Commentary on the Special Economic Zones Bill

By Tatenda Zingoni

On the 23rd of January, the Minister of Trade & Industry Dr Rob Davies gazetted the draft Special Economic Zones (SEZ) Bill for public comment. The bill is a welcome move as the government has acknowledged there is a deficiency with the current Industrial Development Zones (IDZ) framework. The major challenges which characterise the existing IDZs have been highlighted and steps have been outlined for dealing with them. Now what is left is the translation of the good ideas which are there on paper into practical action steps that need to be taken by the government and other related stakeholders.

Advantage of SEZs over IDZs

The SEZ approach promises to be an effective path for the country to take with regard to regional economic development. IDZs were created with an export orientated approach to economic development whereby investors would manufacture goods for export from these zones. SEZs on the other hand can be used for regional development purposes, with firms not necessarily having to be geared toward exports. Rather than creating an IDZ and then looking for investors, the SEZs will be created on the basis of identified opportunities for a particular economic activity.

As an example, there are already talks by some participants in the Platinum industry for the development of a platinum SEZ which would be focused on the beneficiation of platinum. Such a plan aligns with the New Growth Path's drive for mineral beneficiation and will fall in line with the SEZ framework. Previously, the success of the IDZs was linked to the presence of an anchor tenant rather than having a large portfolio of investors from the onset. SEZs will bring a cluster approach to regional economic development where companies locate in an area knowing they can benefit from synergies of being close to firms operating in the same industry.

Lack of coordinated planning arrangements across government departments proved to be a major challenge for the existing IDZs. The SEZ bill aims at promoting a collaborative approach between different government departments. The Department of Trade and Industry has now been able to get Treasury to come to the party by committing to establish a SEZ fund which will be used to finance the development of the SEZs. South Africa's IDZs have also not been able to attract the targeted investment due to lack of a coherent marketing strategy for the IDZs. Rather than marketing individual SEZs (as has been the case for the IDZs), the approach under the SEZ framework would most likely entail marketing the country as a whole and the offerings of existing SEZs.

Comparison with international best practice

In some countries, SEZs offer a very varied regulatory environment to different parts of the country, for example with regard to the tax regime, foreign exchange remittances, labour etc. The SEZ bill aims to provide a wide range of support measures to firms established in these zones. Given that the bill is still in a draft form, no specific incentives have yet been outlined, so it is still too early to gauge how the bill compares with other international SEZs in this regard.

One of the differences between the South African SEZ bill and other international SEZ frameworks pertains to the labour component. Flexibility with regards to the labour employed in SEZs has not been built into the proposed South African bill. As with other international SEZs the South African bill aims to continue with the one-stop shop approach for investors, which was used under the IDZ framework. Investors will be able to avoid the bureaucracy which is often linked with the process of registering a company and commencing operations.

South Africa's SEZ leans towards greater participation of the government in the operation of the SEZ which is different from international best practice. Although the government is involved in the setup of the zones, in other countries there is minimal involvement by government.

Expected future global competitive nature of SEZs in South Africa

Due to the highly competitive business environment brought about as a result of globalisation, South Africa's SEZs need to play on the comparative advantage offered by the country. Instead of trying to compete in markets which are already highly contested, SA can target the development of markets which are unsaturated.

The changing global economic landscape is seeing a shift from the traditional focus on the South supplying the North with raw materials and North selling finished products to the South. The drive toward value addition in South Africa and other developing economies is expected to place South Africa's SEZs on a relatively competitive footing with international SEZs. This is especially the case for SEZs which rely on obtaining relatively inexpensive resources (raw materials) from the developing economies.

With a collaborative approach (i.e. social contract) between government, business and labour, South Africa is expected to harness the benefit of being the economic powerhouse in Africa and also being part of the BRICS group in order to become a major manufacturing economy in the world.

A problem which South Africa currently sits with is the structure of the economy. The tertiary sector currently contributes more than 65 percent to the country's GDP: a structure which is characteristic of developed countries. South Africa's high unemployment is mainly due to structural unemployment whereby there is a mismatch between the available skills in the country and the available jobs. The establishment of SEZs which are mainly geared toward manufacturing is expected to assist the country in reducing unemployment levels. ■