3 February 2012

South Africa's Special Economic Zones – Inspiration from China?

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Special Economic Zones (SEZ) have become investment- and industrial hubs for developing countries seeking economic growth and development since China successfully established its first economic zones in its southern region, mainly in Shenzhen, Xiamen, Shantou and Zhuhai in the 1980s. The 'model' is sought after for application across Africa. Recently, South Africa, through its Department of Trade and Industry (DTI) has issued a draft bill which considers creating SEZs. What is the experience with SEZs in China and Africa and what are lessons from other such zones for South Africa?

Special Economic Zones are designated geographic areas with specifically designated liberal commercial and economic policies aiming at attracting more foreign investments. China for many African countries is seen as an economic growth model; the 'middle kingdom' ranks as the world's second largest economy. The increasing density of Sino-African relationships over the last decade has boosted investments and trade in Africa, and it has contributed to China's modernisation and its rise on the international scene. For example Shenzhen, which was a small village, has rapidly become a modern city right next to Hong Kong. With its Special Economic Zones, China has attracted outward Foreign Direct Investment which has enhanced the creation of employment, generated investments and technology transfer. Such success was achieved through economic reforms following the "open door" policy in the late 1970s, namely trade liberalisation and market openness, as well as extremely liberal labour regulations.

Many African countries have also developed industrial spaces or hubs to enhance entrepreneurship and competitiveness of the manufacturing sector in the 1990s. Industrial Development Zones (IDZ) or *Zones Franches Industrielles* were *de rigueur* in economic policy. In South Africa, four IDZs were established: Richard Bay, Coega, East London and OR Tambo International Airport which is the only one not yet operational. Such zones in many countries on the African continent have not lived up to the expectations. Lack of transport, communications and ICT infrastructure have been the main constraints for African countries to develop businesses.

As partnership and cooperation in trade and investment between China and Africa are growing, Chinese Special Economic Zones have in recent years caught the eyes of many African leaders. During FOCAC III in Beijing in 2006, China approached a number of African states with the suggestion to establish SEZs on the continent. In Africa, attempts are made to replicate the successful Chinese experience with SEZs – the most successful in the last three decades. Countries such as Zambia (with SEZs in Chambishi and Lusaka), Nigeria (SEZs in Lekki and Ogun), Ethiopia (in Oriental, near Addis), Mauritius (Jinfei) and Egypt (Suez) have welcomed China-driven SEZs.

Where are the benefits? For China, such SEZs in specific African countries can create markets for manufacturing industries that nowadays face fierce competition and rising costs of production and labour in China itself. Targeted African countries hope to see the Chinese-initiated SEZs generate technology and skills transfer that will benefit local companies in order to be competitive in regional and global markets. However, these results are not automatically achieved, nor are gains evenly distributed, even if the Chinese SEZs in Africa can alleviate the infrastructure gap, attract investments and create jobs respectively for local entrepreneurs and people. As for investments for instance, local entrepreneurs in African SEZ-host countries have complained about not being allowed to invest and develop their businesses in the zones. Besides, modernisation and urbanisation around the regions that host the SEZs can create social and spatial inequalities between these hubs and other parts of the country. People who were living in the areas where the zones are built have been displaced – sometimes without compensation – and lost their livelihoods. Chinese Special Economic Zones in African countries currently do not really appear to involve local entrepreneurs and populations' needs in term of investments and employment. National policies around the SEZ therefore have to be strategic and well managed.

The South African SEZs are meant to improve the performance of the existing Industrial Development Zones. According to the DTI, South Africa's IDZs have generated investments in the range of ZAR 11.8 billion, resulting in 33,000 jobs. For the South African government and policymakers, the SEZs will contribute to industrial and economic decentralization by creating new hubs in the country – beyond the current economically strong provinces of Gauteng, the Western Cape and KwaZulu-Natal. The establishment of the special economic zones aspire to accelerate industrial development, economic growth and employment outside current established hubs in order to make South Africa an attractive destination for foreign direct investment. This, it is hoped, will also help the country address its economic development challenges and disparities between different provinces.

South Africa's SEZs aim at favouring domestic investments, expanding access for business opportunities to previously marginalised citizens and regions. In the South African context, zones will have to guarantee access of local companies and will need to train local workers. Furthermore, infrastructure development is crucial for South Africa's zones success. Road construction, access to water, energy, modern ICT infrastructure, port facilities will have to be provided. Having a closer look at the regulatory and legal framework in order to include social and environmental issues that challenge the Special Economic Zones in Zambia, Nigeria, Ethiopia, Egypt and Mauritius can contribute to the development of the zones in South Africa.

In any case, strong coordination – often across perceived political fault lines – is needed to make South Africa's SEZs a success. This coordination will crucially have to include policymakers, financial and business planning actors, and will need to be accompanied by social and environmental policies. Inspiration can indeed be taken from China, but policies will have to be adapted to the local context; the result, therefore, might in detail look very different from Chinese practices.