansa et.al, 2020). Phiri and Shimukunku (2020) have revealed that as of 2020 a total of 17 firms were on site, consisting of 10 operational firms and 7 firms in the advanced stages of the construction phase. These represent an occupancy rate of less than 20 per cent of the zone (Phiri and Shimukunku, 2020). This study therefore proposes to study the perceptions of firms to invest in the Lusaka South Multi-Facility Economic Zone.

1.1 PROBLEM STATEMENT

Special Economic Zones were introduced in Zambia in 2005, with the Lusaka South Multi-Facility Economic Zone being the first zone. This was done to replicate benefits that have been realised in countries where the zones have been successful. Despite the Lusaka South Multi-

Facility Economic Zone being the first to be introduced in Zambia, operations only began in 2013. The goal of the zone was to attract four hundred (400) companies which would in turn create 100,000 jobs within 20 years. This was hoped to be achieved by the introduction of incentives both fiscal and non-fiscal in the zone to attract investment. To this day, the Lusaka South Multi-Facility Economic zone has only created 12, 779 jobs with only twenty-four (24) both local and international operational firms. Therefore, there is a need to understand some of the challenges that have hampered the slow investment of companies in the Lusaka South Multi-Facility Economic Zone as this will be crucial in guiding policy. Therefore, this study seeks to investigate the perceptions of local firms to invest in the Lusaka South Multi-Facility Economic Zone.

1.2 AIM OF THE STUDY

The study aims to investigate the perception of local firms investing in the Lusaka South Multi-Facility Economic Zone.

1.3 RESEARCH OBJECTIVES

1. To investigate the perception of the MFEZ by various firms.
2. To find out the willingness of small and medium local firms to invest in the zone
3. To establish the extent to which small and medium firms in the economic zone interact with each other.
4. To ascertain the opportunities and challenges in the zone.

1.4 RESEARCH QUESTIONS

1. What are the perceptions of the MFEZ by various firms?
2. How willing are the small and medium local firms to invest in the zone?
3. What is the extent to which small and medium firms in the economic zone interact with each other?
4. What are the opportunities and challenges in the zone?

1.5 SIGNIFICANCE OF THE STUDY

The study findings will help highlight the perceptions of various firms to invest in the Lusaka South Multi-Facility Economic Zone. Further, the study will help policy-makers and planners advocate for future special economic zones by putting in place clear mechanisms and guidelines that encompass foundations for the effective and efficient establishment of special economic zones and the attraction of foreign direct investment. The study findings will also add to the existing literature and knowledge on the perception of local firms to invest in special economic zones.

1.6 ORGANISATION OF THE DISSERTATION

This dissertation is divided into seven chapters. Chapter One presents the basis for the study, while Chapter Two provides the relevant literature review on special economic zones, their benefits and the perceptions of firms to invest in the SEZs. Chapter Three describes the study area in terms of the location and size, topography, climate, population and socio-economic activities. Chapter Four provides the research methodology which has the research design, sample size and sampling techniques, data collection methods, data presentation and analysis and limitations. Chapter Five deals with the results and discussion. Finally, Chapter six deals with the conclusion and recommendations.

CHAPTER TWO LITERATURE REVIEW

2.0 INTRODUCTION

Special Economic Zones (SEZ²s) are potentially effective tools governments can use to shape and drive industrial growth (Dassel and Eckermann, 2013). Dassel and Eckermann (2013) have highlighted further that some of the more effective SEZ²s have, over their lifetime, generated a significant return on their original investment by fostering thriving, highly competitive industries that collectively have attracted significant foreign direct investment, created new jobs and increased the economic output of host countries. Dassel and Eckermann (2013) have explained that SEZs also are especially helpful in giving governments the freedom to test innovative approaches to investment promotion, regulation and industrial policy that might not be practical to implement on a broader scale in the rest of the country.

According to Bret et al., (2018), SEZs are characterized by a defined geographical area, local management, unique benefits, and separate customs and administrative procedures. Unique benefits include operating under more liberal laws and economic policies compared with other parts of the country. Farole et al. (2013) argue that special economic zones (SEZs) have been credited with underpinning some of the biggest economic success stories of recent decades such as in China, Korea, Singapore, and Mauritius. Farole et al., (2013) have argued further that the popularity of SEZs as a policy tool has grown enormously. Almost all countries in the world now have some form of SEZ, most of those who do not have one are planning or considering it, and many that do have SEZs are in the process of restructuring and/or modernizing them (Farole et al., 2013). Governments typically hope to see their zones act as catalysts to attract foreign investment, promote export-oriented growth, and generate employment (Farole et al., 2013).

But beyond these traditional objectives, many governments are looking increasingly to SEZs as an instrument to attract more diverse economic activities (beyond manufacturing, including agriculture, tourism, and other services) and to contribute to more rational urbanization. Less clearly articulated is the objective to contribute to improved national competitiveness and structural transformation by using SEZs to pilot broad economic reforms (ibid, 2013). Kituyu (2013) highlights that the popularity of SEZs as a tool for economic transformation comes as no surprise, because of their purpose and the significant potential benefit they can bring to the host country in the form of increasing foreign direct investment (FDI), generating employment

opportunities, enhancing foreign exchange earnings, developing export-oriented industries, and boosting export growth, as well as expanding government revenue and economic growth. Porter et al. (2007) argue that nations are positioned at different stages of competitive development and face different challenges. Successful economic development is a process of successive upgrading, and a nation's business environment evolves to support and encourage increasingly sophisticated and productive ways of competing by its firms (Porter et al., 2007).

2.1 GLOBAL OVERVIEW OF SPECIAL ECONOMIC ZONES

Policymakers across developing economies are implementing different forms of special economic zones (SEZs): programs intended to catalyse economic growth (World Bank Group, 2017). The policy objectives can range from creating jobs, increasing household incomes, and increasing economic activity in lagging regions within countries to enabling export diversification and economic transformation (World Bank Group, 2017). The SEZ program is aimed at attracting foreign direct investment (FDI) to increase firm-level investment and improve firm-level productivity by enhancing firm-level coordination, networks, and innovation (World Bank Group, 2017).

Dassel and Eckermann (2013) state that another widely held view is that SEZs are useful economic development tools because they allow governments that are typically averse to making changes in their economic policy to pilot different reforms and, when effective, more credibly extend those reforms to the larger economy. Aggarwal (2007) adds that SEZs contribution can therefore be expected to vary across countries, within countries across zones and more specifically, over time. However, the evolution of zones and the benefits that they yield are not automatic; they depend on a complex interplay of several factors including the quantum of activities generated by their establishment, the extent of backward economic integration into the economy and above all the government policies to maximize gains (Aggarwal, 2007).

Mwansa et.al (2020) explain that most high-income economies such as those in Western Europe do not have SEZs with similar economic policy direction as those of middle to low-income ones. The United Nations Conference on Trade and Development (2019) as cited by Mwansa et.al, (2020) emphasise that high-income economies set up such zones with the policy objective of providing a platform for complex cross-border supply chains. Another objective is to focus on avoiding distortions in the economy (Mwansa et.al, 2020). Mwansa et.al, (2020)

add that with these objectives, even zone types developed are of a specific type, seeking to meet the stated objectives. Mwansa et.al, (2020) argue that upper-middle-income economies' key objectives include supporting the transition to a services economy, attracting new high-tech industries and upgrading innovation capabilities.

Bost (2019) reveals that Asia accounts for 75% of global Special Economic Zones. Early adopters of the SEZ model achieved success in earlier years. Bost (2019) states that in recent times, more advanced economies have transformed their SEZs and even launched new ones, such as high-tech zones and integrated area zones which include housing and amenities. Less developed economies in the region are rapidly building or expanding SEZ programmes to attract more labour-intensive manufacturing activities that more advanced neighbouring economies used to host (Bost, 2019). A few resource-rich Asian economies such as Indonesia and Iran are experimenting with SEZs that specialize in natural resource processing, to attract investment in downstream activities (Bost, 2019). Asian foreign investors such as China, India, Malaysia, Japan, South Korea and Thailand participate in the development and operation of FDI-driven zones in the region (Bost, 2019).

Alkon (2018) argues that export-oriented zones are often an important component of a country's foreign economic policy, but are also an important manifestation of place-based policies that create local economic hubs, helping to generate growth, employment, and industrial development in the surrounding areas. For example, the special economic zones (SEZs) in Guangdong and other parts of coastal southern China have become global manufacturing and export centres that have also served as engines of rapid regional development (Alkon, 2018). Nevertheless, the major international studies identify the investment climate in the SEZs (including the presence of high-quality infrastructure and the efficiency of procedures and trade regulations), and access to large local and regional markets as the variables most closely correlated with the outcomes of a SEZ (Gómez and Molina, 2018).

Likewise, Gómez and Molina (2018) highlight that it is worth noting that the traditional sources of competitiveness in emerging countries that have implemented the SEZ model (low wages, trade preferences, and tax incentives), serve as catalysts, but are not sustainable over time, and can even spur distortions that impede the zones from reaching their ultimate goal of becoming an investment-friendly environment, raising productivity, and improving labour market conditions. As such, the initial incentives the government grants need to be followed up on,

and should evolve so that they are not tainted into tools of political pressure or lead to wage stagnation, as has been seen in several other international experiences (ibid, 2018). Farole and Akinci (2011) have noted that China is at the top of any list of success stories in attracting investment and promoting exports through SEZs. At the bottom of the list probably sits Africa, where, outside of Mauritius (and partial success in Kenya, Lesotho and Madagascar) most zone initiatives have been failures (Farole and Akinci, 2011).

2.2 HISTORICAL BACKGROUND OF SPECIAL ECONOMIC ZONES (SEZS)

Kumar (2008) has emphasised that worldwide, the first known instance of a SEZ seems to have been an industrial park set up in Puerto Rico in 1947 to attract investment from the US mainland. Kumar (2008) states that in the 1960s, Ireland and Taiwan followed suit, but in the 1980s China made the SEZs gain global currency with its largest SEZ being the metropolis of Shenzhen. Kumar (2008) explains that from 1965 onwards, India experimented with the concept of Export Processing Zones (EPZ), these did not quite deliver as much as was expected, however. Thus, in 2000, the new Export and Import Policy allowed for SEZs to be set up in the public, private or joint sector or by state governments (Kumar, 2008).

Yeung et al, (2009) argue that SEZs have made crucial contributions to China's success. Most of all, they—especially the first ones—successfully tested the market economy and new institutions and established role models for the rest of the country to follow. By 1992, the concept of openness had been extended to the entire coastal region and to all capital cities of provinces and autonomous regions in the interior, and various types of SEZs had begun to spring up throughout the country (Yeung et al, 2009). According to Zeng (2017), the concept of SEZ and its impact on economic growth is gaining more and more acceptance globally and the instrument has been widely applied. However, the mixed results of SEZ development in different continents/countries show that it is not a panacea and has to be implemented properly and carefully tailored to a country's specific situations (Zeng, 2017). It is not necessarily a suitable instrument for any country (Zeng, 2017).

Zeng (2017) has argued that given the complex and heterogeneous environments in which zone programs are implemented, it would be useful to establish a clear framework to guide the operations of SEZs in countries where they are deemed relevant. According to Aggarwal (2007), there are three broad stages in the life cycle of SEZs and the channel through which zones impact human development and poverty depends on which phase of the life-cycle the

zones are in. In the initial stages of economic development of an economy. At this stage, the most important contribution that the zones make is to the alleviation of the unemployment challenge (Aggarwal, 2007). They primarily employ unskilled workers and those at the lower end of income distribution; generate incomes for them and have poverty--reducing effects (ibid, 2007). Human development effects may not be significant at this stage due to lower wages and poor working conditions (Aggarwal, 2007). As the economy develops, SEZs enter the second phase, and the skill component of labour employed increases (Aggarwal, 2007). Second-generation industries come up where the production processes adopted are more sophisticated and technologies implemented are more advanced (Aggarwal, 2007).

There is a need for human capital upgrading in this phase and therefore skill formation effect becomes operative, wages rise and working conditions improve (ibid, 2007). Aggarwal (2007) argues that as the zones upgrade further with third-generation firms emerging, using highly complex skill and technology-intensive operations, they become important contributors to technology generation, transfers and technological spill-overs. SEZ effects would therefore depend upon the stage of their evolution which itself is contingent upon the level of development of the economy and is reflected in the composition of their economic activities (ibid, 2007). The last stage is when zones need to give way to technology parks and clusters (Aggarwal, 2007). In other words, after a country achieves a certain threshold level of development, the relative significance of SEZs declines (ibid, 2007).

2.3 BENEFITS OF SPECIAL ECONOMIC ZONES

According to Farole and Akinci (2011), the fundamental benefits of SEZs derive from their role as instruments of trade and investment policy. These static benefits result from capturing the gains from specialization and exchange (Farole and Akinci, 2011). They include employment creation, the attraction of FDI, the generation of foreign exchange through exports, and the creation of economic value added (Farole and Akinci, 2011).

Governments typically hope to see their zones act as catalysts to attract foreign investment, promote export-oriented growth, and generate employment (Farole et al., 2013). But beyond these traditional objectives, many governments are looking increasingly to SEZs as an instrument to attract more diverse economic activities (beyond manufacturing, including agriculture, tourism, and other services) and to contribute to more rational urbanization (Farole et al., 2013). Less clearly articulated is the objective to contribute to improved national

competitiveness and structural transformation by using SEZs to pilot broad economic reforms (ibid, 2013). Gómez and Molina (2018) add that looking at the factors of success or failure, there is a wide range of variables that can drive the outcomes of an SEZ program, among them, wages and productivity in the region, trade preferences, market outlook, governmental policy and the macroeconomic environment, the incentives offered to investors, quality of design, and program execution.

Farole and Akinci (2011) explain that the model has been extremely successful in many countries for example, it allowed the Dominican Republic to create more than 100,000 manufacturing jobs and shift dramatically away from reliance on agriculture. Similar stories of industrialization and job creation can be seen in Mauritius, the Republic of Korea, Taiwan, China; Honduras, El Salvador, and Madagascar; and more recently in Bangladesh and Vietnam (Farole and Akinci, 2011). Narula and Zhan (2019) further argue that if foreign investment in a Special Economic Zone fails to create jobs more widely within the economy (and beyond the SEZ), enhance the competitiveness of local economic sectors and create business opportunities for local entrepreneurs outside the perimeter of the SEZ, it will contribute little to economic development.

Brautigam et al., (2010) explain that zones can be established with different policy goals. The most common objective around the world is to attract foreign direct investment (FDI), as a means of boosting exports, links to global value chains (GVCs) and/or structural transformation of the economy (ibid, 2017). Organisation for Economic Co-operation and Development (2017) argues that in countries suffering from high levels of unemployment, zones have been used to boost job creation by attracting investment in highly labour-intensive industries (for example in the Dominican Republic and Tunisia). Organisation for Economic Co-operation and Development (2017) reveals that zones have also been created to support wider economic reforms such as export diversification and upgrading (for example in the People's Republic of China, Korea and Chinese Taipei) as well as to serve as laboratories for experimentation with new policies and approaches that could if the outcomes are satisfactory.

Baissac et al. (2015) have highlighted that Special Economic Zones represent 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. Under optimal

conditions of strategy, design, location, factors endowment, regulation and governance, SEZs have proven their capacity to generate significant economic benefits (Baissac et al., 2015). Many SEZ laws also affect the substantive rules applicable to business conduct (Cotula and Mouan, 2018). They often waive or reduce taxes to attract globally mobile capital, this may involve exemptions from profit and value-added taxes and duty-free imports (ibid, 2018).

Cotula and Mouan (2018) explain that there is mixed evidence as to whether tax incentives drive significant FDI flows and positive outcomes, and their overall costs and benefits. However, tax exemptions can undermine the ability of authorities — particularly in poorer countries — to finance public services (Cotula and Mouan, 2018). In several countries, SEZ legislation also affects the application of laws other than tax (Cotula and Mouan, 2018). Organisation for Economic Co-operation and Development (2017) having cited Owens (2005) adds that tax incentives are attractive for investors because they reduce their tax liabilities. Ibid (2005) further states that these incentives can take several forms, including tax holidays, which exempt investors from paying corporate income or other taxes, and capital cost allowances, whereby investors receive benefits related to their capital investments.

The tax incentives are usually extended with a sunset provision that defines an expiry date for the specified incentives (Organisation for Economic Co-operation and Development, 2017). Ideally, these sunset clauses should be strictly adhered to ensure that investors do not have unlimited access to preferential treatment under the zones (Organisation for Economic Co-operation and Development, 2017). If they are re-negotiated, this is justified and in line with contingencies specified under the sunset clause; the continuation of such incentives is usually conditional on the positive evaluation of past effects (Organisation for Economic Co-operation and Development, 2017).

According to Zeng (2013), the contribution of SEZs to national employment is also very significant for example, in China in 2006, the total employment of the initial five SEZs was about 15 million, accounting for 2 per cent of national employment. Shanghai Pudong Government (2008) argues that in 2007–08, total employment was about 1.47 million in the Shanghai Pudong area, accounting for about 17 per cent of the total employment of the municipality of Shanghai. Zeng (2013) reveals that in 2007, the figure for Tianjin Binhai was about 0.33 million, accounting for about 5.4 per cent of the total Tianjin municipality

employment. Given the severe lack of capital and technologies during the initial stages of China's opening, FDI and assistance from the diaspora were desperately needed (Zeng, 2013). Zeng (2013) further adds that China successfully attracted FDI through its SEZs and clusters, especially those in the coastal region, and they became important sources of capital, skills, technologies, and modern management techniques. FDI also fostered many spinoffs in China (ibid, 2013). Of course, some have argued that the incentives China gave to foreign investors—such as lower tax rates—were too generous (Zeng, 2013). While that question is still debatable, one thing is certain: FDI policies need to be adjusted according to the stage of development (ibid, 2013).

According to Kopczewska (2020), the main direct channel of the impact of SEZ is employment and investment. Beyond that, there are indirect channels of the impact of SEZ as supporting export and trade, enhancing technological spillovers, building the regional knowhow, creating benefits for central and local governments as well as spatial spillovers to neighbouring areas (Kopczewska, 2020). However, the channels of impact of SEZ and their strength depend on the stage of the country's development (Kopczewska, 2020). According to Warr and Menon (2016), the benefits to the host country of establishing SEZs lie, overwhelmingly, in employment creation at attractive wages. Depending on the industry, workers who initially possess low skill levels may also receive training that is useful for subsequent employment (Warr and Menon, 2016).

For some countries, most notably China in the 1980s, SEZs have been viewed as policy experiments, within which policy reforms could be tried out for possible later adoption within the wider economy (Warr and Menon, 2016). The employment effect of SEZs operates through three channels: one, SEZs generate direct employment for skilled and unskilled labour; two, they also generate indirect employment; and three, they generate employment for women workers (ibid, 2016). According to Farole (2011), SEZs tend to take as much as 5 to 10 years before producing the large-scale employment benefits that are hoped for. This incubation period was experienced even in the most successful SEZs, in China and Malaysia (Warr and Menon, 2016). Some patience is therefore needed. Although many countries have offered generous tax holidays to firms entering the zones, these holidays have made surprisingly little difference to the investment decisions of the firms (Warr and Menon, 2016). Since tax holidays are costly in fiscal terms, they are of dubious merit (Warr and Menon, 2016). The literature on

fiscal incentives is clear in its conclusion that they matter only at the margin after factors such as political and macroeconomic stability are met (Warr and Menon, 2016).

Jensen and Winiarczyk (2014:9) and (Farole, 2013) reveal that in other areas such as employment and income effects, there is still a lack of substantial evidence. Jensen and Winiarczyk (2014) argue that Chinese experiences are in direct contrast to the general goal of income convergence since the policy is not designed for that purpose in the Chinese context. As Chinese policies in some sense are designed to exploit a spatial element of temporary differences in wages product and land prices it is perhaps not surprising that it affects worker welfare negatively while at the same time achieving the return of the labour force from rural to urban China (Jensen and Winiarczyk, 2014). In India, on the contrary, is it clear that the regional policy targeting lagging regions has bitterly failed in the objective of income convergence (Jensen and Winiarczyk, 2014).

Figure (2.1) below is an illustration of a summary of the expected effects of Special Economic Zones both direct and indirect benefits as observed by Kopczewska (2020); the direct benefit is employment after investments have been made. The other outlined indirect benefits of the zones are as illustrated in the diagram.

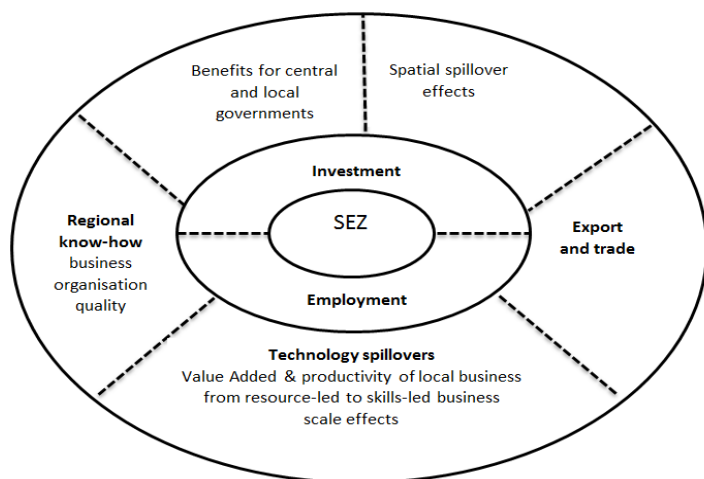


Figure 2.1: Summary of the direct and indirect benefits of SEZs

Source: (Kopczewska, 2020).

Farole and Akinci (2011) explain that the rapid growth of EPZ programs around the world over the last two decades, and their success in contributing to export-led growth in regions like East Asia, is due in part to an unprecedented globalization of trade and investment that took place since the 1970s and accelerated during the 1990s and 2000s, which saw trade grow 85 per cent faster than GDP between 1983 and 2008. Farole and Akinci (2011) argue that this growth was enabled by the vertical and spatial fragmentation of manufacturing into highly integrated “global production networks,” particularly in light manufacturing sectors like electronics, automotive components, and especially apparel, which have accounted for the large majority of investment in traditional EPZs.

Farole and Akinci (2011) state that especially for countries with low labour costs, scale economies, and preferential access to major consumer markets like Europe, Japan, and the United States, economic zones—with their access to duty-free inputs, quality, flexible infrastructure, and often generous fiscal incentives—proved to be a powerful instrument through which to capture increasingly mobile foreign investment. Farole and Akinci (2011) argue that economic zone programs that are successful in contributing to long-term development go beyond the static benefits of attracting investment and generating employment. They leverage these static benefits for the creation of *dynamic economic benefits* (ibid, 2011). Ultimately, this means contributing to the structural transformation of the economy, including diversification, upgrades, and increased openness (Farole and Akinci, 2011). Critical to this process is the degree of integration of zones in the domestic economy (Farole and Akinci, 2011).

Countries that have been successful in deriving long-term economic benefits from their SEZ programs have established the conditions for on-going exchange, and the accompanying hard and soft technology transfer, between the domestic economy and investors based on the zones (Farole and Akinci, 2011). This includes investment by domestic firms into the zones, forward and backward linkages, business support, and the seamless movement of skilled labour and entrepreneurs between the zones and the domestic economy (Farole and Akinci, 2011). Zeng (2013) argues that economically, SEZs have contributed significantly to national GDP, employment, exports, and attraction of foreign investment and new technologies, as well as the adoption of modern management practices, among others. Zeng (2013) further revealed that in 2006, the five initial SEZs accounted for five (5) per cent of China’s total real GDP, twenty-two (22) per cent of total merchandise exports, and nine (9) per cent of total FDI inflows.

Böhmer and Farid (2010) argue that the success of Economic zones depends on the extent to which they create linkages with the local economy thereby generating employment and increasing transfer of knowledge. MFEZ's approach to industrialisation is FDI-led and its implementation is anchored on supportive policies from the Government to MSMEs and FDIs, to stimulate industrialisation through business linkages (Sikozi et al, 2016). Warr and Menon (2016) indicate that SEZs are most likely to produce benefits to the host country when they are part of a broad strategy of economic liberalization extending to the entire economy. When the SEZ is seen as an island of liberalization within an otherwise import-substitution-based development strategy, the SEZ experiment may produce economic benefits, but they will be marginal (ibid, 2016).

Warr and Menon (2016:5) by citing the following (Warr 1989, Aggarwal, 2010; Baissac, 2011; Farole and Akinci, 2011; Cheeseman, 2012 and Woolfrey 2013) reveal that the theoretical literature on the likely impacts of SEZs can be divided into two strands: (i) the orthodox approach, which draws on neoclassical economic theory, and (ii) the heterodox approach, which draws on endogenous growth theory and the new institutional economics. Warr and Menon (2016) add that the orthodox approach focuses on the effects of SEZs on static economic welfare, resting on whether they contribute to or distort allocative efficiency. Hamada's 1974 study is considered the first study on SEZs to adopt this approach. It assesses SEZs primarily within the Heckscher-Olin model of international trade, focusing on static economic metrics and abstracting from possible secondary, catalytic effects. The static effects include direct employment generation, FDI inflows, foreign exchange earnings, and economic value addition (Warr and Menon, 2016). This approach views SEZs as the second best option to full trade liberalization; as such, SEZs are best treated as a transitory policy instrument which loses its significance as the country adopts full-fledged market reforms (Warr and Menon, 2016).

The heterodox approach, on the other hand, emphasizes dynamic effects and sees SEZs playing a more catalytic role in promoting broader economic growth. This approach has dominated much of the work on SEZs since the late 1980s. Building on endogenous growth and new institutional theories, the heterodox approach views SEZs as having dynamic spillover effects, extending benefits beyond their enclaves through their impact on backward linkages, human

capital, technology, and institutional reforms Warr and Menon (2016:5) as cited by (Milberg and Amengual, 2008; Aggarwal, 2010; and Baissac, 2011).

Table 2.1: Summary of static vs. dynamic benefits expected from SEZs, according to Warr and Menon (2016).

Static Benefits	Dynamic Benefits
Foreign exchange earnings	Skills upgrading
FDI	Testing field for wider economic reform
Employment generation	Technology transfer
Government revenue	Demonstration effect
Export growth	Export diversification
	Enhancing trade efficiency of domestic firms
	Formation of industry clusters
	Integration into global value chains

Source: Warr and Menon (2016)

2.4 THE CHALLENGES FACED IN SPECIAL ECONOMIC ZONES

Naeem et al, (2020) argue that investors, along with the business-friendly environment, look for location-specific modalities that distinguish the zone from another zone and make them “special”. Here the role of government becomes important in identifying the activities on which the SEZ should focus (Naeem et al, 2020). Most zones rely on fiscal incentives and low-cost, unskilled labour as the main comparative advantage of investing, these factors play a role in kick-starting a zone program but are not sustainable in the long run (Naeem et al, 2020). The sustainability of the zone is more dependent on the skill training of the labour and the pre-existing markets and industries in close vicinity to zones, as they support clustering and specialization efforts inside the zone (ibid, 2020). Moreover, if the comparative advantage is derived from a specialized locational advantage, the chances that the SEZ will thrive are greater (Naeem et al, 2020).

Chiukira (2020) acknowledges that the greatest letdown in Africa has been on the legal and institutional framework, the policies are good on proposal without actual support for legal instruments being put forward. Duplication was also highlighted as the investors are required to make different applications to every department and government agency involved thereby taking away the benefits of being in SEZs as the regulations remain the same as those outside SEZs (Chiukira, 2020). It has been accentuated that businesses were facing challenges associated with costs because of changing policies which have a direct impact on the activities of the SEZs (Chiukira, 2020).

Chiukira (2020) further adds that overall, in all zones in Africa, infrastructure is the greatest challenge in the establishment and operation of SEZs although they differ in degrees and levels in countries. In general gas, power, roads, ports of entry and exit are major constraints given the large investments required for the 'zones' (Chiukira (2020). According to Naeem et al. (2020), the industries inside the zones are not protected from the shortcomings of the host economies and are driven more by political agendas than by a strong business case. The host economies fail to provide a business-friendly environment, and industrial operation is halted because of a power shortage, poor connectivity, and cumbersome procedures of registration, taxation, and customs clearances (Naeem et al, 2020).

The zones in Africa are the prime example of such zones, and only a handful have been able to succeed, while the rest are still struggling to take (Naeem et al, 2020). Naeem et al, (2020) argue further that the SEZs in Bangladesh initially were unsuccessful in attracting investment in zones as they were targeting high-tech industries that were not compliant with its national competitiveness, but when it shifted its focus to garment production, the zones started attracting significant investment. On the cost side, SEZs have long been criticised for their negative social and environmental impacts. Labour standards and working conditions in zones have been highlighted (ILO, 2017).

Alexianu et al (2019) argue that as an important downside, as well as pollution or land rent-seeking opportunities. On the other hand, there is a strand of literature that considers SEZs a negative distraction that gives investors a carte blanche to avoid taxes at the expense of revenue maximization which could be vital for other sectors in the economy (Alexianu et al, 2019). This side of the debate puts forward neoclassical arguments highlighting that promoting SEZs will lead to a race to the bottom (Kinyondo et al., 2016).

those in agribusiness, which will help them to reduce logistics and transaction costs. However, they also feel most local SMEs cannot meet their requirements in terms of stable volume, quality standards, etc. (Zeng, 2016). This involves many local products, such as barley, cassava, mushrooms, fruits and livestock, etc., if local firms' productivity, quality and standards can be improved, it will greatly help with the zone-local firm linkages (Zeng, 2016). In addition, some investors in the zones also feel it is difficult to find suitable labourers from the local market (Zeng, 2016).

Naydenov (2018) also argues that despite the advantages and clear success cases, SEZs have a mixed record. The cost of investments in zone infrastructure and maintenance in many cases outweigh the benefits (ibid, 2018). Investors may also take advantage of tax breaks without delivering substantial employment or export earnings, it often proves difficult to extend benefits outside the zones or to upgrade domestic skills and the production base (ibid, 2018). Many traditional export processing zones have been successful in attracting investment and creating employment in the short term but became uncompetitive when wages started to rise, or trade preferences disappeared (Naydenov, 2018).

2.5 PERCEPTIONS OF INVESTORS TO LOCATE IN SEZs

According to Farole (2011), SEZs of the 1950s, 1960s, and 1970s were public affairs. Governments planned them, financed them, promulgated the regulations, administered the regime, conducted the investment promotion, interfaced with investors, and managed the real estate side of the operation, including building, renting, and maintenance (Farole, 2011). Perception plays a critical role in the daily decision-making process for all investors, as investors' behaviour is based on their perception of what reality is, not on reality itself (Masilokwa et al., 2020).

Several theories exist which can support the perceptions of investors, (Masilokwa et al., 2020) state that the Prospect Theory explains that people's perceptions of gain and loss are skewed. That is, people are more afraid of a loss than they are encouraged by a gain; if people are given a choice of two different prospects, they will pick the one that they think has less chance of ending in a loss, rather than the one that offers the most gains (Masilokwa et al., 2020). This makes Prospect Theory important for investors (Masilokwa et al., 2020). Prospect Theory tells us that very few people understand emotionally what they realise intellectually.

will act in a way that conforms to what logically are expected in the future. That is, a person will invest or spend according to what he or she rationally believes will happen in the future (ibid, 2020). By doing so, that person creates a self-fulfilling prophecy that helps bring about the future. It has been noted by Masilokwa et al., (2020) that in the case of Rwanda, eight themes were used to highlight investor perception computation included: (1) legal framework; (2) governance; (3) taxation and investment framework; (4) infrastructure; (5) access to finance; (6) domestic resources; (7) support services; and (8) trading across borders.

Gibson (1950) adds that there are three principles of direct perception. The first principle states that the environment contains all of the sensory information needed to form an accurate perception. Gibson (1950) further argues that the environmental cues for distance and depth are referred to as “texture gradients”. The second principle of direct perception states that perception is immediate and spontaneous; therefore, it does not use any unconscious inference (ibid, 1950). Farole (2011) argues that most zone programs have been designed as instruments for trade and investment; they continue to be built around low labour costs, trade preferences, and fiscal incentives.

In countries with large pools of unskilled labour, low wages may be a source of comparative advantage into the medium term and may outweigh the need for preferences and incentives; but this is not the case in Africa, where labour costs are relatively high and scale is lacking (Farole, 2011). But when wages, preferences, and incentives are the main levers on which competitiveness is based, they create pressure for distortions and race-to-the-bottom policies, including extending and increasing incentives (rather than addressing more difficult aspects of the investment environment) and granting exemptions on minimum wage and labour rights (rather than addressing productivity or labour market rigidities) (Farole, 2011).

Farole (2011) argues that a clear and transparent legal and regulatory framework codifies the program strategy and establishes the rules of the game for all stakeholders involved in the process. Farole (2011) states that this framework helps in addressing difficult land issues, facilitating the provision of infrastructure, and ensuring compliance with labour and environmental standards. Akinci & Crittle (2008) conclude that the package of fiscal incentives has become almost standardized among zones internationally—corporate tax reductions or exemption; duty-free importation of raw material, capital goods, and intermediate

inputs; no restrictions or taxes on capital and profits repatriation; exemption from foreign exchange controls (where applicable); no charges on exports; exemption from most local and indirect taxes; and so on.

Researchers such as Frick & Rodríguez-Pose (2023) state that firms are primarily attracted by certain country characteristics such as market access, political stability and cheap labour costs, SEZ policies have played a non-negligible facilitating role in securing investment. Specific features of national SEZ policies, common to all SEZs within a country, such as fiscal and non-fiscal incentives, affect country choice investment decisions, traditionally form the backbone of any SEZ policy and are often considered key for SEZ success (Frick & Rodríguez-Pose, 2023). In addition, Ndikumana et al, (2024) have revealed that firms' investment decisions are mostly driven by prevailing peace and security, and the provision of non-fiscal and fiscal incentives. Asian Development Bank (2018) argues that Zones need to offer investors high-quality infrastructure, good location, incentive packages, simple administrative procedures, and relaxed regulatory machinery to reduce the cost of doing business and make them attractive to investors. These researchers have identified the factors that support investor confidence to establish in the Special Economic Zone, however one critical research gap that needs to be addressed is the perceptions of local firms to invest in the zones.

2.5.1 Economic Zones in Zambia

It is argued by Mwansa et.al (2020) that an economic zone normally operates under more liberal economic laws than those generally prevailing in the country. It was further argued by Mwansa et.al (2020) that in general terms, special economic zones offer two categories of economic benefits. The first type of benefits includes items such as employment creation, export growth, government revenues and foreign currency earnings (Mwansa et.al (2020). The second group covers benefits such as skills upgrading, technology transfer and innovation, economic diversification, and productivity enhancement of local firms (Mwansa et.al (2020). These two types of benefits fall within reasonable expectations and are some of the reasons behind the establishment of the Lusaka South – Multi-Facility Economic Zone in Lusaka, the capital city of Zambia (Mwansa et.al, 2020).

Zeng (2016) explains that the LS-MFEZ is a public sector-led commercial project through which the Government of Zambia is providing hard and soft infrastructures to support the development of the private sector. Zeng (2016) further reveals that it is planned and established

with a strong public sector participation involving Zambia Electricity Supply Corporation, Zambia Telecommunications Corporation (ZAMTEL), Lusaka Water and Sewerage Company (LWSC), Road Development Agency (RDA) and Industrial Development Corporation (IDC). The Lusaka South Multi Economic Zone (LS-MFEZ) is managed and developed by the Lusaka South Multi-Facility Economic Zone Ltd, a government share-holding company of Industrial Development Corporation (IDC) (Zeng, 2016). As of August 2015, IDC had taken over the shareholding in LS-MFEZ Ltd on behalf of the Ministry of Finance (Zeng, 2016).

Mwansa et al., (2020) in citing MCTI (2009) state that in the LS-MFEZ Master Plan, the JICA Study Team asserted that the Zambian economy symbolizes that of any developing country that is characterized by raw material exports (Mwansa et al., 2020). This exposes the country to fluctuation in the prices of commodities (in this respect copper and cobalt) which in turn impacts the nation's economy directly (Mwansa et al., 2020). To reduce this effect of global commodity prices, the JICA Study Team recommended an industrialization strategy that focuses on value addition to natural resources including minerals (Mwansa et al., (2020). Mwansa et al., (2020) state that the LS-MFEZ has enormous potential to contribute towards national economic development and diversification.

Mwansa et al., (2020) in citing (World Bank, 2017) argue that the location of an SEZ is an important factor contributing to its success. A location near a large metropolitan area assures investors access to other firms forming part of the zone's supply and value chains (Mwansa et al., 2020). Available sources of labour and capital allow zone operators to freely integrate with other firms outside of the zone and tap into support innovation activities. Phiri and Manchishi (2020) add that job creation and skills upgrading are some of the espoused labour market outcomes of SEZs. Mwansa et al. (2020) while citing MCTI (2009) reveal that the operations of the LS-MFEZ among other things are partly a solution towards the realization of the goals of Zambia as a country of becoming a prosperous middle-income nation. Overall, the LS-MFEZ complements the development strategy of Greater Lusaka City in some ways (Mwansa et al., (2020).

Firstly, its development was to boost the growth of the city because of its special role in the context of industrial and business development; a catalyst for other growth parameters. Secondly, the LS-MFEZ is an asset to a new centre (South-East Core) as it serves as an impetus in the growth of local and export-based manufacturing. Thirdly, it is a planned growth centre

to stimulate other related activities such as business retailing, financial institutions, and real estate, and a place for meetings, incentives, conventions, and exhibitions. Finally, independent companies that are set up in the LS-MFEZ provide a source of employment in the city (MCTI, 2009). The earmarked sectors for the Zone include agribusiness, packaging and printing, palm oil processing, pulp and packaging boards, pharmaceuticals, electrical and electronic appliances, ICTs, education and skills training, R&D, professional, medical, scientific and measuring services, among others (ibid, 2020).

The Lusaka South – Multi-Facility Economic Zone (a special economic zone) was established with the view of replicating some of the benefits that have been realized in some countries where special economic zones have been implemented successfully (Mwansa et al., 2020). Empirical research indicates that there is a continuum of economic zones, ranging from facilities such as free trade zones, industrial parks, export processing zones, economic and technology development zones, high-tech zones, science and innovation parks, free ports, enterprise zones among others (Mwansa et al.,2020).

2.6 Theoretical Framework

2.6.1 Industrial Location Theory

According to Webber (2020) location theory is one of the principal bases of geography. Central place theory is crucial to urban geography; and industrial location theory underlies both urban geography and regional development as well as forming one source for spatial interaction theory (Webber, 2020). An agglomeration is a point on the earth's surface at which economic activity is particularly dense (Webber, 2020). Fearon (2006) argues that agglomeration, or concentration of firms in a locale occurs when there is sufficient demand for support services for the company and labour force, including new investments in schools and hospitals, also supporting companies such as facilities that build and service machines and financial services, prefer closer contact with their customers.

Fearon (2006) adds that the issue of industry location is increasingly relevant to today's global markets and trans-national corporations. Focusing only on the mechanics of the Weberian model could justify greater transport distances for cheap labour and unexploited raw materials. When resources are exhausted or workers revolt, industries move to different countries (Fearon, 2006). Companies with specialized machines or services used only occasionally by larger firms tend to locate in agglomeration areas, not just to lower costs but as a necessity for

finding sufficient customers (Fearon, 2006). Fearon (2006) further states that location may affect the costs of industry in securing a location (e.g., the cost of real estate) and obtaining raw and auxiliary materials. General regional factors may also affect the costs of manufacturing (e.g., labour costs) and transport costs in shipping to consumers (Fearon, 2006).

2.7 Conceptual Framework

Farole (2011) states that SEZs have clearly shown their potential to generate meaningful static economic benefits to their host countries, such as employment, investment, foreign exchange, and exports. In a more limited range of cases, SEZs have also played an important role in creating the conditions for long-term (dynamic) changes in the structure of the economy and, critically, minimizing opposition to reform through progressive demonstration effects and by encouraging domestic investment in SEZs (Farole, 2011).

Buba & Wong (2017) add that most SEZ policies feature special fiscal incentives for firms that are located in SEZs. Buba & Wong (2017) argue that incentives take the form of reduced corporate taxes or tax holidays; investment tax credits or accelerated depreciation allowances to encourage capital formation; or sometimes lower import taxes and tariffs. Ideally, the success of an individual SEZ should be measured using indicators such as job creation (direct and indirect), revenue growth, export performance of the SEZ firms, and spillovers to the national economy (Buba & Wong, 2017). Finally, location and proximity to larger markets often are regarded as factors that significantly affect spillovers (Buba & Wong, 2017).

On the other hand, the role of risk perception in investor behaviour is considered very important, especially in urgent and uncertain circumstances (Mulyani et al., 2021) in the creation of special economic zones. Choosing the right investment will give high returns to investors (Mulyani et al., 2021). Investors will consider certain expected returns with certain risks (Mulyani et al., 2021). Further, Girardi (2016) argues that investment plays a central role in economic cycles and allows potential output and productivity to grow in the long run.

SEZs often are regarded by policymakers as an instrument to dynamize lagging territories as part of broader development (World Bank Group, 2017). By attracting new businesses and providing them with a favourable investment climate, governments expect SEZ incentives to pay off via spillovers to local economies and economic growth in the long term (World Bank Group, 2017).

2.7.1.1 Drivers of Investment

World Bank Group (2017) states that typically, the success of a zone and its impact depend on factors both within and outside the zone: (1) the SEZ program and its characteristics; (2) the structure and layout of the zone; and (3) regional and country contexts. World Bank Group (2017) argues that within the zone, the SEZ program and its characteristics generally include a combination of fiscal and non-fiscal incentive packages, several investment and ownership requirements, and a series of factors linked to the organizational set-up of the zone. These last factors include the degree of independence of the regulator and the date of the establishment of the zone (World Bank Group, 2017).

The SEZ program is aimed at attracting foreign direct investment (FDI) to increase firm-level investment and improve firm-level productivity by enhancing firm-level coordination, networks, and innovation (World Bank Group, 2017). According to Farole & Winkler (2014) the location of an SEZ and its proximity to large markets also matter for spillovers. The co-location of foreign and domestic firms in the same region can mediate the benefits from SEZs via technology and knowledge spillovers (Farole & Winkler, 2014). World Bank Group (2017) further argues that in addition to good infrastructure and proximity to large markets, SEZs and other similar policies play an important role as drivers.

2.7.1.2 Factors that affect perceptions of investors

According to Naeem et al, (2020), investors along with the business-friendly environment look for location-specific modalities which distinguish the zone from another zone and make them 'special'. Naeem et al, (2020) add that the factors that once was the basis of competitive advantage in the 60s, 70s and 80s like low labour cost and raw material have been taken over by the changing pattern of international production and the companies are more driven by economic and policy factors than by production advantages.

Naeem et al, (2020) argue further that incentives are the biggest attraction in any SEZ, and firms come to such places to enjoy relaxation provided by the government, especially financial incentives.

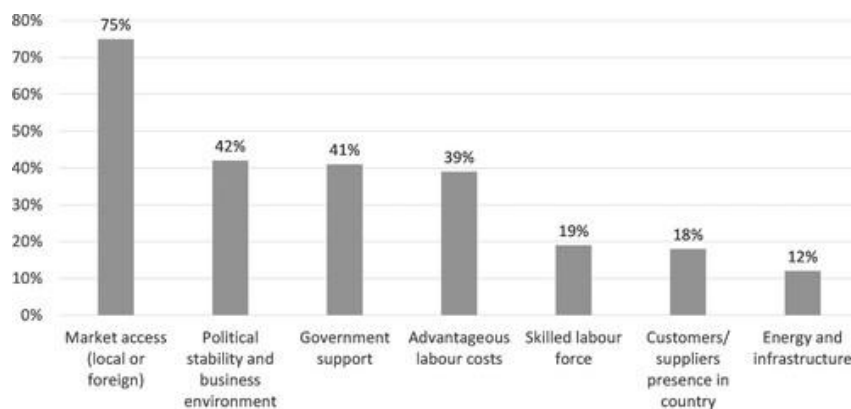


Figure 12.2: Key reasons for country investment decisions across all special economic zones

Source: Kurowska-Pysz, J., & Pierzyna, J. (2023).

2.7.1.3 Static benefits

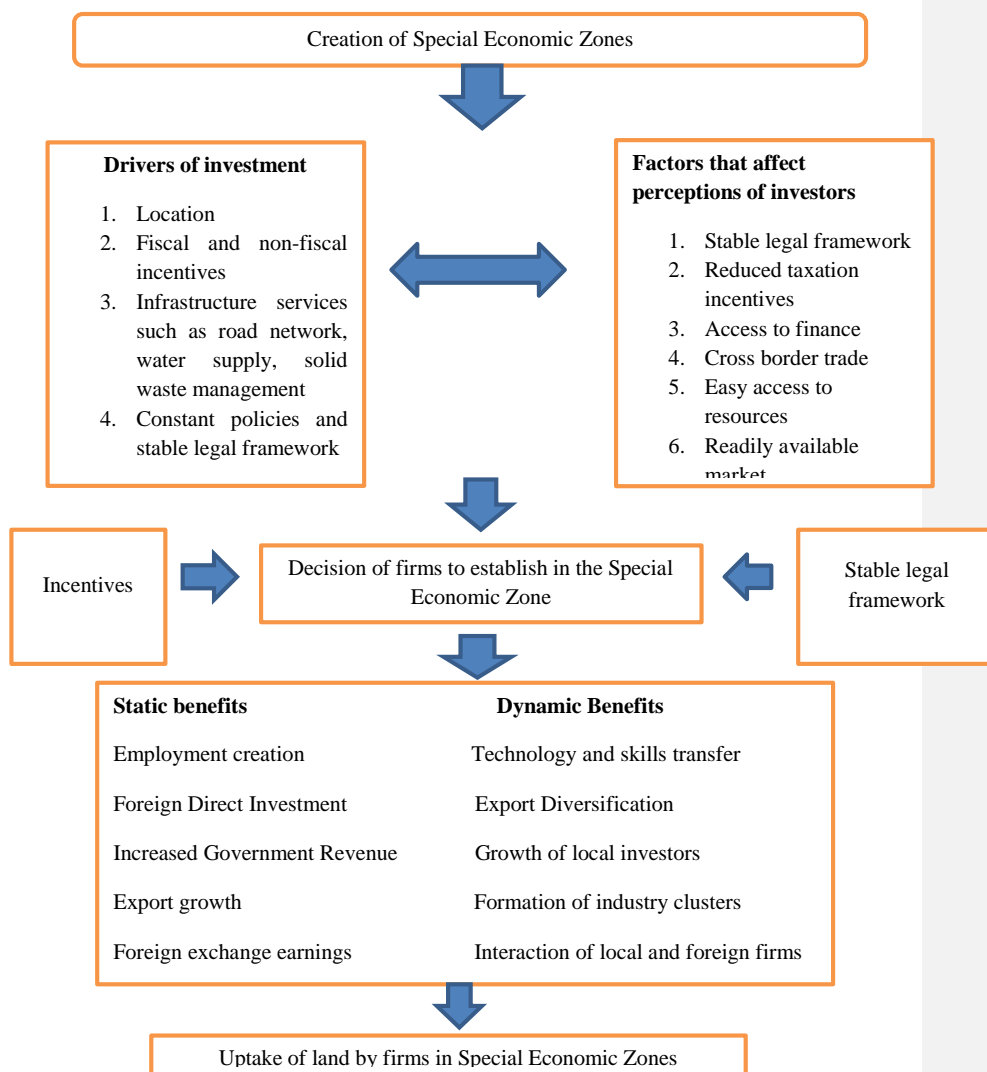
Naeem et al, (2020) state that the host country benefits from foreign direct investment (FDI), employment opportunities, increased trade and exports and in the long run, forward and backward linkages are strengthened between the zones and the domestic economy resulting in capacity building of the local work-force and transfer of technology. World Bank Group (2017) adds that an often-stated objective of SEZ policies is to attract foreign direct investment (FDI) to drive growth. SEZs are deliberately intended to skew investments—both foreign and domestic, but mainly foreign direct investment (FDI)—towards host countries with the added potential benefit of conferring horizontal and vertical technology and skills spillover effects (Phiri & Manchishi, 2020).

2.7.1.4 Dynamic benefits

Firms tend to cluster near one another because industrial agglomeration reduces transport costs, hence resulting in “agglomeration economies”; for example, when firms concentrate their production in SEZs, they benefit from the presence of backward and forward linkages related to internal (firms located in SEZs) and external companies, thereby lowering the cost of moving final or intermediate goods (World Bank Group, 2017).

Additionally, the agglomeration of producers of final goods, intermediate suppliers, and consumers can build an ecosystem which attracts more firms to SEZs or nearby locations, thereby creating a self-reinforcing agglomeration mechanism (World Bank Group, 2017).

Last, the agglomeration of firms in SEZs is expected to lead to technological spillovers. The diversity of firms and their activities in SEZs enable firms to take advantage of knowledge complementarities and cross-industry transfer of ideas (World Bank Group, 2017).



2.8 CONCLUSION

SEZs are used by Governments to shape and drive industrial growth in their countries, it is generally believed that most countries have some form of SEZs with those that do not have are considering establishing them. These zones are regarded to be catalysts for attracting foreign direct investment, export growth and generating employment. The SEZs have static and dynamic benefits; with static benefits being FDI, employment generation, and Government revenue while dynamic benefits are skills upgrading, technology transfer, export diversification and formation of industry clusters among others.

CHAPTER THREE DESCRIPTION OF STUDY AREA

3.0 INTRODUCTION

This section provides a description of the study area describing the location and size, climate, population and socio-economic activities. Further, a map of the Lusaka South Multi-Facility Economic Zone has been attached.

3.1 LOCATION AND SIZE

The LS-MFEZ is located in Kafue district which is one of the six (6) districts in Lusaka Province. According to LS-MFEZ (2023), the LS-MFEZ has approximately an area of 2100 Hectares of land delineated for multiple uses or as a mixed development, under a 50-year master plan., Figure 3.1 shows the location of the LS-MFEZ.

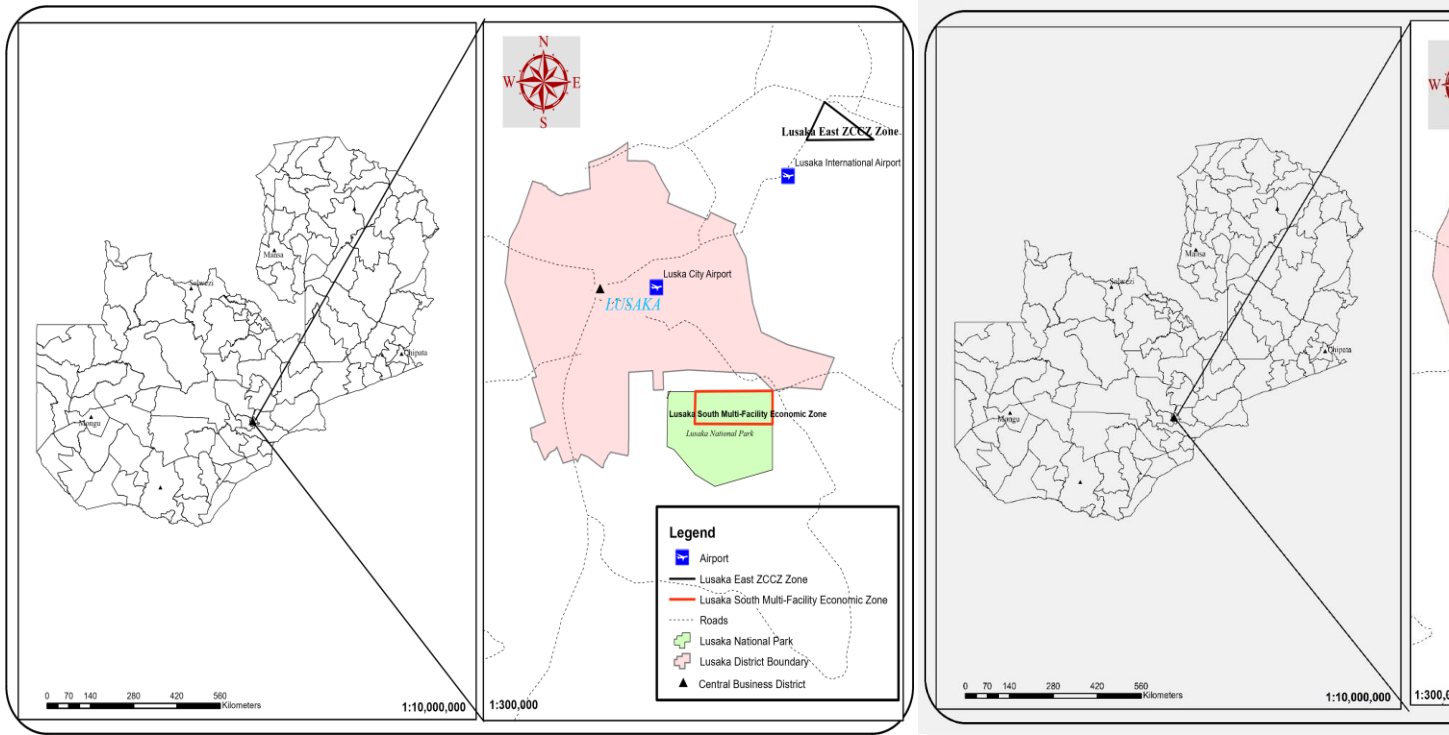


Figure 3.1: Location of the Lusaka South Multi-Facility Economic Zone

Source: Author, 2024

Phiri and Shimukunku (2020) add that the LS-MFEZ is dubbed ‘a city within a city’; the LS-MFEZ is a multi-purpose SEZ established in 2010. The zone became operational in 2013 and is located 10 kilometers from the Lusaka central business district in Lusaka South. It is the first and, so far, the only government-developed SEZ in Zambia managed and operated by a private limited company—LSMFEZ Limited (Phiri and Shimukunku, 2020). This is a 100 per cent state-owned enterprise under the Industrial Development Corporation. The zone sits on 2,100 hectares of land in the south-eastern outskirts of Lusaka and was designed to catalyse economic diversification and industrial development (Phiri and Shimukunku, 2020). It provides land for various uses, namely, industrial, commercial, Research and Development (R&D), residential, institutions, and recreational. Targeted industries consist of R&D, high-tech industries, agriculture and agro-processing, pharmaceuticals, electronics, education and skills training, and precious stones (Phiri and Shimukunku, 2020).

3.1.1 Climate

According to the African Development Bank (2013), Kafue has a tropical and sub-tropical climate with two main seasons: the rainy season (November to April) corresponding to summer, and the dry season (May to October/November), corresponding to winter. The dry season is subdivided into the cool and dry season (May to August), and the warm and dry season (September to October).

3.1.2 Rainfall patterns

Annual rainfall varies from 1,300mm in the north to 800mm in the south. Natural variations in rainfall are more significant in the southern and western areas where the frequency and duration of dry spells are greater (Strzepek et al., 2013).

3.1.3 Temperature

Generally, the mean monthly temperature ranges from 14 °C in June/July to 27.5 °C in October; the mean maximum and minimum temperature range from 16 °C to 34 °C in October and 7 °C to 24 °C in July respectively (African Development Bank, 2013).

3.1.4 Topography

Kafue has terrain with characteristics of open Miombo woodlands which are inundated with vast contours of grasslands lying at an altitude of about between 339 meters and 1,455 meters above sea level (Strzepek et al., 2013).

3.1.5 Geology

African Development Bank (2013) states that the geology of the Kafue Sub-basin represents one of the ancient landmasses of the African Continent and the underlying rock materials of much of this area are mainly the complexes of Katanga sediments of the upper (late) Precambrian age (700 million years ago).

3.2 POPULATION

Kafue District is located in Lusaka Province of Zambia, with a population estimated by Zambia Statistics Agency in 2023 to be 219,574.

3.3 ECONOMIC ACTIVITIES

According to the Kafue Integrated Development Plan (2020), the main economic activity of Kafue District is agriculture, with both commercial and small-scale farming accounting for 80% of all economic activities. Second to agriculture is the service industry (mostly retail),

tourism, mining (quarrying), manufacturing and informal businesses in the form of trading. Iron and steel production is set to be the biggest driver of the local economy followed by sugar plantation and renewable energy (Kafue Integrated Development Plan, 2020). In the previous years, the Nitrogen Chemicals of Zambia (NCZ), the only manufacturer of fertilizers in Zambia was the main driver of the economy and employed hundreds of local people while spurring the development and growth of residential and service industry around it (Kafue Integrated Development Plan, 2020).

CHAPTER FOUR: METHODOLOGY

4.0 INTRODUCTION

This section highlights the research methods which were employed in conducting this study. It discusses the study research design, sampling techniques, study population, sample size, data collection and analysis.

4.1 RESEARCH DESIGN

The research design that was used is a case study; focusing on the Lusaka South Multi-Facility Economic Zone as a case. According to Crowe et al., (2011), the case study approach is particularly useful to employ when there is a need to obtain an in-depth appreciation of an issue, event or phenomenon of interest, in its natural real-life context. The research approach of this study is both qualitative and quantitative; using the convergent mixed methods design.

4.2 DATA COLLECTION METHODS

This study employed both qualitative and quantitative methods of data collection. The qualitative data was collected using interviews through an interview guide. Qualitative data collection methods included in-depth interviews with key informants and relevant institutions

namely the Lusaka South MFEZ management, Industrial Development Corporation, Zambia Development Agency (Ministry of Commerce, Trade and Industry), Ministry of Small and Medium Enterprises Development (Department of Small and Medium Enterprises) and Lusaka Province Planning Authority (Department of Physical planning).

Quantitative data was collected using questionnaires. The questionnaires were administered to all the twenty-four (24) operational firms in the zone namely: British American Tobacco, Big Tree, Zambia Breweries, Zambian Fertilisers, Keda Ceramics, Mylan Pharmaceuticals, Ngonye Solar plant, Bangweulu Polar Company, Umoyo, Sunda Industrial Company Limited, Roland Imperial Tobacco, Rototech (Roto Moulder), Urban stone Limited, Ameya Marble Limited, Shetty and Nayak Limited, Trade Kings, Elite Build Company, Neon Solar, Queens Oil refinery, NRB Pharmaceuticals, Lusanje Solar Power, Platinum packaging, Kingsworth and Savenda Limited.

Additionally, thirty-nine (39) firms were interviewed from outside the zone within Lusaka and Kafue Districts: these are Yoyo Foods, Wireforce, Varun Beverages, Family Juice, Sunsweet Beverages, Elite Industries, Unified Chemicals Limited, Seba Foods, Yatu, Imperial plastics, Kingtape, Tapera industries, Bake It Zambia, Bestnet Limited, BSi Steel, Oriental Steel Manufacturing, Blue Diamond Roofing Limited, Zambezi Polyplast Limited, Dragon Construction Materials, Bimbe Trading Company, Habib industries, Boxpack Zambia, Vwala Safety, Polythene products, FineCop Zambia Limited, Kazuma Plastics Ltd, Essential Commodities Ltd, Mushe Milling, Fabribuild Zambia, Chelston metal fabricators, Dream view aluminium, Slyva University, Goat n chips restaurant, Chef Lala's kitchen, Cross Roads lodge, Cosmic lodge, Lusaka City Clothing, Wood Craft Furniture (Carpentry) and Kafue Chemicals Limited and Alliance Ginneries were interviewed in Kafue.

4.3 SAMPLING TECHNIQUES

Two sampling techniques were employed, these are purposive sampling and convenience sampling. These have been discussed below:

4.3.1 Purposive sampling

Purposive sampling was used to select respondents who provided qualitative data, from relevant key institutions namely: Lusaka South MFEZ management, Industrial Development Corporation, and Zambia Development Agency. For quantitative data, the questionnaire was administered to all 24 companies currently operating in the economic zone. Considering the total number of companies, 24 companies were not too many to be studied. Furthermore,

industries operating outside the MFEZ were interviewed. In particular, industries operating in the Industrial Area in Lusaka were interviewed.

4.3.2 Convenience sampling

Convenience sampling was used to collect data from thirty-nine (39) firms operating outside the zone; the study samples were obtained from the Lusaka industrial zone, outside the industrial zone and two firms from the Kafue District. Etikan et al, (2016) state that convenience sampling is a type of non-probability or non-random sampling where members of the target population meet certain practical criteria, such as easy accessibility, geographical proximity, availability at a given time, or the willingness to participate are included for the purpose of the study.

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4.4 DATA PRESENTATION AND ANALYSIS

A combination of qualitative and quantitative methods of data analysis was used to provide a richer and more detailed understanding of the study topic. Qualitative data was analysed using thematic analysis while quantitative data was analysed using descriptive statistics involving the use of percentages. The two methods of data analysis reinforced each other as qualitative results on inclusive tenets were used to elaborate and validate quantitative findings.

4.5. LIMITATIONS AND DATA VALIDITY

The non-availability of information from Lusaka City Council and Kafue Town Council on the firms operating in their industrial and business areas was a limitation. Data validity and reliability were provided as business and industrial areas were randomly selected.

4.6 ETHICAL CONSIDERATIONS

Consent was obtained from all respondents, and the confidentiality of information supplied by the respondents and the privacy of respondents were upheld. The researcher also informed the respondents that they were free to withdraw at any given time if they felt uncomfortable. Further, great care was taken to ensure that the respondents were completely anonymous in the research.

CHAPTER FIVE: RESEARCH FINDINGS

5.0 INTRODUCTION

This chapter presents the results of the findings; in line with the objectives of the study. This chapter reveals details of the perception of firms establishing themselves in the MFEZ as well as their willingness to invest in the zone, the extent of interaction of firms in the economic zone, the contribution of firms to job creation in the MFEZ and the challenges faced in the zone.

5.1 THE PERCEPTIONS OF THE MFEZ BY VARIOUS FIRMS

Findings on the perception of local ~~firms~~ investing firms investing in the MFEZ revealed that most of the firms (59%) had the perception that the LS-MFEZ was more favourable to foreign firms (Table 5.1).

Table 5.1: Perception of firms to invest in the MFEZ

	Frequency	Percent	Valid Percent	Cumulative Percent
Favourable to foreign firms	23	59.0	59.0	59.0
High land prices	5	12.8	12.8	71.8
Valid MFEZ challenges	4	10.3	10.3	82.1
Location	7	17.9	17.9	100.0
Total	39	100.0	100.0	

Source: Field data, 2024

Further, the study revealed that the fiscal and non-fiscal incentives offered in the zone were not lucrative enough to lure them to invest in the zone.

5.2 THE WILLINGNESS OF LOCAL FIRMS TO INVEST IN THE ZONE

The findings from the interviews conducted with local firms revealed that only a few firms (17.9%) were willing to invest in MFEZ while the rest indicated that they were not willing to invest in the zone (Table 5.2).

Table 5.2: Willingness to invest in the MFEZ

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	7	17.9	17.9	17.9
Valid No	32	82.1	82.1	100.0
Total	39	100.0	100.0	

Source: Field data, 2024

The study revealed that firms were not willing to invest in the zone due to various reasons which included limited water supply being experienced in the zone and favoring of foreigners over local firms (Table 5.3).

Table 5.3: Reasons why firms were not willing to invest in the zone

	Frequency	Percent	Valid Percent	Cumulative Percent
Location	7	17.9	17.9	17.9
Distance	5	12.8	12.8	30.8
Limited water supply	8	20.5	20.5	51.3
Valid Transport challenges	7	17.9	17.9	69.2
More favourable to foreigners	8	20.5	20.5	89.7
Inadequate capital to set up in the zone	4	10.3	10.3	100.0
Total	39	100.0	100.0	

Source of table: Field data, 2024

Firms also indicated that they preferred to continue operating outside the MFEZ because of their proximity to customers (Table 5.4).

Table 5.4: Opportunities for firms operating outside the zone

	Frequency	Percent	Valid Percent	cumulative Percent
Close proximity to customers	22	56.4	56.4	56.4
Valid Readily available unskilled labour	5	12.8	12.8	69.2
Agglomeration economies	12	30.8	30.8	100.0
Total	39	100.0	100.0	

Source of table: Field data, 2024

5.2.2 Opportunities for firms in the zone

An interview with an MFEZ official revealed that among the many opportunities that applied to both local and foreign investors in the MFEZ were fiscal and non-fiscal incentives. The results from the firms that were interviewed in the MFEZ also showed that most (51%) of them were attracted to the MFEZ due to tax exemptions offered in the zone (Table 5.5).

Table 5.5: Opportunities offered to firms in the zone

	Frequency	Percent	Valid Percent	Cumulative Percent
Non-fiscal incentives	7	17.9	17.9	17.9
Tax exemptions	20	51.3	51.3	69.2
Recognition by Government	2	5.1	5.1	74.4
Interaction with multi-national firms	10	25.6	25.6	100.0
Total	39	100.0	100.0	

Source of table: Field data, 2024

Interviews with key informants in the MFEZ revealed that the MFEZ had not yet reached 100% of its operations. Only the manufacturing sector firms had the largest employment numbers due to the high operational levels rated at 70 per cent. Trade Kings manufactured most of their products within the zone through their subsidiary Big Tree which is the largest employer in the zone with over a thousand (1,452) employees as of June, 2023. In addition, the Zambia Development Agency has indicated that the manufacturing sector in Special Economic Zone contributed 8.3 percent to Zambia's Gross Domestic Product (GDP) in 2023. The number of jobs created in the MFEZ was 12, 779. It was also revealed that 24 new investors were at the construction stage with investments worth \$244, 411, 115.51 projected to create 6, 657 jobs while those awaiting ZEMA approval were 8 firms with investments worth \$42, 806, 000.00 and will create 1, 847.

Findings have further indicated that the MFEZ had not only created direct jobs but plenty of opportunities for indirect jobs too. Firstly, it was revealed that Zambia Breweries had the first malting plant in Zambia as opposed to the past when the malting was done in other countries with packaging only done in Zambia. The introduction of the malting plant has come with

knowledge transfer and training of personnel from countries such as Mozambique, South Africa and South America. Before the opening up of the zone, Zambia Breweries only packaged the alcohol which was malted in neighbouring countries. The malting plant has equally created jobs for farmers in Mkushi who are supplying the company with barley which is used in beer production, this has created a constant stable income for the farmers.

The study also that the workforce in the MFEZ was not supplied by the host District of the zone but rather Lusaka District. This was attributed to the location of the District being on the periphery of Kafue District. Firms like Zambia Breweries and others who moved from their previous locations indicated that they too created employment as they did not move their employees from the old plant as they have set up different specialised plants, Zambia breweries revealed that the plant in the zone was a malting plant which required the employment of more people to run it. They further advised that they have had to conduct training for their employees stationed within the zone as they are a specialised team. They argued that they too have contributed to employment rates due to the expansion of their production.

5.3 THE EXTENT OF INTERACTIONS OF FIRMS IN THE LS-MFEZ

The study revealed that many firms (86%) operating outside the zone did not have any interactions with firms operating within the zone. Furthermore, a few (14%) indicated that they had some level of interaction with firms that operated from the zone.

Further, the study revealed that all (100%) of the firms operating in the zone had no interactions amongst themselves [as they had parallel investments](#).

5.4 THE CHALLENGES AND OPPORTUNITIES IN THE ZONE

An interview with one of the MFEZ officials reviewed that firms operating in the MFEZ had challenges which included financing and changing incentives as well as delayed approvals and erratic electricity:

“Major challenges that firms face: 1) the financiers of the projects withdrawing support, a good number of investors have withdrawn their applications in the long run. 2) Revised incentives by the government, some firms have had to wait before the operation starts due to various reasons by the time they start operating, incentives would have changed from the original ones. 3.) Delayed sector approvals such as ZEMA delays which take as long as 6 to 8 months, pharmaceuticals have also been affected by their regulator who has delayed approval

hence they cannot start operating. 4) Electricity challenges due to power cuts, water challenges are faced by investors who heavily rely on water”. (Interview, MFEZ, 27th October, 2022).

From the perspective of the firms operating in the ~~zone-zone~~, the major challenge to getting established in the zone was inadequate capital (Table 5.6).

Table 5.6: Challenges in the zone

	Frequency	Percent	Valid Percent	Cumulative Percent
Inadequate capital to set up in the zone	15	38.5	38.5	38.5
Water interruption	7	17.9	17.9	56.4
Inadequate security	1	2.6	2.6	59.0
Valid Revised incentives	3	7.7	7.7	66.7
Delayed sector approvals	8	20.5	20.5	87.2
Inadequate infrastructure after the expansion of the MFEZ	5	12.8	12.8	100.0
Total	39	100.0	100.0	

Source of table: Field data, 2024

CHAPTER SIX: DISCUSSION

6.0 THE PERCEPTIONS OF THE MFEZ BY VARIOUS FIRMS

The firms operating outside the LS-MFEZ indicated that they believed that the zone was meant for foreign investors who have adequate financing as capital. Further, it was revealed that very little had been done to market the zone to the average Zambian hence small and medium firms not prioritising investing in the zone. In addition, the perceived water challenges from within the zone have harmed the interest of firms to invest in the zone. Most firms do not perceive the zone to be their ideal investment area as they clearly indicated that the minimum investment threshold of \$50,000 was above their capital, hence they opt to invest elsewhere. The fiscal incentives were accelerated depreciation on capital equipment and machinery, and zero percent import duty on capital equipment and machinery (fixed assets) while non-fiscal incentives are electricity supply, water supply and sewerage, road network and optic fibre network.

In the same vein, Mwansa (2020) states that the LS-MFEZ management should realize that in the face of competition between public and private economic zones, potential investors were mostly likely to undertake due diligence analysis and only decide to invest in a zone with attractive facilities, it is not a matter of “take it or leave it”, what is at stake are serious business decisions involving weighing a myriad of scenarios of potential returns and risks both in the short and long run. Mwansa (2020) further adds that ultimately, an economic zone should have an attractive and appealing investment environment to guarantee investment.

Frick and Rodríguez-Pose (2023) state that the greatest novelty in terms of SEZ policy and zone characteristics is the relevance of industrial infrastructure within SEZs. Serviced industrial land, prebuilt factory units and other infrastructure, such as electricity and water supply, made a world of difference for both international and in-country investment decisions, particularly in lower-income countries (Frick and Rodríguez-Pose, 2023). Furthermore, investors in sectors with highly integrated global value chains highlighted that park infrastructure was key to the fulfilment of requirements from their customers in terms of sustainability standards (Frick and Rodríguez-Pose, 2023).

In addition, Frick and Rodríguez-Pose (2023) argue that water treatment plants and waste management were of particular importance in this regard. Safety concerns were also a major reason for firms to locate within an SEZ rather than outside (Frick and Rodríguez-Pose, 2023). Firms appreciated the ease of setting up operations when prebuilt factory units were available,

but also the more general provision of serviced industrial land (Frick and Rodríguez-Pose, 2023). A reliable electricity, water and waste management infrastructure is an important precondition, in particular for zones targeting more high-tech industries and those that form part of buyer-led industries, such as garment (Frick and Rodríguez-Pose, 2023).

The conceptual framework of this study highlights that the two drivers to the creation of a special economic zone by the Government are the perception of investors to the zone and the drivers of investment. These perceptions are made attractive by a stable legal framework, reduced tax incentives, access to finance, easy access to resources and a readily available market. When the perceptions of investors are met, there is a steady investment of firms in the zone.

6.1 THE WILLINGNESS OF LOCAL FIRMS TO INVEST IN THE ZONE

The willingness of firms to invest was dependent on several reasons including fiscal and non-fiscal incentives introduced by the zone management applicable to both local and foreign investments. The firms operating outside the zone indicated that fiscal and non-fiscal incentives were not lucrative enough to lure them to invest in the zone. However, it was indicated that the industrial area and other commercial areas offered agglomeration of economies for firms which reduced the cost of moving goods and services and also easy accessibility of customers to their products, especially for firms in the food industry, hospitality and education sectors.

Phiri and Manchishi (2020) explained that the rationalization of the incentive structure in 2018 was also cited as a major constraint to drawing investors into the zone. Phiri and Manchishi (2020) further argue that according to the zone developer, the removal of the tax holiday on profits and dividends induced investors with approved projects to withdraw while other investors reduced their pledged investments. Financing constraints and speculation were also cited as other reasons behind the investors' withdrawal (Phiri and Manchishi, 2020).

Phiri and Manchishi, (2020) state that what is now about the percent import duty on capital equipment and machinery and accelerated depreciation on capital equipment and machinery—is also on offer to other non-SEZ-based firms. Incentives have essentially become non-discriminatory (Phiri and Manchishi, 2020). For many governments, the underlying motivation for granting tax incentives is that they are seen as a quid pro quo for investors creating employment opportunities for citizens (Phiri and Manchishi, 2020). Alexianu et al, (2019) argues that governments should ensure that zones do not become isolated islands, instead they

should produce benefits for the economy at large. Finally, SEZs can serve as a means for policy experimentation to test reforms and measure their impact before being scaled to the rest of the economy (Alexianu et al, 2019).

The industrial location theory that was used in the theoretical framework of the study has stated that the location of the zone offers an advantage to investors to establish in the zone. Local firms are more attracted to a zone that has easy access to their markets.

6.1.2 Opportunities for Firms in the Zone

The results revealed that the benefits of firms located in the MFEZ were fiscal. However, the MFEZ also offered non-fiscal incentives. According to the LS-MFEZ (2023), the non-fiscal incentives included work permits, planning approvals, sector approvals, and non-transfer of servicing of land (the MFEZ management takes care of road provision, water, electricity, and communication, the huge costs are on MFEZ). Other non-tax incentives are economies of scale (some supply of goods, services and raw materials are readily available for investors for example companies that are packaging goods are in the zone, agglomeration of companies, a logistics site or inland port is being developed (a place where investors will be able to clear whatever they were exporting. Further, it is worth noting that the Citizens Economic Empowerment Commission had constructed an industrial yard that exists in the LS-MFEZ to support SMEs that are in light manufacturing, auto mechanics and various processing.

A study by Aggarwal (2007) argued that the indirect jobs that affect operations include transport, communication, automobile, civil aviation, shipping, tourism, hospitality, packaging, banking, and insurance. In a similar study done by Zeng (2016), it was emphasized that to maximize the spillover effects of the MFEZs in terms of employment generation, skills and knowledge transfer, as well as growth opportunities of local firms, it is important that the project devotes some resources to support the zone-local economy linkages this could be done through SMEs support.

However, a study by the International Monetary Fund (2023) explains that the MFEZs have not met expectations when it comes to either realized investment or employment. International Monetary Fund (2023) adds that investment realized within MFEZs in 2021 was 11 percent of the total private investment in the economy, while jobs created represented 1 percent of the total in the economy (2 percent of the private sector jobs).

Mwansa et al., (2020) in citing (World Bank, 2017) argues that location of an SEZ is an important factor contributing to its success. A location near a large metropolitan area assures investors access to other firms forming part of the zone's supply and value chains (Mwansa et al., 2020). Available sources of labour and capital allow zone operators to freely integrate with other firms outside of the zone and tap into support innovation activities (Mwansa et al., 2020). Phiri and Manchishi (2020) add that job creation and skills upgrading are some of the espoused labour market outcomes of SEZs.

It can be noted that this approach is different from other zones in different parts of the world, Farole and Akinci (2011) in their study from the Dominican Republic have observed that the zones have allowed investors to import and export free of duties and exchange controls, facilitating licensing and other regulatory processes, and usually freeing these firms from obligations to pay corporate taxes, value added taxes (VAT), or other local taxes.

6.2 THE EXTENT OF INTERACTIONS OF FIRMS IN THE LS-MFEZ

It was established that certain firms outside the zone have had interactions with those existing in the zone, however, the firms operating in the zone did not have any interactions. According to Lu (2022) in China, the firms in SEZs were encouraged to make connections with local firms. With support from the human capital of SEZs, local firms updated the information on markets and had faster adoption of new technology. Lu (2022) adds that in this way, the human capital of SEZs may have positive impacts on the local economy as positive impacts are more likely to diffuse from highly educated workers while the context of the SEZ program spillover beyond the targeted zones.

Further, regarding the interaction of firms; Gebrewolde (2019) adds that clusters facilitate learning by allowing firms to mimic one another. They also make it easier for labour to move between similar firms, increasing efficiency in recruitment and ensuring the continuous supply of labour for firms (Gebrewolde, 2019). In addition, larger firms tend to be impeded by organisational diseconomies of scale, which limit their ability to flexibly use knowledge spillover in clusters (Gebrewolde, 2019). Conversely, smaller firms benefit from entrepreneurial dynamism, flexibility, efficiency, and proximity to the market which make it easier for them to benefit from knowledge spillovers in clusters (Gebrewolde, 2019). Therefore, the failure of firms within the MFEZ hampered learning from one another and passing on new technological advancements.

Steenbergen & Javorcik (2017) also argue that the key long-term benefit to SEZs is to upgrade the productivity and learning of firms operating there. Successful SEZs in other countries have operated as important incubation centres for future exporters, industrial leaders and skilled technical staff through knowledge spillovers (Steenbergen & Javorcik, 2017). Gebrewolde (2019) adds that a major objective of SEZs is to promote technology spillover from foreign to domestic firms. However, the empirical evidence indicates SEZs frequently fail to do this (Gebrewolde, 2019).

Alexianu et al, (2019) state that SEZs can also bring about important economic benefits through buyer-supplier relationships between foreign firms inside the zone and domestic companies outside of it: First, the presence of FDI provides new market opportunities for local firms to increase their sales. Second, these business interactions can generate productivity gains for domestic suppliers (Alexianu et al, 2019).

The agglomeration of firms as stated in the theoretical framework of the study encourages the agglomeration of firms to promote the interaction of firms, transfer of knowledge and readily available skilled labour among firms. This is considered a plus in the Weberian model which justifies that the agglomeration of firms promotes efficiency and effectiveness through reduced transport costs and raw materials.

6.3 THE CHALLENGES AND OPPORTUNITIES IN THE ZONE

Despite the challenges noted in the LS-MFEZ, the zone is also able to offer opportunities. The discussion below highlights the challenges and opportunities in the LS-MFEZ as follows: Among the challenges that were found in the MFEZ was a limited supply of water. The existing supply of about 4, 500 cubic meters of water per day was against the required approximately 5, 600 cubic meters of water per day. This situation therefore reduced the performance of firms located in the MFEZ. Findings of the study revealed that the zone is faced with water interruptions and this has affected several firms. The challenges experienced in the zone such as constantly revised policies and limping infrastructure when addressed are a drivers of firms to invest in the zone.

According to Farole (2011) most of the African zones offer an infrastructure inside the zone that, while not world-class, is of higher quality than that typically available elsewhere in the country. However, in some cases, infrastructure inside the zones mirrors that in the rest of the country, including water shortages; electricity failures; and health, safety, and environmental

shortfalls (Farole, 2011). If the basic internal infrastructure needs cannot be met, a zone has little chance of success (Farole, 2011). Mwansa et al, (2020) add that water and sewerage facilities would require upgrading to adequately cater for the planned capacity of investment in the zone.

Phiri and Manchishi (2020) argue that SEZs in Zambia are not insulated from power cuts, thus load shedding is a major challenge that negatively affects the operations of the zones. Other Zambia-specific challenges include poor coordination across government agencies, which results in red tape in accessing public services; lack of experience in managing zones or similar investments in the public SEZ; weak soft skills, particularly for Chinese-owned SEZs; a distorted incentive structure; and policy inconsistency (Phiri and Manchishi, 2020). It was also revealed during the interviews that delays with sector approvals had affected the zone negatively. It was indicated that the bureaucracy involved in approvals of investments was a drawback as other investors abandoned the process halfway. The Zambia Environmental Management Agency approvals were cited to take close to eight (8) months.

This has been observed by Farole (2011) who states that in most countries in Africa, excessive and poorly administered regulation undermines competitiveness by raising the costs and risks of doing business, consuming substantial management time, and distorting the incentives that are the basis of competition. In particular, the process of setting up a business—including obtaining licenses and permits, preparing facilities, and getting access to utilities and other services— can be time-consuming, costly, and susceptible to rent-seeking by government officials (Farole, 2011). Phiri and Manchishi (2020) highlight that major factors constraining the zones' potential in Zambia include inadequate infrastructure provision and services, a fragmented incentive structure, policy inconsistency, inadequate technical capacity and skills shortages, lack of deliberate domestic linkages in place which are further limited by local capacity constraints. The lack of anchor industries also makes it harder to draw commensurate suppliers (Phiri and Manchishi, 2020).

CHAPTER SEVEN CONCLUSION AND RECOMMENDATIONS

7.0 CONCLUSION

The study aimed to examine the perception of local firms to invest in special economic zones in Zambia with a particular focus towards the Lusaka South Multi-Facility Economic Zone which was the first zone created in Zambia. The research concludes that the firms in the zone perceive it positively while firms outside the zone perceive it negatively. The firms in the zone were able to appreciate the non-fiscal incentives offered despite the challenges. The firms also indicated that they enjoyed tax exemption even though they have been revised over time and hence are received with mixed feelings.

7.1 RECOMMENDATIONS

This study therefore recommends the following:

7.1.1 Sensitisation and information dissemination on the LS-MFEZ

There is a need for the Industrial Development Corporation (IDC) to prioritise mass sensitisation and information dissemination on the existence and purpose of the Lusaka South Multi-Facility Economic Zone (LS-MFEZ). This will enable local firms to understand the vision of the Government in creating the zones and also this will open the way for the uptake of space in the industrial yards that have been created by the Citizen Economic Empowerment Commission meant to encourage investments by small and medium enterprises (SMEs).

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7.1.2 Investment in infrastructure

There is need for the MFEZ management to invest in water infrastructure to alleviate the persistent water shortages. The water problem within the zone has adversely affected the productivity of firms in the zone, with the opening up of residential plots there is an urgent need for the water infrastructure to be upgraded.

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7.1.3 Clear Policy Mechanisms

The Government needs a stable policy around the MFEZ, the policies meant to lure investors into the zone have been constantly revised. This has affected investor confidence as firms view the unstable policies negatively towards their operations.

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APPENDICES

APPENDIX 1: QUESTIONNAIRE FOR INVESTORS IN THE MFEZ

Indicate a cross [X] where appropriate unless specified

Start Time: Date:

Section A: General Information

1. How long has the firm operated in the zone?
a) Less than 6 months b) 6 months to 2 years c) 3 to 5 years d) more than 5 years
2. Indicate what category of land use have you invested in?
a) Manufacturing and Industrial b) Energy production c) Tobacco processing d) Pharmaceutical
e) Breweries f) construction
3. How long did it take your application to be responded to when you applied for land?
a) 1-month b) 2 to 4 months c) 4 to 6 months d) more than 6 months
4. How many permanent jobs have you created since starting operations in the MFEZ?
.....
5. How many temporal jobs have you created since starting operations in the MFEZ?
.....
6. What is your value of investments in the zone so far?

Section B: Information of investments in the MFEZ

7. Are you a local or foreign investor?
8. Are you for the local or international market?
.....
9. In monetary value, how much was invested by your firm?
.....
10. What goods or services do you buy from any firms in the LS-MFEZ?
.....
.....
11. What goods or services do you buy from firms in Zambia but outside the LS-MFEZ?
.....
.....
12. Why did you choose you invest in the Lusaka South Multi-Facility Economic Zone?
.....
.....

13. What opportunities do you have operating in the zone?

.....
.....

14. Has investing in the zone been profitable for your firm?

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.....

15. What incentives attracted you to invest in the Lusaka South Multi-Facility Economic Zone?

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.....
.....

16. What challenges do you experience operating within the zone?

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.....
.....

Section C:

17. What in your view should be done to make the zone more attractive?

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.....
.....
.....

18. What should be done to make the zone more competitive?

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.....
.....

19. Is there change in policy since you established the company in the zone that has adversely affected your business?

.....
.....
.....
.....

20. How does your firm interact with Zambian companies?

.....
.....

APPENDIX 2: INTERVIEW GUIDE FOR KEY INFORMANTS

Indicate a cross [X] where appropriate unless specified

Start Time: Date:

Section A: General Information

1. How many applications does the MFEZ receive on average annually?
2. How long does it take management to respond to applications?
3. How many foreign and local investors are in the zone?
4. What is the value of investments done in the zone so far?
5. How much do the firms in the MFEZ contribute to GDP?
6. Why has there been a slow pace of uptake of land in the zone?
7. How many firms have expressed interest to invest in the zone?
8. How many firms have expressed interest to invest in the zone?
9. Is there any skilled transfer among firms in the Zone?
10. How many permanent jobs have been created in the zone?
11. How many temporal jobs have been created in the zone?
12. How much of industrial land has been occupied?
13. What are the major challenges faced by firms operating in the zone?
14. How are the challenges affecting businesses in the zone?
15. Has there been any policy changes affecting the zone? How have they affected investors?
16. What have you as management done to cushion the changes policies that have affected the initial incentives that attracted firms to invest in the zone?
18. In your view, how has the zone contributed to socio-economic development of the people in the area?

APPENDIX 3: INTERVIEW GUIDE FOR RELEVANT GOVERNMENT INSTITUTIONS (KEY INFORMANTS)

Indicate a cross [X] where appropriate unless specified

Start Time: Date:

Section A: General Information

1. What was the role of your organisation in the development of the Lusaka South Multi-Facility Economic Zone?
2. What is your specific role with the zone?
3. What factors are contributing to attracting investments in the MFEZ?
4. How has the development of the MFEZ contributed to availability of jobs in the city?
5. What have you as a ministry/department done to make the MFEZ competitive and attractive?
6. What factors have stimulated interest in investing in the zone?
7. Highlight the main drivers of investment between local and international, state reasons:
8. In your view, what can be done to encourage local investors?
9. What processes are required to invest in the zone?
10. In your view, how has the MFEZ contributed to socio-economic development?
11. Do you agree that the LS-MFEZ has achieved the purpose for which it was proposed to be created?
12. How do local investors perceive the MFEZ?
13. How do international investors perceive the MFEZ?

APPENDIX 4: QUESTIONNAIRE FOR INVESTORS OUTSIDE THE MFEZ

Indicate a cross [X] where appropriate unless specified

Start Time: Date:

Section A: General Information

1. How long has your firm existed?

a) Less than 6 months b) 6 months to 2 years c) 3 to 5 years d) more than 5 years

2. Are you a local or foreign investor?

(a) Local (b) foreign

3. Do you know about the Lusaka South Multi-Facility Economic Zone?

(a) Yes

(b) No

4. Is your firm willing to invest in the zone?

(a) Yes

(b) No

5. If yes to question 4, what attracts you to the LS-MFEZ?

.....
.....

6. If no to question 4, what is the reason you would not want your firm to be in the zone?

.....
.....

7. What opportunities do you think firms in the LS-MFEZ have?

.....
.....

8. What challenges do you think firms in the zone face?

.....
.....

Section C:

9. What in your view what should be done to make the zone more attractive to investors?

.....
.....
.....

10. Do you think you would make more make profits operating in the zone?

- (a) Yes
- (b) No

11. How does your firm interact with companies in the zone?

- (a) Yes
- (b) No

12. What opportunities do you have operating outside the zone?

- (a) Close proximity to customers
- (b) Readily available unskilled labour
- (c) Agglomeration economies
- (d) None