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Op-ed

Leveraging Special Economic Zones for Growth
By William Gumede

Special Economic Zones (SEZs) in South Africa have not fully lived up to their potential – as has been the case in many African countries – to create jobs, beneficiate raw materials, develop new industries, and transfer skills and technology from foreign companies.

Clearly, there are aspects of South Africa's SEZs model that need to be changed. One being that SEZs must be made to fit within a long-term development plan, rather than be ad hoc projects – which, currently, many of the country's SEZs are.

Before SEZs are considered as a catalyst for development, it is critical to assess the country's comparative advantages. In other words, what it can do with domestic resources, capital and skills, and what will need to be built with outside help. As part of this, there needs to be a comprehensive analysis of the country's position in the global economy, trade and supply chains.

There must also be a business case for SEZs, with clear reasons for their establishment. If the intention, for example, is to attract foreign direct investment – which a country cannot attract through traditional methods – the objective of attracting investment through SEZs must be integrated into a long-term national development plan.

This means there must be a global demand and market for the products manufactured in SEZs, and they must be embedded in the country's comparative advantage. An SEZ cannot be established based on political, ideological and interest-group considerations – as many SEZs in South Africa have been.

There must also be well-thought-out, pragmatic and credible laws, regulations and institutional frameworks to govern SEZs. And governments must implement these consistently, honestly and competently to foster investor, market and society confidence that SEZs are not simply going to be another avenue for corruption, self-enrichment and failure. The business environment must be conducive, efficient and friendly. The costs of doing business – registration, logistics and customs – should be conducive to companies setting up.

Public infrastructure – power, rail and water – for SEZs must be working, reliable and cost effective. Poor, unreliable or lack of infrastructure is a significant factor increasing the costs of doing business, global pricing competitiveness of products manufactured and of labour utilisation. Sound infrastructure is a vital competitive advantage for investors to set up shop. The neglect and collapse of infrastructure – power outages, the broken rail system and port delays – have undermined the competitiveness of South Africa's SEZs.

SEZs could be fully government owned – as is the case with many in South Africa – or business owned or could be public-private arrangements. In developing countries, the government owned SEZs have mostly failed – as the public sector's governance failures such as corruption, incompetence and red tape are repeated in the SEZs. Public-private arrangements, in which the private sector co-govern and co-manage, have generally been the most successful.

The problem is that South African national, provincial or city governments often do not have an adequate understanding of the requirements of businesses that want to invest in the SEZ. The government services provided for SEZs are also frequently not tailored for the investors they want to attract.

An effective, competent and pragmatic management structure is crucial in managing SEZs. Many of South Africa's state-owned SEZs fail for the same lack of implementation and execution management capacity found in its public sector – especially if the same incompetent public sector managers are operating the SEZs.

There must be clear monitoring, evaluation and assessment mechanisms to ensure that SEZs are on track to meet their stated objectives and to intervene if the SEZ is in danger of veering off course. There must also be benchmarking of SEZs against comparable successful ones elsewhere.

China, for example, in 1996 issued an official administrative decree for the compulsory regular evaluation of SEZ performance: SEZs that are poorly managed, not meeting their development targets, and growing too slowly lose their SEZ status. Chinese SEZs are evaluated based on several performance indicators, including knowledge creation and technological innovation, R&D expenditure, the number of R&D institutions and technology innovation incubators established.

The sluggish bureaucracy, red tape and incompetence seen in the public service, has undermined the creation of competitive SEZs. The South African government often take a long time to put legal, regulatory and institutional structures in place for SEZs – and sometimes even longer to operationalise. For example, then Trade and Industry Minister, Rob Davies, announced the formation of the Musina Makhado SEZ in 2017. However, the project has yet to get off the ground.

When finally in operation, business procedures are slowed down by red tape, and special customs and tax regimes are incoherently applied. In comparison, the Hamriyah Free Zone in Sharjah, in the United Arab Emirates, could grant a license to establish a business within 24 hours of submitting all the required documents.

Many South African SEZs do not have a clear strategy of how local firms will be linked to the supply chains of the global firms. African and South African SEZs also often do not integrate the boosting of research and development into the industrial value chains of companies. The technical learning, knowledge transfer and industrial upgrading in South African SEZs is therefore not as effective as it has been in many Chinese, South Korean or Singaporean SEZs.

Another point is that SEZs are often giant industrial structures that could damage the environment significantly. Therefore, the construction and management of SEZs must be done in such a way that it protects the environment. It is important that SEZ investors be required to report on environmental, sustainability and governance (ESG) performance.

Many of the first generation SEZs' construction also rarely consulted with local communities, civil society and interest groups. It is essential that new SEZs do not repeat this mistake. If a site chosen to construct the SEZ involves uprooting local communities, acquiring their land and property, the process must be done in consultation with them, fairly and compassionately.

SEZs in South Africa can still play a critical role in developing new industries, beneficiating raw materials, and diversifying South Africa's exports. That is, if they are linked to the overall national development strategy, done in full partnership with business, and freed from the public sector's governance problems – which have stymied SEZs up to now.

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