Unleashing Opportunity: Entrepreneurship and Governance in Africa

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Preconditions of prosperity around the world include a legal framework based on property rights, the rule of law, and economic freedom. By multiple metrics, including the Doing Business Index and both the Fraser and Heritage Economic Freedom Indexes, most African nations rank among the weakest in the world.[1] As Hernando de Soto documented, legal and entrepreneurial value creation is difficult in such circumstances.[2] As a consequence, most African nations are poor, have high levels of youth unemployment, and most economic activity takes place in the informal sector. This lack of opportunity and prosperity is a crisis of immense magnitude.

Occasionally, a leader makes a decisive attempt to remedy these issues. The most prominent case on the African continent is Paul Kagame of Rwanda, who for decades has modelled his reforms on those of Lee Kuan Yew of Singapore, the most successful leader with respect to economic growth of the second half of the 20th century. The result is that Rwanda has been a top improver on these indexes and one of the fastest growing nations on the continent. Controversies regarding Kagame's regime aside, it is rare to have a leader who has the vision, ability, and authority to make such reforms.

What can one do to improve conditions in Africa? Given the rarity of national leaders who possess such a drive for genuine national prosperity, is there another way to foster genuine innovation and market institutions within a nation, in the hope of their expansion? An alternate strategy, in addition to nation-wide reforms, is to create a new generation of Special Economic Zones, sometimes described as Charter Cities or Startup Cities. These "next generation" zones would feature their own law, governance, tax, and regulatory systems within a small, city-scale geographical region. This is most easily done on a greenfield site, to avoid having to shift the legal regime of an existing population—hence the term "Startup City".

By reducing the scope of governance reform from the nation-state level to new, greenfield city-scale sites, it will be possible to start anew without having to change thousands of laws and reform existing judicial systems (though we welcome progress on this as well). In some cases, these zones may be able to combine greater respect for indigenous cultures and traditions, while also providing access to world-class commercial law. By relying on private investment, rather than on foreign aid or government funds, the zones are more likely to be sited in locations that make sense from a strategic, business perspective. And they are less likely to serve as opportunities for cronyism. In addition, insofar as foreign aid to central governments may be a cause of conflict and governance malfunction, this approach avoids the "foreign aid curse".

In Somalia, Somaliland, the Central African Republic, and elsewhere, conflicts have been exacerbated due to the monetary prize associated with being the entity with formal access to foreign aid largesse.[3]

Finally, while we acknowledge that there are considerable challenges with respect to the issue of creating appropriate legal frameworks for such zones, there are precedents we can work from, both internationally and from within existing indigenous African traditions. By combining best practices of international commercial law with sympathetic African practices, we may be able to create Startup Cities that are world class, while also being more firmly rooted in African traditions than colonial legacy governance systems, which often do not serve the needs of the African people.

The Goal: A Thriving African Continent

It is time to focus on solutions that will empower African people to thrive. Indeed, African nations have the potential and opportunity to make real progress with respect to economic prosperity and quality of life. This is evident given that African immigrants living abroad often lead successful lives in developed nations. For example, Nigerians are among the most academically successful ethnic groups in the United Kingdom, and among the highest income earners in the United States.[4] Yet at home in Africa, we are mostly poor. It is this discrepancy of opportunity which drives many Africans to make dangerous journeys across the sea to try and reach Europe, searching for work. The jobs they obtain in Europe are often poorly paid by European standards, but well paid by African standards. Why is it that the same person makes five to ten times as much money in Europe or the Unites States as they would in Africa? The issue clearly lies in our institutional environment, not our people.

Through the examples of North and South Korea, as well as East and West Germany, it has become abundantly clear to the world that the legal system of a nation can have a dramatic impact on the prosperity of its people. In order for Africans to experience prosperity within Africa, they need access to robust systems of law and governance.

Such systems provide crucial keys to prosperity, given their ability to attract capital and talent from around the world, while reliably protecting civil rights through the rule of law. We are aware that cultivating governance systems is a complex process with many competing ideals and trade-offs, yet there is abundant evidence that some features are more conducive to prosperity than others. In particular, entrepreneurship, investment, and ongoing business activity benefit from a stable and predictable legal environment featuring secure and transferable property rights, the rule of law, and freedom from unnecessary regulatory restrictions.

Unfortunately, most African nations are not exemplary with respect to these features. The lack of adequate law and governance provision is directly responsible for the condition of Africa today. Addressing these challenges is essential in helping Africa to improve, and in some cases this improvement could occur rapidly.

The State of Africa Today

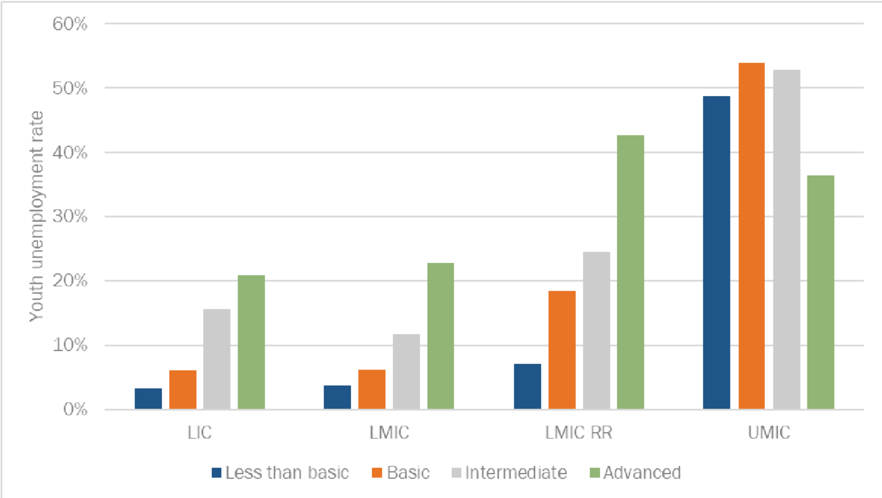
The scale of the challenge in fostering a prosperous African continent is daunting. Africa remains the poorest region in the world, with the extreme poverty rate in sub-Saharan Africa in 2015 standing at 41%, significantly higher than the global average of 10%.[5] The World Bank also estimates that over half the world's extreme poor reside in sub-Saharan Africa, with a total of 413 million people living in extreme poverty.[6] Most of the world's poorest nations are in Africa, including Burundi, the Central African Republic, the Democratic Republic of the Congo, Malawi, Niger, Mozambique, Liberia, Guinea, and Sierra Leone.

Indicators of human welfare tell a similar story. The Human Development Index ("HDI") measures education, life expectancy, and income.[7] Africa has an average HDI score of 0.536, significantly below the global average of 0.697 (with all countries being measured between 0 and 1).[8] Furthermore, 29% of live births in 2021 took place in Sub-Saharan Africa, yet 56% of under-five deaths also took place in the continent.[9] In 2020, Sub-Saharan Africa accounted for 70% of maternal mortality.[10] Of all those living without access to electricity around the world, 66% live in Africa.[11]

Strikingly, these patterns are discernible too in the arena of business and enterprise. Africa's share of global merchandise exports stands at 2.5%.[12] In 2017, only 43% of adults in sub-Saharan Africa had a bank account.[13] Sadly, these percentages are unsurprising in a region where property rights are inconsistently protected, the rule of law may be weak or missing altogether, and regulatory obstacles are substantial.

Many would view these statistics as evidence of poor human empowerment, proposing improved education systems for the next generation. However, Africa is by far the youngest region of the world, and yet has high levels of youth unemployment both among educated and uneducated Africans. Moreover, the more educated a young person is, the higher the rates of unemployment they experience. The figure below illustrates this.

Figure 1: Youth unemployment by education level in sub-Saharan Africa.[14]



Note on education classification: "Less than Basic" is pre-primary or lower; "Basic" is completed primary; "Intermediate" is completed secondary or post-secondary technical or vocation school/training; and "Advanced" is attended any type or level of tertiary education.[12]
Source: Youth unemployment by sex and education, ILOSTAT database.

This fact alone should alert people to the fact that increased education provision is not the solution to high levels of poverty in Africa. Africans often joke that even working as a taxi driver requires a Ph.D. in the continent is working as a taxi driver. To illustrate this issue, the graph above outlines four categories of nation, in relation to their Gross National Income ("GNI"): Lower Income Country ("LIC", below $1,025 GNI per capita); Lower Middle Income Country ("LMIC," below $3,995 GNI per capita); Lower Middle Income Country Resource Rich ("LMIC RR", where at least 50% of exports are natural resources); and Upper Middle Income Country ("UMIC", above $12,375 GNI per capita). In every case but the latter, more education correlates with higher rates of unemployment.[15] Shockingly, almost 50% of students with some tertiary education in resource rich nations are unemployed.[16] Therefore, the belief among Western donor nations that increasing educational provision is the key to unlocking prosperity in Africa is incorrect. African economies instead need market opportunities to capture their abundant human capital, especially those who are highly educated but remain unemployed.

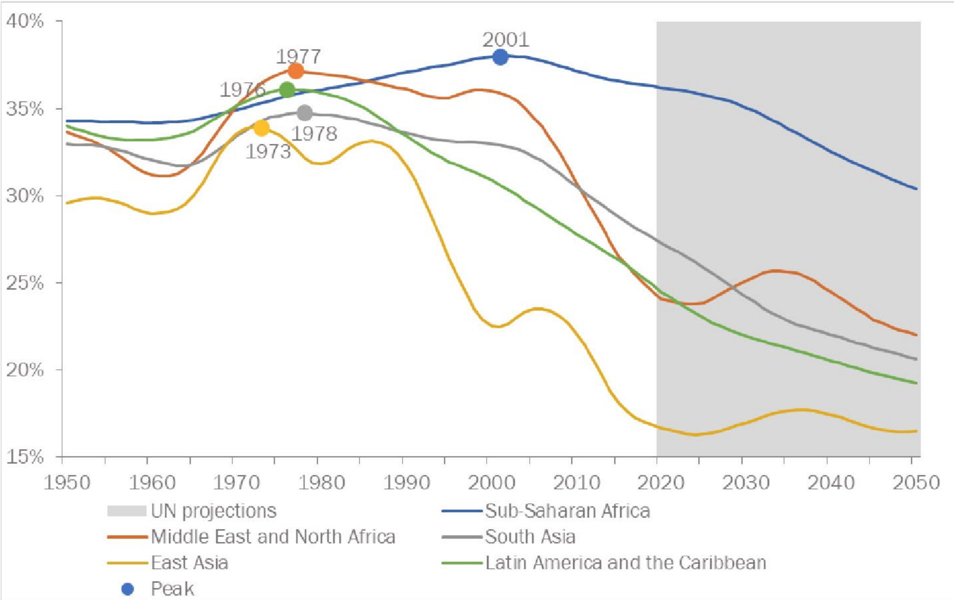
Moreover, the definition of "employment" used in these statistics significantly over-counts those in unsatisfactory levels of part-time work, counting someone as "employed" if they have worked at least one hour in return for payment in the past seven days. Such statistical analysis also fails to capture the reality of poorer nations, as it does not recognise that the majority of people are engaged in either agricultural labour, resource extraction, or are "hustling"—engaging in whatever activity they can to bring in money, such as selling goods on the street, in the market, begging, and the like. Thus, the number of people who are under-employed is much higher than those who are officially counted as "unemployed".

In the context of population decline in much of the Western world, Africa has a wealth of young, educated human capital—a key ingredient for growth. However, in the absence of the market institutions and industries needed to provide employment, Africa's greatest asset is not being adequately served. The scale of the challenge is immense, as the Brookings Institute identifies:

> "The [sub-Saharan African] working-age population (15-64) numbered 587 million in 2018, accounting for 54 percent of [the] total regional population and about 14 percent of the world's total working-age population. Over the next two decades, the working age population will increase by about 20 million people per year."[17]

Of that total, about 200 million are between the ages of 15-24, an age bracket with some of the greatest potential, but also greatest risks associated with high unemployment:

Figure 2: Youth share of working-age population, actual and projected by region.[18]



Note: Youth is the estimated population ages 15-24. Working-age population is estimated population of ages 15-64.
Source: United Nations World Population prospects 2019 (Medium Variant)

Around the world, there is substantial evidence that unemployed young men are a source of potential violence.[19] If African economies are not able to employ these young people, not only will Africa remain poor, but the potential for violent outbreaks will continue. Africa has suffered proportionally more civil conflicts than any other region in the world since the 1960s. While there are many reasons for this, it is nonetheless clear that growing economies with expanding opportunity are less likely to collapse into civil conflicts.

How can Africa create an abundance of good jobs in the coming decades?

All prosperous nations have moved up the value chain from agriculture and resource extraction to manufacturing and services. African economies must do so too. Yet insofar as African economies continue with agriculture and resource extraction, they need to move towards highly capitalised agriculture and greater processing of resources to move up the value chain. African economies need to develop infrastructure and technologies in these areas.

Why have African economies not achieved these steps? A chief reason is because African governments have not provided the property rights, rule of law, and economic freedom to develop a highly capitalised indigenous private sector.

Why is Africa in this Situation?

Since independence, African economic performance has been disappointing to both Africans and non-Africans. Africa's history in this time has passed through many phases of economic "development" initiatives, changing in step with global trends in economic thought. However, each model has been either misinformed, poorly implemented, or incomplete, leaving Africa in a poorer state than the rest of the world.

Immediately following independence, the dominant narrative was that African poverty was due to colonialism, and independence from colonial powers was therefore perceived as a tremendously hopeful opportunity. Many of the stars of African independence—including Kwame Nkrumah of Ghana, the first African nation to achieve independence in 1958, and Julius Nyerere, who promoted the concept of "Ubuntu"—were openly socialist in their economics.[20] Even nations that were ostensibly "capitalist" rather than "socialist" at the time of their founding, such as Nigeria, implemented a state-controlled form of "capitalism", using five year plans much like the Soviet Union.[21] The African continent had the extremely bad luck of liberating itself from colonial powers during the heyday of socialism and state-controlled economies.

Compared with the expectation of rapid growth once the colonial shackles had been taken off, on average, per capita growth was modest:

> "[There was an] African aggregate trend of slow growth per head from the 1950s, through independence, up to about 1975; then stagnation and, from the mid-1980s, a decade of actual decline in income per head; followed by the broadest boom Africa as a whole has seen, from 1995 until into the 2010s"[22]

Moreover, African economies were unable to industrialise, leaving them dependent on commodities which are vulnerable to price swings in the international market.

Meanwhile, the 1970s and 1980s saw a growing revolution in the world of development economics. Gradually, a handful of economists began to notice the striking combination of economic growth and economic freedom among the four "Asian Tigers"—Hong Kong, Singapore, Taiwan, and South Korea. Hong Kong and Singapore had some of the highest levels of economic freedom in the world.[23]

Meanwhile, George Ayittey, the Ghanaian economist, began to notice the brutality of the Marxist regime of Jerry Rawlings in Ghana, where soldiers were murdering market women and killing their babies because they had allegedly violated government-set price controls. Knowing how deeply market women reflected the indigenous culture of Africa, Ayittey began advocating for indigenous African capitalism against the European-originating Marxism that was prevalent across the continent.[24]

By the 1980s, it was clear that socialism was failing around the world, and the Asian Tigers were thriving. This led to a decline of socialist ideals and their replacement with a pro-freedom and pro-market agenda. While the world's attention was focused on the collapse of the Soviet Union and the Eastern bloc in the late 1980s and early 1990s, the loss of this superpower binary across Africa resulted in a wave of civil wars. According to Zachariah Mampilly:

> "The collapse of the Soviet Union brought with it an influx of illegal weaponry and the weakening of many proxy states, leading to a spike in conflict in the early 1990s as political and economic elites sought to take advantage of the new political dispensation."[25]

It was in the midst of this instability that the "Washington Consensus" was rolled out, promoting neoliberal, pro-market, and pro-growth reforms. Although the Washington Consensus had some positive outcomes (e.g., in India), in many African nations the impact was more mixed.[26] There is evidence that hyperinflation decreased as a consequence of these reforms.[27] But the dominant narrative became that the "austerity" due to constraints on budgets—that led to cuts in education and healthcare spending—was directly harmful to the poor, and the promised economic growth did not materialise across most of Africa. The Washington Consensus was focused on the need for fiscal sustainability, monetary stability, and macroeconomic resilience, none of which were possible with unsustainable debt and inflation. But this agenda was not handled well in the African context. There was too little awareness of the lack of market institutions and poor governance structures in Africa. Hence, the forced macroeconomic reforms were not enough to generate growth in the absence of healthy institutions.

More recent reviews of the impact of the Washington Consensus in Africa suggest that the countries that initially followed the recommended reforms performed more poorly than those that did not in the 1980s and 1990s; however, those who reformed have been more successful in the 2000s and 2010s.[28] But the pain experienced in many African nations as a consequence of the Washington Consensus has rightly made many Africans sceptical of reforms imposed or required by multilateral organisations, such as the World Bank and International Monetary Fund ("IMF"). Reforms need to be made in light of local circumstances.

Some of the shortcomings of the Washington Consensus became more deeply understood by economists after the increased profile of "New Institutional Economics" in the 1990s, which fostered a greater appreciation for the role of property rights, the rule of law, and regulatory institutions within nations. The prior "neoliberal" reforms of the Washington Consensus had focused more on free trade, balanced budgets, and sound monetary policy. Hernando de Soto's book, *The Mystery of Capitalism*, published in 2000, made the case that property rights and excessive regulation were holding the global poor back, essentially providing a more popular case for key tenets of New Institutional reforms.[29] The 1990s saw the creation and publication of competing economic freedom indexes by both the Fraser Institute and the Heritage Foundation (in collaboration with the Wall Street Journal), followed by the World Bank's Doing Business Index in 2002. These ideas began to illuminate that, in retrospect, the Washington Consensus had been excessively focused on macroeconomic reforms and inadequately concerned with the local institutions needed to ensure that market reforms benefited ordinary citizens.

As these indexes were introduced to measure the essential institutions for prosperity, it became clear that African nations generally had the weakest institutions. Most African nations have consistently ranked near the bottom of each measure, typically having weak property rights, weak rule of law, and extensive over-regulation.

The African nations which reversed these trends and developed strong governance and market institutions have also experienced the greatest levels of prosperity. Mauritius—a small, island nation that had benefited from a long history of free zones—was for many years the only African nation ranked in the top quarter of nations globally with respect to economic freedom.[30] Not surprisingly, given the strong correlations between economic freedom and prosperity, it was the first middle-income African nation. By 2023, it has become the 26th most economically free entity in the world according to the Heritage Foundation, with a GDP per capita of $10,216.[31] Cabo Verde, at 47th (another small, island nation) is next.[32] It is followed by Botswana which, ranked at 52nd in 2020—the most highly ranked sub-Saharan nation on the continent—has been set on a pro-market track since independence.[33] It has also been one of the most economically successful of all African nations.

Despite these success stories, the broader picture is still a challenging one. In the World Bank's Governance Index, sub-Saharan Africa is the lowest ranked region in four out of six categories, including Government Effectiveness, Regulatory Quality, the Rule of Law, and Control of Corruption. It is second from the bottom in the remaining two categories, outdone only by the Middle East and North Africa on Voice and Accountability, and Political Stability and Absence of Violence/ Terrorism.[34] The correlation of Africa's low ranking on these indicators, and its relative global poverty suggest that governance and institutional strength are paramount to the building of prosperity.

Thus, in the present day, most nations in Africa are very poor, have very low levels of economic freedom, and suffer from poor governance. These issues are related. In order for African people to prosper, they need functioning institutions that secure property rights and the rule of law, so entrepreneurs can create mass prosperity.

Current Mainstream Reform Initiatives

In light of these indications of the importance of market infrastructure and governance quality, where are mainstream development reform initiatives currently pointing? Despite the wealth of evidence highlighting the need for fundamental institutional structures, the majority of initiatives from multilateral organisations such as the United Nations ("UN"), World Bank, IMF, and World Economic Forum ("WEF") are primarily focused on the issues of climate change and foreign aid. Indeed, after some scepticism about the benefits of foreign aid in the 2000s, climate concerns have provided a fresh rationale for African governments to plead for foreign aid.

For instance, the top issue listed on the UN's Africa webpage is climate change—completely ignoring the fact that prosperity is the greatest protector against changes in the climate.[35] The second issue listed is hunger and malnutrition—again, prosperity is the best long-term solution. The World Economic Forum is also more focused on climate change than on African growth, seemingly unaware that growth is Africa's best hope against the vicissitudes of climate. Prosperous people can buy air conditioners, have larger budgets for food, and ultimately are more likely to work in air-conditioned environments (including air-conditioned tractors in the agricultural sector). Deaths from all types of natural disasters decline dramatically as nations become more prosperous.[36]

The World Bank is too heavily focused on preventing Africans from prospering from fossil fuels. In fairness, it acknowledges the need for access to electricity and cleaner indoor cooking (both of which imply broader access to fossil fuels). But the bulk of its message is that Africans need to prepare for an "energy transition" away from fossil fuels.[37] It explicitly discourages African nations from utilising affordable, reliable fossil fuels to achieve prosperity more rapidly. Given that more than 50% of Africa's export value comes from fossil fuels, if the rest of the world were to shut down Africa's fossil fuel exports, it would have a significant negative impact on African citizens (not to mention the tremendous hypocrisy of nations which became prosperous through fossil fuels not allowing the poorest region in the world the same opportunity).[38]

More promisingly, in the past, the World Bank has been a leader in economic reform through its Doing Business index. However, this was eliminated in 2021 due to corruption in China, Saudi Arabia, Azerbaijan, and the United Arab Emirates ("UAE"). A replacement index, known as Business Ready, is due to be launched in a pilot form in 2024. It is hoped that the reinstatement of this index will bring enterprise, entrepreneurship, and market institutions back to the fore of development initiatives. Yet, a major concern for Africa is that the International Labor Organization ("ILO")—the global voice of unionised labour—will play a role in ranking "worker's rights" in the new Business Ready index.[39] This is a concern because Africa is already the region with the heaviest labour regulation in the world, which has forced much of the African economy into the informal sector where workers have no rights at all.[40] If the ILO sets too high a bar for labour regulation, then the poorest region on earth, sub-Saharan Africa, will suffer the most.[41] Excessive labour market regulation in low-income countries keeps most workers in the informal sector, where they are typically paid less and have no legal rights at all.[42]

There is some push-back against this disproportionate emphasis on regulation and interventionism. Within Africa, the African Continental Free Trade Agreement ("ACFTA") may well be an opportunity for change, with the potential to reduce tariffs among nations in a significant way. At this point, most African nations have committed to participating in ACFTA, though it is not clear how quickly its free trade provisions will become a reality.[43]

In addition, in practice, the ACFTA is likely to include various exceptions to the advertised "free trade" policy. Insofar as many African constituencies depend on the protectionism of their nations, it may not be easy to implement a fully free trade zone across the continent. Particular industries, well-connected to governments, are likely to carve out tariff exemptions for their products. These exemptions may reduce the actual free trade that takes place—the more likely a business is to face real competition, the more aggressively they will lobby for continued protection. We should therefore be cautiously optimistic, without fully accepting the marketed version of the ACFTA.[44]

Insofar as mainstream organisations are supporting ACFTA and improved business environment advocacy, they are helping Africa move forward incrementally. Insofar as they are distorting the incentives of African leaders through foreign aid that leads to greater corruption or unproductive distortions in African economies, they may not be helpful.[45] Insofar as they prevent African nations from developing or using their natural resources, especially fossil fuels, they are likely harming African development.[46]

Current mainstream reform initiatives are misguided by poor thought and analysis in the field of economic development. These ideas have failed to accurately capture and respond to the African context, leaving mainstream development ignorant of the need to prioritise governance and market institutions.

One of these issues has been the persistent entrenchment of foreign aid dependence, despite the wealth of evidence showing its ineffectiveness. In the 2000s, there was an active debate on the role of foreign aid in perpetuating poor governance and preventing improvement in the institutions needed for economic growth. Development economist Bill Easterly was prominent in making the case for economic freedom and highlighting the harms from aid dependency. This was followed by Jeffrey Sachs' widely known Millennium Villages Project, which aspired to achieve "The End of Poverty", as his 2005 book was entitled. The goal here was to go straight to the village level, hoping to bypass the corruption trap of central governments and achieve transformation "one village at a time"—an approach which would rapidly gain popularity. However, in 2013, journalist Nina Munk published *The Idealist*, a critical perspective on Sachs' project.[47] In the 2018 formal evaluation of the project, an article co-authored by Sachs acknowledged that the project had failed to increase villagers' consumption (though it claimed one-third of the project's goals had been met).[48]

But Sachs' failure is merely a high-profile example of the foreign aid industry which dominates many African nations, and its inability to spark prosperity. The truth is, however aid assistance is structured, or whichever level of government or society it is handed to, its ultimate outcome is the creation of dependence. If we look at the net Overseas Development Assistance ("ODA") of various African nations as a percentage of central government expenses, it becomes clear that many African nations are de facto dependencies of foreign governments.[49]

Percentage of the Government Budget funded by ODA:
The figure below illustrates how much of the government budget is funded by ODA in various African nations, following a scale of 10% or 20% increases:

Greater than 30% (Liberia, Tanzania),
Greater than 30% (Liberia, Tanzania),
Greater than 40% (Burkina Faso, Burundi, Togo, Uganda),
Greater than 50% (Ethiopia, Guinea-Bissou, Madagascar, Malawi, Mali, Mozambique, Niger),
Greater than 70% (Democratic Republic of Congo, Rwanda)
Greater than 100% (Central African Republic, The Gambia, Guinea, Somalia).

There is an entire literature in development economics on the "foreign aid curse", analogous to the "resource curse."[50] When government leaders and their cronies have access to millions of dollars of aid to direct as they please, they have less motivation to make the reforms needed to create prosperous free-market economies.

These are government-to-government foreign aid figures, and do not include the vast armies of non-governmental organisations ("NGOs") with personnel stationed in various African nations. There are many outlets of African popular culture which make fun of these NGO personas, including a sitcom and even a card game.[51] It is one thing for foreign aid to be sent to an emergency location following an earthquake or hurricane. It is very different for generations of African governments to be dependent on aid, and generations of African people to be dependent on foreign aid workers. The academic debates on foreign aid do not reflect the humiliation felt by millions of Africans subject to the white saviour complex for their entire lifetimes.

Another misconceived trend in development analysis is the fact that, in more recent years, randomised control trials ("RCTs") have largely taken over development economics. In 2019, leaders in this field were awarded a Nobel Prize:

> "Work by the 2019 Nobel awardees—Michael Kremer, Abhijit Banerjee and Esther Duflo—includes experiments in Kenya and India on teacher attendance, textbook provision, monitoring of nurse attendance and the provision of microcredit."[52]

To advocates of RCTs, the claim was that they provided rigorous evidence of what worked and what did not in alleviating poverty. For an older generation of development economists focused on increasing economic growth, such as Lant Pritchett, the "Randomistas" (as RCT advocates are sometimes known) had replaced a focus on ending poverty through growth, with micro-analyses that did not really change much in the lives of the poor—it was tinkering at the margins.[53]

In more recent years, in addition to the RCTs, there has been a focus on "state capacity". A series of papers in the first two decades of the 21st century argued that a state's capacity to provide public goods was a key determinant of its economic development.[54] Of course, a challenge to this approach to economic development is, "How can external actors influence state capacity within African nations?"[55] The idea behind the state capacity literature is that a government needs to provide certain public goods in order for markets to produce prosperity. While there are diverse interpretations of which public goods might be most critical, often they include the rule of law, sound regulation, a functioning civil service, and the ability to provide education, healthcare, and infrastructure. While well-intentioned and plausible, it is often difficult to envision a path from the current minimal state capacity in many African nations to a robust well-functioning state. Moreover, improved education and healthcare provision may need to be downstream from the prosperity that results from a functioning market economy (which can then provide the funding needed for such goods).

But unfortunately, if mainstream development economists do not emphasise market fundamentals such as property rights, the rule of law, and economic freedom, the economic focus in Africa could be knocked off course. Insofar as there is active hostility in academia towards themes such as "neoliberalism" and "deregulation", these key themes may be opaque to African political leaders, media figures, and other influencers across the African continent.

Finally, there has been an upsurge in recent years in favour of "Industrial Policy" in economic development. The Korean economist Ha-Joon Chang is the most prominent figure in this literature, and South Korean economic development is one of the most compelling success stories for such industrial policy.[56] And, indeed, if there was reason to believe that African leaders were able to pick industrial sectors to prioritise with government support, then perhaps an African nation could successfully pursue industrial policy. But given the track record of African governments with respect to rewarding cronies and ethnic groups aligned with those in power, there are reasons to be sceptical that industrial policy in Africa would be anything more than another avenue for cronyism.

Insofar as mainstream economic development is no longer focused on accelerating growth, it has become less relevant to African conditions, where growth is urgent. Insofar as it is focused on industrial policy, it is in danger of perpetuating the corruption of foreign aid and resource extraction under a new name.

In light of these challenges, it is the job of the economic development field to work towards a theory and approach which focuses on growth and takes into account the context of weak market institutions in the African continent. The most promising existing strand of thought is that represented by Romer's Charter City concept, which we will explore more deeply in the next section.[57]

Two Categories of Solutions: Nations and Zones

There is therefore a clear need to find sustainable solutions which will promote prosperity in Africa, through the most provenly effective means of market innovation, strong governance, and growth. Such an approach would need to take into account the institutional and entrepreneurial challenges facing African nations and attempt to cultivate the conditions needed for growth to occur.

This section examines two general categories of solutions. The first is nation-wide systems of law and governance. This model is how most people think of improving the law and governance of a nation—addressing the challenges at a nation-state level. Here, we will review the economic success of two particular African nations, one which was relatively successful from the moment of its independence (Botswana), and the other which has become more successful in recent decades (Rwanda). The second approach is the use of Special Economic Zones or "Charter Cities" to create smaller-scale environments free of regulatory burdens and built on strong legal frameworks, which can begin to foster prosperity within a nation, and encourage the broader direction of the national framework towards growth.

Botswana

Botswana is an example of a country that created a successful nation-wide development agenda, which embraced the right principles to foster growth and prosperity. Botswana was, for many years, the most successful African nation post-independence, with the fastest growth rates from 1960 until 1980. Most African nations adopted some form of socialism (or even, in the case of "capitalist" Nigeria, state-led "capitalism") once they achieved liberation. The "heroic" figures of the post-colonial period—including Kwame Nkruhmeh, Leopold Senghor, and Julius Nyrerere—were all explicitly socialist leaders.

By contrast, the first post-colonial leader of Botswana, Seretse Khama, was firmly committed to respecting property rights and the rule of law. The descendent of tribal leadership prior to independence, he was educated at Oxford and then Inner Temple, where he studied to become a barrister. The combination of continuity with traditional institutions and an informed commitment to British common law led to the most sensible pro-market policies on the continent for many decades.[58] Common law traditions tend to allow business activities which are not explicitly prohibited; by contrast, civil law traditions tend to specify what is permitted (with all else being prohibited), thus tending to limit economic freedom from the start. Botswana thus started with a functioning market economy premised on voluntary exchange (as was indigenous Africa) instead of beginning from a controlled socialist economy, or a quasi-market economy where state leadership was assumed.

While Botswana's rapid growth was due to the discovery of diamonds, unlike most African nations which squandered their resources, Botswana widely partnered with corporate mining interests and then devoted the government's share of revenues in ways that benefited the people—more so than any other resource-extraction government on the continent. Diamond wealth was used to build roads, hospitals, and schools. DeBeers prospered due to Botswana's respect for contract enforcement and the rule of law, and the people of Botswana benefitted, unlike many African nations where natural resource wealth typically only benefitted elites. Khama deserves to be the heroic figure of African independence because he not only achieved political independence, but also provided Botswana with much greater economic independence than other African nations have achieved. It is ironic that the most successful African economy since independence did so through an entirely capitalist partnership with a multinational corporation that mined its resources, whereas nations where natural resources were nationalised in Ghana, Zambia, and Tanzania but did not create prosperity.[59]

Botswana has had its struggles, including a severe AIDS crisis, along with the fact that it has not successfully diversified its economy. As revenues from diamonds are likely to decline in the coming years, Botswana definitely needs to up its game. It has successfully negotiated with DeBeers to move up the value chain within diamond processing, but the economy will still remain largely dependent on diamonds for the foreseeable future.[60] In addition, there is currently a controversy regarding Botswana's human rights record, in particular regarding the alleged persecution of its former president Ian Khama (Seretse's son).

But nonetheless, Seretse Khama's combination of respect for indigenous institutions while integrating them into the best of the English common law tradition is a paradigm relevant to the broader discussion on options for Africa's prosperity going forward. Khama's newly independent Botswana maintained respect for the "*kgotla*", the traditional village governing structure that served as a judicial and administrative body in traditional culture, along with local chiefs. He very deliberately used the *kgotla* tradition of community debate to inform democratic institutions. And as a trained British lawyer, he knew the importance of property rights, respect for contract enforcement, and the rule of law for prosperity.

Rwanda

The other striking nation-state success is Rwanda. Here, the post-independence phase was much more difficult, with decades of Hutu-extremist rhetoric towards the Tutsis culminating in the 1994 genocide, in which roughly one million people died. Paul Kagame was the Tutsi general who stopped the genocide without much support from the outside world. Whether directly or indirectly, he has largely been in control of the nation ever since. While there are ongoing serious concerns regarding human rights and press freedoms in Rwanda, the recent economic success of Rwanda is unambiguous.

Kagame has explicitly modelled his economic development on that of several “developmental dictators” found across the Asian Tigers, the most famous example being Lee Kuan Yew’s Singapore. These leaders combined a commitment to national economic growth and development with a harsh authoritarian form of governance and desire to maintain control. In the case of Lee Kuan Yew, he developed Singapore from a poor nation—whose economic situation was similar to that of many African nations now when it was expelled from Malaysia in 1965—to one of the most prosperous nations in the world by his death in 2015. He was an authoritarian leader who prioritised the creation of a world class business environment that was attractive to foreign direct investment (“FDI”), featuring high levels of economic freedom based on a common law legal environment. He was firmly against corruption, and sincerely had the best interests of Singapore in mind.

Kagame has positioned Rwanda such that it has been one of the most rapid improvers in the Doing Business and economic freedom indexes for most of the past two decades. In the 2020 Doing Business index, the last one published, Rwanda ranked 38th in the world, just behind Switzerland and Slovenia, and just ahead of Portugal and the Netherlands. From 1995 until 2019, Rwandan growth averaged 6% per annum, making it one of the fastest growing economies in the world.[61] Neighbouring Burundi—which is very similar in size, population, and culture (including the Hutu/Tutsi tensions)—had an economy roughly equivalent to that of Rwanda at independence. Today, Rwanda’s economy is almost three times as large, and as of 2012, it was attracting 264 times as much FDI.[62] The average Rwandan citizen has almost four times the income as the average Burundi citizen. Burundi’s economy is highly controlled (as was Rwanda’s up until the genocide), ranking 166th in the 2020 Doing Business index.[63] The contrast between Rwanda and Burundi is not yet as extreme as between North and South Korea, but it is headed in that direction.

However, despite these success stories, the challenges of conducting reforms at the nation-state level are severe. So many pieces need to be coordinated to have a significant impact—political coalitions, leadership, ethnic alliances, talented and honest bureaucrats and officials, a unified vision over many years, and the like. Hence, this type of reform is rarely conducted successfully. It is by means of focusing on nation-state reform alone that so many people have despaired of improvements in African governance.

Mauritius: The Zone Model

Given these challenges with the nation-state model, we now turn our attention to the use of zones, which can create the economic and legal norms needed for prosperity on a smaller scale, when the national level has proven difficult.

Whilst the achievements of Botswana and Rwanda are impressive, Mauritius is the real economic star of Africa. Mauritius was ranked 13th in the 2020 Doing Business index, ahead of Australia and Taiwan. It is 9th in the world on the Fraser Institute’s 2022 Economic Freedom Index, just behind the United States and Estonia, and just ahead of Ireland.

Although Mauritius was regarded as being destined for poverty at independence in 1968, between 1977 and 2008 it averaged 4.6% annual growth, a significant figure for such an extended period of time.[64] The use of Special Economic Zones was an integral part of this success. At independence, Mauritius was largely dependent on sugar cane, and required a major shift towards diversification if its economy were to grow. In the 1970s, Export Processing Zones were introduced and began to allow diversification to take root, as new industries grew through their facilitation of exports to the global market. These environments then attracted FDI in higher value addition sectors such as manufacturing in the 1970s, and as this sector grew, financial services and tourism were also drawing in investment by the 1980s as well. In the last two decades, it has added a successful information and communications ("ICT") industry, with winners in international coding competitions and hackathons based in Mauritius. The benefits to the nation's economy are clear, with the IMF measuring their 2021 GDP per capita as the highest in Africa, 62nd globally, and at $29,000, just ahead of Uruguay and behind Chile and Bulgaria.[65]

The Potential of Economic Zones

The success of Economic Zones in countries such as Mauritius warrants pausing and considering the reasons for their success, and their potential to become such a potent force for development around the world.

Nobel laureate Douglass North, in collaboration with Barry Weingast and John Wallis, made a distinction between "closed access societies" and "open access societies" as a means of understanding the different conditions of developing nations.[66] The former, which they described as "the natural state," is where political elites largely treat government as a spoils system. This pattern is roughly the situation in most African nations today. Typically, the transition from a "closed access" to an "open access" society is long and fraught, and involves the breaking apart of the establishment's grip on political and economic power, and commitment to growth and nation-wide prosperity. Occasionally, one finds a leader such as Seretse Khama, Lee Kuan Yew, or Paul Kagame who makes such a commitment on their own. But the "natural order" (as North, Weingast, and Wallis also describe it) is a situation in which elites prevent competition through rent-seeking restrictions on economic activity by outsiders.

However, after decades of working in the free zone industry, Robert Haywood, former director of the World Economic Processing Zones Association, observed that zones allow for a faster path of transition from a "closed access" society to an "open access" society. Haywood observed that in a typical "closed access society", any additional increments of economic freedom were perceived as threatening to existing elites, because they required the dismantling of their rent-seeking privileges. Elites could no longer benefit from their airport, banking, or media concessions if the government was truly open to competitive bidders, and if the economy was open to entrepreneurial initiative without restriction.

Zones are a way around this challenge because export zones on unoccupied land do not threaten the local structure of rent seeking. To speak informally, if a business is exporting widgets and only earning profits through such exports, the business is not competing in local markets and is therefore not a threat. Moreover, by bringing in more revenue into the country, the zone is a net benefit for all business interests in the nation. Why not allow such zones?

In terms of social standing, Haywood observed that often such zone initiatives were led by people on the "periphery of the oligarchy". That is, they were not the true insiders who were currently benefiting from the existing rent-seeking structure, but they were close enough to those insiders that they could persuade them to support the zone initiatives. Haywood characterised them as "younger brothers, cousins, nephews, in-laws, etc." Essentially, these individuals are close enough to have directly trust-based communications with those in power (and thus are neither foreigners nor the unconnected middle-class) but not so closely connected that they already benefit from the rent-seeking establishment.

Haywood makes the case that once a nation begins experiencing economic growth through such zones, then a broader path to economic liberalisation may begin to open. The elites invest in the zones and realise they can earn more from economic liberalisation than through hoarding opportunities, and gradually they agree to open up the economy. Haywood makes the case that this sequence from zone success to broader economic liberalisation took place in Mauritius, Mexico, China, Ireland, and to some extent, India.

Zones are by no means a magic bullet that will work in all cases. On the other hand, much has been learned over the decades regarding what is likely to work and what is less likely to work. For instance, zones that are funded by governments are apt to be used to channel funds to cronies. They are also likely to be located in sites designed to reward political allies whether or not the location actually makes sense for businesses. Finally, revenue sharing through the model of a Build, Operate, Transfer agreement, with steadily increasing revenue shares over decades, incentivises a government to let the private experts develop the zone assets over time. Ideally, these agreements are protected by treaty protections, with the with the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (or "New York Treaty on arbitration") as a minimal requirement. For such treaties to have much effectiveness, the nation would ideally be incorporated in the global economy enough that violations can sting. Thus, the most disconnected nations may not be good candidates, or at least we should have low expectations of success in such nations unless the leadership or political allies of the project are exceptionally promising.

Next Generation Zones and Charter Cities

As beneficial as traditional Export Processing Zones and Special Economic Zones have been in the 20th century, the 21st century has seen a key zone innovation: the creation of semi-autonomous zones with their own law and governance. These new zones combine the challenges outlined above, which the African continent faces in particular—the need to foster growth and market innovation, and the crucial importance of governance structures and legal frameworks.

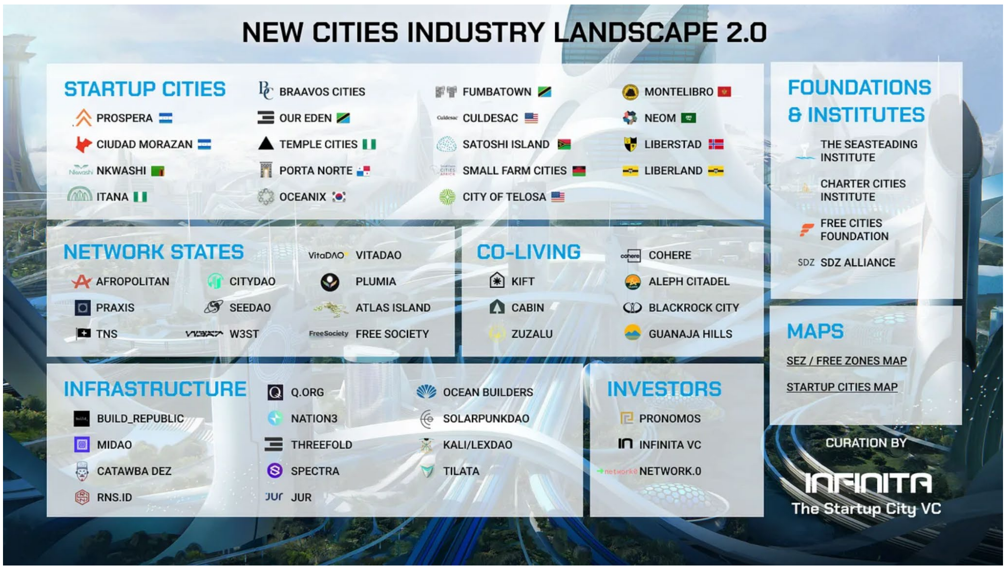
Export Processing Zones and Special Economic Zones have a long and mixed history in the 20th century, with some succeeding and some failing. But in the 21st century, we are seeing significant progress in identifying the key features of success. Some elements of success include significant private ownership and control of decision-making, to avoid government cronies spending state funds on ineffective projects. More recently, the importance of independent law and governance of the zones, in addition to reduced taxes and regulations, has been identified.

The first model of such zones is the Dubai International Financial Centre which established a common law jurisdiction in the midst of UAE Sharia law, starting in 2004.[67] It has since positioned Dubai as a top ten global financial centre. This model was partially copied in Kuwait and directly copied in Abu Dhabi. Since then, we have seen common law zones established in Honduras, Kazakhstan, Rwanda, and Colombia. Interestingly, the common law zone in Colombia is being co-designed and developed by the Dubai Multi Commodities Centre.[68] Dubai is thus transferring its common law zone expertise to other nations.

The idea of zones with their own law and governance obtained a big boost with Paul Romer's 2009 TED talk, introducing the concept of "Charter Cities". Romer's original version included the idea of another nation supervising the governance of a developing world city (Canada and New Zealand were both suggested), but this approach was later rejected as being too "neo-colonial". But the idea has lived on through the Charter Cities Institute, which now works with a variety of nations, multilateral institutions, and scholars to promote the idea.

Gradually, an entire ecosystem of for profit and nonprofit entities have developed in what might be described as the "New Cities Industry Landscape" as shown in the diagram below:

Figure 3: New and future Charter Cities.[69]



Several of these Charter Cities are based in Africa, including Nkwashi (Zambia), Itana (Nigeria), and Fumbatown (Zanzibar), with Afropolitan being a virtual "Network State'' that aspires to obtain a physical location over time. Enyimba Economic City in Nigeria, not included in the diagram above, is a large-scale Special Economic Zone which has won the first-place award in the global Charter Cities Institute annual competition for its design. The Charter Cities Institute, the leading global NGO promoting this concept, has another half a dozen projects in process. This movement is happening.

The Importance of Zones with Legal and Regulatory Autonomy for Africa

While the legal structures of the foregoing initiatives vary widely, the biggest promise for African nations consists of zones with significant legal and regulatory autonomy. There are four reasons for this:

1. Zones allow individuals and communities to create the momentum for transformation, rather than relying solely on lengthy, piecemeal reforms at the national level.
2. Africans should be able to create jurisdictions that respect their own legal and moral traditions.
3. Stable legal environments are required to attract capital and talent.
4. Greater regulatory innovation and arbitrage are possible in such zones.

This section examines each factor in turn.

Reason 1 – Zones Allow Faster Transformation

The current legal landscape in the majority of African nations requires massive overall change. Given that most African nations have hundreds of laws that result in their business environments being ranked among the worst in the world, it is a very long, hard, sustained legislative and administrative process to reform at the national level. Another challenge of piecemeal reforms is that changing any one particular law is unlikely to have a significant impact on economic growth. Thus, reformers are in the challenging position of having to try and change hundreds of laws to improve the business environment, perhaps over decades. Insofar as most of these changes are likely to be invisible to the population, while also not having immediately visible impact, it is hard to sustain long term political support for such a reform agenda. If it were the case that political leaders, elites, and citizens largely shared a long-term vision for pro-market legal reforms, perhaps such change could be sustained. But that is not the case currently in many African nations.

In addition, most observers would agree that a common law legal system is more favourable to business than a civil law legal system. In general terms, the premise of common law is that that all activity is permitted, unless it is explicitly forbidden. For example, two (or more) parties are free to make the agreements they find mutually beneficial. They can look to case law to learn how their contracts are likely to be decided in case there is a dispute. But both parties have extensive freedom to design arrangements suited to particular situations, and hence the system is flexible and open to innovations. By contrast, the premise of civil law is that all activity which is not explicitly permitted is forbidden. Statutes define the law, and if a statute does not permit an arrangement, it is unlawful. As a consequence, businesses in civil law countries have considerably less flexibility, and the legal system may inadvertently forbid valuable innovations. It is not an accident that the leading tech hubs of Africa are all Anglophone: South Africa, Nigeria, Kenya, and Ghana.

A further example of the difference between common and civil law is their impact on the costs of legal transactions, particularly regarding business creation. In most common law legal systems, a Notary Public is simply a clerk who certifies that a signature is official. In the United States, the cost of getting a documented notarised is typically $25 or less, often free. In civil law countries, a Notary Public is an attorney who charges hefty fees, often $1,000 or more. In low-income nations, insofar as Notaries are required to start a business (which they usually are), the cost of a notarisation alone prohibits all but the elites from being able to open a legal business.

Mauritius has a mixed common law and civil law system, having been ruled by Britain from 1810 until 1968. The influence of common law is especially significant in Mauritian commercial law, which is most critical for investment. Similarly, Rwanda, originally under civil law, began making a shift towards common law in 2001, with more progress in recent years. The Kigali Financial Centre, launched in 2018, uses a common law framework to position itself as a world class financial centre. Both Zambia and Botswana, former British colonies and the only other two African nations in the top half of the Doing Business index, are common law jurisdictions.

Meanwhile, former French, Portuguese, Belgian, and Spanish colonies are burdened with civil law systems that reduce their attractiveness for investment and business creation. After their civil law colonisers left, the newly independent nations preserved the legal systems of their colonisers. They should all have the opportunity to create common law zones similar to the ones that have been proven successful in the UAE, Rwanda, and elsewhere. There is no reason why any African should feel any loyalty to a particular inherited colonial legal system, especially if there are better systems that lead to greater prosperity.

Reason 2 – African Traditions Should Be Respected

Ideally, Africans would be able to create hybrids between their local ethnic legal traditions, and the best of commercial law from around the world. While Botswana's history is the best real-world example of this, the appendix to Michael Van Notten's book *The Law of the Somalis* provides a sketch for how traditional Somali clan law could be integrated into contemporary British common law to create a competitive free city.[70] A case may be made that Somali clans are more representative of the Somali people than the artificially-imposed state in Somalia. The clans historically had arrangements for adjudicating disputes that were based on a system of judge-made law—structurally very similar to the origins of British common law, which in its purest form is also judge-made law. Rather than impose a colonial system that is inconsistent with the traditional dispute resolution mechanisms of Somali culture, it would make more sense to build upward from traditional Somali judge-made law, and then insofar as it does not include modern contract law, graft British commercial law into a fundamentally Somali foundation.

In Senegal, the religious city of Touba is substantially autonomous, with the laws internal to Touba determined more by the Mourides religious leaders than by the central government in Dakar.[71] This local autonomy, as with the Somalis, could be extended again by adding modern commercial law onto traditional law. However, the bolstering of autonomy based on ethnic and religious cleavages could be potentially dangerous given the risk of sparking conflict. Many such civil conflicts have occurred across the African continent since its wave of independence, resulting in widespread suffering and loss of life. Hence, the potential use of zones or Charter Cities to allow ethnic groups to create legal systems which better reflect their own laws and customs—combined with the best of commercial law—must be tempered with the need to maintain peace and national cohesion.

Yet at present, insofar as natural resource revenues and foreign aid dominate national budgets, there is an ongoing incentive for ethnic conflict as every group wants to capture the central government and reward their partisans and ethnic allies with the legal and illegal capture of government revenues. A zone on empty land, in which the only source of revenue is value added manufacturing or services, and which will only continue to bring in revenue if properly managed, avoids the natural resource and foreign aid curse. Moreover, such zones are infinitely expansible—it is not a zero-sum game. Every community and every ethnicity should be able to design zones that benefit their region—competing to create the most value for residents and investors in the process.

It should also be noted here that many groups in Africa are far more socially conservative than is regarded as acceptable in the West. Both Somali judges and Mourides religious leaders are likely to make decisions that are out of step with international norms on social issues. But a case may be made that the international community should respect local traditions. Moreover, as prosperity develops, it is likely that many communities will evolve. It is not a coincidence that Dubai is both the most commercially successful and most tolerant Muslim country in the Middle East.

Zones with their own law and governance can allow African nations to experiment with such legal hybrids, allowing both for greater respect for indigenous traditions and the opportunity to create enclaves which can foster competitive business environments.

Reason 3 – Stable Legal Environments Are Crucial

Attracting capital investment and talent is a key ingredient to market-based growth. One of the challenges in attracting capital is that long-term investors need to be confident that their investment will not be compromised by means of confiscation, either directly or through confiscatory taxes or regulations. If an investor is looking at 20, 30, or more years for a return on their investment, they need to know that the legal, fiscal, and regulatory environment will be stable. For example, investors need to know that if they invest $50 million in a factory, they will be able to recover their investment in a stable, predictable legal environment for decades into the future. Hence, businesses cannot survive in an environment in which labour costs may be arbitrarily increased without warning, or tariffs for essential components coming in or products being exported might change dramatically, and so forth. Most people outside the world of business and investing do not understand how important legal environment predictability is in order to ensure that a business will be successful.

At a minimum, of course, a nation needs to be stable enough to avoid civil wars or coups over a long timescale. Not all African nations, are at present, even that stable. But even those with relative political stability may be subject to dramatic changes in policy or political landscape, inflation, and other disruption to the business environment. In nations in which changes in political leadership bring about abrupt changes in who has access to what, or what is regarded as legal, it is very difficult to build businesses. In some nations, a change in leadership results in previous legal business being confiscated. In addition, one of the disadvantages of informality is that while friendly powers reign, the government will not crack down on "grey market" economic activity. But when, for whatever reason, the new regime is less friendly, all of a sudden they may prosecute their enemy's violations of law with a vengeance (and/or demand bribes to be allowed to escape such prosecutions).

A solution is to create zones with sufficient legal autonomy that they are explicitly separate from routine executive, administrative, or legislative dictates. Especially in nations with a history of capricious changes in the statutory law, in order to build trust with investors, it may be necessary to create zones in which there are multiple guarantees that future changes in commercial law will not impact the zone. One strategy is to enshrine the legislation by setting up a zone through an international treaty, as treaties can supersede national legislation. Of course, this requires subsequent governments to respect international treaties, but for nations that are sufficiently connected to the international commercial system, the costs of violating commercial treaties can be substantial.

An additional layer of protection may be required, such as setting up a separate governance board. The solution in Honduras has been to create an international governance council that then signs long-term agreements with private entities, to manage the legal and regulatory aspects of the zones. The Honduran example has become controversial because the most recent Honduran regime has repealed the enabling law for the zones that originally created this structure of a separate governance board. The issue is now in legal limbo, as the American interpretation of the situation is that the legal stability agreement requires the government of Honduras to respect the legal status of the zones for the remainder of the original 50-year agreement. The Honduran government disagrees. In practice, the question may come down to whether the Honduran government is so committed to the repeal they are willing to accept the consequences of reduced future investment for violating the legal stability agreement.[72] Of the three zones originally authorised under the legislation, two have accepted the repeal, and one—Prospera, on the island of Roatan—is fighting it legally. It is not a coincidence that the island of Roatan has a separate identity from the mainland. Therefore, the creation of international oversight does not necessarily guarantee a zone's independence.

However, insofar as a separate identity may support zone autonomy (as suggested above by working within African ethnic and legal traditions) it could be that zones that are authorised by legal means through the national government, then enshrined by international treaty, and then based in local communities that have a strong identity, might be more robust than is the case of the zones in Honduras. The Honduran government has been able to rally feelings around "sovereignty" being violated by the zone law. But insofar as some communities in Africa do not have a strong sense of national identity, that which has traditionally been regarded as a weakness of African states could be turned into a strength.

Certainly, the Somali clans and Mourides of Touba, and the Igbo of Nigeria would also welcome greater local autonomy and governance. No doubt dozens, if not hundreds, of other examples across the continent could be identified.

The challenge will be to combine national legislation authorising these zones with a way to delegate control to the right local governing authorities. By refusing to provide any government funding for projects, thus eliminating a spoils system and conflict, any entrepreneurial communities who want to attract capital would have to compete to design governance contracts and agreements that provided investors with the confidence they need. Some might use systems similar to that of Honduras. Others might innovate in countless ways. The key is to allow communities the opportunity to establish freedom with respect to the legal system, regulatory policy, taxation policy, and governance structure on greenfield sites, financed by private capital.

None of this guarantees zone integrity, but the basic idea is to look for structures that can provide investors with confidence that there will be no legal, fiscal, or regulatory takings over the extended time horizon of multi-decadal investments.

Reason 4 – Zones Provide Greater Regulatory Freedom

In many ways, this is the most exciting feature of such zones—it is the means by which African nations can leapfrog ahead of other jurisdictions around the world. Legacy legal and regulatory systems are renowned for the ways in which they prevent innovation. They are typically designed to protect incumbent businesses with existing business models. Many Silicon Valley tech entrepreneurs and investors have made this point in various ways—most prominently Larry Page, Peter Thiel, Marc Andreesen, Balaji Srinivasan, and Vitalik Buterin—but the sentiment is common among innovators. Many of these entrepreneurs have endorsed the idea of some version of a zone for innovation, and several have invested in such zone projects.

An example of the problems associated with high regulation is the entire literature on how the US Food and Drug Administration in the United States delays the introduction of new medicines and medical devices. Similarly, the manner in which land use regulation increases the cost of housing is likewise well-known. Similar barriers exist to a broad range of industries, including nuclear energy and its widespread adoption, cryptocurrencies and their need for greater regulatory transparency, and so forth. Prospera, the Startup City in Roatan, Honduras, was an example of a zone which was advancing innovation in otherwise heavily-regulated sectors, such as drone companies, crypto companies, and healthcare.

Africans are already leading early adopters of crypto currencies, because the banking and financial sector is so heavily regulated and the establishment currencies so often inflationary. For instance, Nigeria is the third leading adopter of crypto by percentage of the population. In part, this is because of heavy-handed government policies that attacked protestors against the government by freezing their accounts. Naturally, this led both the protestors and their allies to open crypto accounts to get around government control. In addition, the Nigerian Naira has also experienced 20% annual inflation in recent years. When the value of one's savings evaporates that quickly, ordinary people have an interest in saving value in other ways. The cryptocurrency volatility at least includes the potential to increase in value, whereas the Naira will predictably decrease in value. Zimbabwe and Sudan often have annual inflation rates in the 100% range or higher—no one can afford to hold local currency at those rates. Ghana, usually regarded as a relatively well-governed African nation, also had an inflation rate nearly 50% last year. Hence innovations in crypto through autonomous zones could have significant potential in Africa, building on this foundation.

In addition, the African governments often restrict capital flows in and out of the country. If investors and corporations cannot repatriate profits, then most will not invest. The only way to ensure that private capital will invest in a nation is to create a friendly investment environment. Zones present a unique opportunity to do this, without facing the level of political opposition expected at the national level.

A further issue in the African context is that many goods that could be used in value added manufacturing are subject to heavy tariffs. Tariff rates above 10% are not uncommon for goods ranging from cardboard to computers. In the United States, a business owner can purchase anything they need via Amazon at low prices and receive it overnight. In Africa, similar key business supplies may be two to five times more expensive due to a combination of tariffs, taxes, and transportation, along with various regulatory restrictions that could hold up the goods at ports (and often amount to an opportunity for government officials to extort business owners to get their goods in or out).

Labour is also highly regulated in many African nations. The consequence of this is to reduce formal employment, forcing many more people to remain unemployed or in the informal sector. In Senegal, for instance, there are frequent state-mandated pay rises, and one needs permission from the government to dismiss employees—all well-intentioned measure, but a small business that is barely surviving simply cannot afford these extra costs. And if governments are de facto preventing small businesses from growing into big ones, or preventing them from being born at all (at least legally), then we will never create the formal sector jobs needed to employ hundreds of millions of young Africans.

To avoid the obstacles put in place for legal businesses, many African entrepreneurs remain in the informal sector. This might work as long as they remain small, but as they grow government officials are likely either to prosecute them and/or to ask for bribes so they avoid doing so (extortion). Moreover, informal businesses do not pay taxes, cannot have bank accounts, cannot buy insurance, and cannot build credit worthiness (and thus cannot borrow from formal institutions).

In light of these endless obstacles (doing business in Africa has been compared to swimming through molasses), there have been some reforms in the right direction in recent years. But progress has been slow. Zones provide an opportunity to catalyse reform on a smaller scale, and allow African communities to build world-class business environments, draw in investment, and begin to create prosperity.

Conclusion

While we encourage and support nation-wide reforms across Africa—whenever and wherever we can obtain leadership committed to the long-term development of world class business environments at the nation-state level—we cannot wait on that option alone. Because zone-level developments are easier to achieve—given that they are small level experiments that do not threaten the entire elite establishment—we encourage advocates for a prosperous and innovative African future to consider ways to accelerate the creation of Special Economic Zones. This new generation of zones should have increasing levels of autonomy with respect to law, governance, and regulatory systems. There are a growing number of models and organisations with relevant expertise that can facilitate the creation of a prosperous Africa through such reforms.

We ask that all of those who support the well-being of Africans learn about these ideas so that they can support dozens, then hundreds of new cities across the continent—each featuring a high-quality business environment. We then look forward to thousands, and then millions, of African entrepreneurs creating value for themselves and for the world in decades to come.

At the individual level, we encourage both Africans and others to learn about the ideas described here and also encourage others in your network to learn about these ideas. Do not make it about ideology. For people adequately informed about the role of a streamlined business environment, there is simply no justification for the current situation. Well-intentioned people may discuss the differences between the Anglophone models of the United States and New Zealand, the Asian models of Singapore and Hong Kong, the Scandinavian models of Denmark and Sweden, or the zone models of Mauritius and Dubai. But nobody can defend the inefficient business environments of most African nations today (with Mauritius and Rwanda as exceptions). Be relentless in demanding that African nations become, in one way or another, globally competitive business environments.

At the community level in Africa, explore options for greater municipal autonomy and/or zone eligibility. Support greater local autonomy at the national level. There may be opportunities to implement state-of-the-art e-governance systems locally. If municipalities could begin to implement fully transparent budgeting—with all revenues and expenses trackable online; online permitting and regulation; digital property rights registries; and other such systems—they may be able to attract greater support from NGOs, investors, and individuals for their exemplary transparency and accountability.

At the national level, nations should either compete at the nation-state level to create a world-class business environment or, if that is not possible (for reasons outlined above), they should explore extending their current zone legislation to allow for zones with greater legal and regulatory autonomy. The Charter Cities Institute, Free Cities Foundation, and Prospera are among the entities with consulting expertise in this domain. None of these organisations have expertise with melding world class commercial law with local indigenous traditions, so this is a form of expertise that needs to be developed for the vision outlined above to become a greater reality.

At the international level, multilateral and international organisations need to support greater local autonomy for nations and for zones or regions within nations. The bias of most such organisations today is towards centralisation and/or a focus exclusively on nation-state policy. Many well-intended treaties that emphasise tax and regulatory “harmonisation” are based on models that may make sense for prosperous, developed entities, but which restrict the options of developing nations that require flexibility. We need to leave behind the perspective that global bureaucracies know best, especially when it comes to economic development. We need international institutions that deeply support the principle of subsidiarity.

Our goal: by 2050, Africa is known as a global co-creator of innovation and prosperity.

What if our nations were not only ranked 9th and 38th in the world (Mauritius and Rwanda), but 1st, 2nd, 3rd, and so forth, all above current world leaders such as Singapore? What if several African nations became known as the best jurisdictions in the world for innovations in driverless cars, drone transportation, blockchain and cryptocurrency innovation, healthcare, education, and other domains currently strangled by the regulatory state around the world?

Entrepreneurial governance in Africa is an underappreciated opportunity for African governments, African people, and global partners from around the world. Why not attract capital from Larry Page, Marc Andreesen, Balaji Srinivasan, Vitalik Buterin, and others for state-of-the-art innovation parks with regulatory environments designed to optimise innovation? Instead of the flood of capital and talent currently leaving San Francisco for Austin, let us create places that people from around the world would want to live in—and begin creating the hundreds of millions of African jobs we need to create in the process. This vision is more compelling than another decade, or century, of dependence on foreign aid. If market-based innovation and good governance are brought to the fore, then this could become the continent’s reality.

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ISBN: 978-1-916948-12-9

www.arc-research.org

October 2023