WHAT IS THE ROLE OF SPECIAL ECONOMIC ZONES IN THE GLOBAL SOUTH?

… AND WHAT YOU SHOULD KNOW ABOUT THE MUSINA-MAKHADO SEZ (MMSEZ)

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INTRODUCTION: WHAT IS SO SPECIAL ABOUT SPECIAL ECONOMIC ZONES?

Over the last decade, Special Economic Zones (SEZs) have been promoted by the United Nations Development Programme (UNDP), United Nations Conference on Trade and Development (UNCTAD) and the World Bank as effective mechanisms for ensuring growth across the developing world. According to UNCTADs 2019 World Investment Report, SEZs have a long history, dating back as far as the 1960s, but even prior to that, the concept of free ports goes back centuries (UNCTAD WIR, 2019: 127)

The SEZ model has gained popularity as a result of China's use of the Zones to ensure rapid industrialization and diversification of manufactured products. The first SEZ in China is the Shenzhen SEZ, now a thriving smart city used as an example of what SEZs can add to Global South Development.

China's developmental influence has been expanded by a number of forms of institutional cooperation. These include the Forum on China-Africa Cooperation (FOCAC) and the BRICS bloc (Brazil Russia-China-India-South Africa). In this way, China has championed the notion and activation of the Global South.

WHICH STATES MAKE UP THE GLOBAL SOUTH?

The term Global South refers to a new configuration of global geostrategic power, led by China. The rise of the alignment of states that refer to themselves as part of Global South is linked to China's economic leadership role in the world economy. The Global South alignment is thus tactical, as part of the geostrategic (as opposed to geographic) South, to balance the power of the United States and Europe (the Global North) (Brautigam, 2009).

Inspired by the Chinese use of SEZs, and stronger institutional linkages through BRICS and FOCAC, South Africa has put Special Economic Zones at the forefront of our National Development Plan. The need for industrial development combined with large scale infrastructural upgrading and expansion is seen as even more critical because of the economic devastation caused by COVID 19. As a result, infrastructural investment also forms the crux of South Africa's post COVID 19 Economic Reconstruction and Recovery Plan.

HOW DOES THE CONCEPT OF SUSTAINABLE DEVELOPMENT LINK TO SPECIAL ECONOMIC ZONES?

Most developing states have undiversified economies. This means they lack industrialization and diversified manufacturing economic bases. While the aim is to ensure long term sustainable growth, this goal is thwarted by a reliance on primary product exports. Special Economic Zones are designed to attract foreign and local investment and ensure the processing, or beneficiation, of raw materials. This is called the creation of value chains.

China has championed SEZs ability to develop diverse value chains that redefine growth and development in the Global South, so as to free these states of their colonial and imperial economic legacies. African states in particular tend to export primary products or commodities in their raw state, thus with no added value.
This in turn enforces lack-lustre growth, as not only are primary products and commodities volatile in terms of economic value, a reliance on them means that developing state economies have to use limited economic resources to import manufactured goods that cost much more. This is a long standing problem throughout Africa. South Africa, despite its southern African regional hegemonic status, is no exception.

WHAT ARE SPECIAL ECONOMIC ZONES AND HOW DO THEY ATTRACT FOREIGN DIRECT INVESTMENT (FDI)?

The zones are geographically distinct areas of land set aside for large scale industrial and manufacturing development. To attract large scale investment, certain tax breaks and incentives are put in place by government. In 2014, South Africa introduced a new, Special Economic Zones Act with huge incentives for investment. These include slashed corporate tax, from 28% to 15% and customs and VAT concessions.

SEZ ECONOMIC INCENTIVES IN SOUTH AFRICA

INCENTIVE	BENEFITS	WHO DOES IT APPLY TO	SPECIAL CONDITIONS
Employment Tax Incentive	Reduces the amount or Pay-As-You-Earn tax,	All companies within an SEZ employing low-salaried workers (>R60k pa)	See SARS
Building Allowance	A capital (depreciation) allowance on buildings for the erection or improvement of buildings/fixed structure Rote: per annum for 10 years	Qualifying businesses within certain approved SEZs	Qualifications in: S12(R) and (S) Income Tax Act, 1962
12i Tax Allowance	Support for capital investment and training	Greenfield and Brownfiotd investments	Qualifications in: $120) Income TaxAct, 1962
VAT and Customs relief	Import duty rebate and VAT exemptions VAT suspension on goods sourced from South Africa Efficient and expedited Customs administration	Companies in Customs-controlled areas within an SEZ	Those in the following Acts: • Value-Added Tax Act. 1991 • Customs Duty Act 2014 • Customs Control Act, 2014
Preferential Corporate Tax rate	Reduced corporate tax to 15% (from 28%)	Qualifying businesses within certain approved SEZs	Qualifications in: S12(R) and (S) Income Tax Act, 1962 S24 (4) SEZ Act, 2014

Source: SEZ Act 2014

WHAT ARE THE IMPLICATIONS OF SEZS FOR LABOUR?

SEZs also have regulations to control labour. Strikes are not permitted within SEZs (although they are permitted outside the Zones). Labour are usually required to sign contracts with the both Operator and investing companies to ensure that there are no disruptions to production. Despite these controls, South African labour organisations remain broadly in favour of SEZs as a way to create large scale employment.

Yet, SEZs have been criticized of being both neglecting environmental mitigation effects and of exploiting cheap labour to make corporate profits, especially in China and in Chinese run Zones. However, the creation of local to global value chains and the development of technological innovation in line with the 4th Industrial Revolution are key to the popularity of SEZs in the Global South.

WHAT IS THE MMSEZ?

In South Africa there has been a proliferation of SEZs since 2014. Of these, the largest developmental initiative in South Africa for the next three (or more) decades is what is known as the Musina Makhado SEZ, or MMSEZ, in Limpopo province. The Zone is linked to other national mega-development projects, including three of South Africa's Strategic Integrated Projects (SIPs) namely, SIP 1, 2 and 17. The importance of the SIPs and their links to the MMSEZ will be discussed in our following brief.

The MMSEZ was designated in 2017. In the same year, the Department of Trade and Industry appointed the Chinese operator, Shenzhen Hoi Mor. This company originates from Hong Kong and the Shenzhen Zone in China that is emulated so widely. In the MMSEZ Master Operational Plan, Shenzhen Hoi Mor is now referred to as the South African Energy Metallurgical Base (SAEMB). The SAEMB is now the registered name of the Operator, in other words, the Chinese Company now has a South African name.

1 SALDANHA BAY SEZ

Oli / Gas
Marine Repair

2 ATLANTIS SEZ

Greetech Manufacturing
Heavy and Light Manufacturing
Large Scale user Industrial
Warehousing / Logistics

3 COEGA SEZ

Metals / Metallurgy
Automotive
Business Process Outsourcing
Chemicals
Agro-Processing
Logistics

4 EAST LONDON IDZ

Renewable Energy
Automotive
Aquaculture
ICT
Agro-Processing
Manufacturing

5 DUBE TRADE PORT

Aerospace and Aviation
Agro-Processing
Electronics
Medical and Pharmaceutical
Clothing and Textiles
Automotive

6 RICHARDS BAY IDZ

Metals Beneficiation
ICT
Marine Industry Development
Renewable Energy
Agro-Processing

7 MALUTI-A-PHOFUNG SEZ

Automotive
Agro-Processing
Logistics
General Processing
ICT
Pharmaceutical

8 NKOMAZI SEZ

Agro-Processing
Automotive
Logistics and Transport
Minerals and Energy

9 MUSINA-MAKHADO SEZ

Metallurgy

10 GAUTENG IDZ

Mineral Beneficiation
Agro -and Food -Processing
Electronics
Pharmaceuticals
Aerospace and Aviation

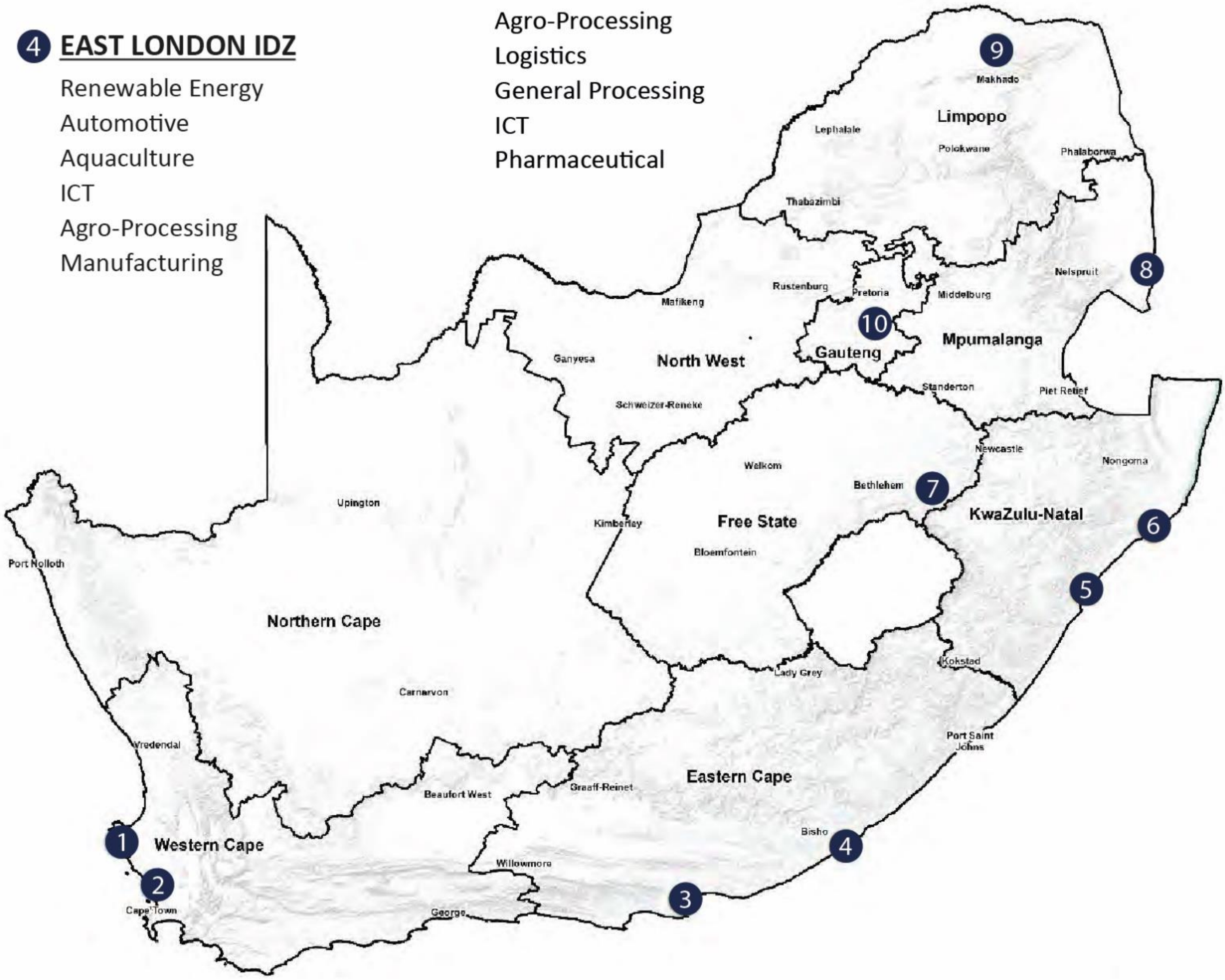
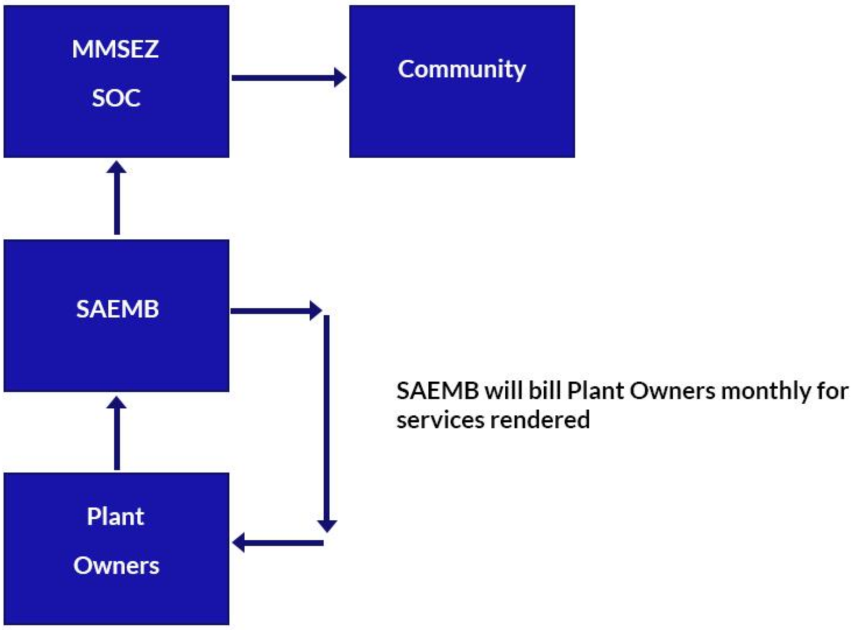


DIAGRAM OF THE OPERATIONAL STRUCTURE OF THE SEZ



The legislation providing for Special Economic Zones requires that they are developed under the auspices of a state-owned corporation (SOC).The MMSEZ SOC is a subsidiary holding company of the Limpopo Economic Development Agency (LEDA) which reports to the Limpopo Economic Development, Environment and Tourism provincial department (LEDET). LEDA will liaise directly with the community signatories of a lease for a term of 99 years (plus 30 years). The lease was signed by the Mulambwane community (who own the MMSEZ land). The signing of the lease was facilitated by LEDA on behalf of the Operator.

The Chair of the MMSEZ SOC is also the Corporate Executive Officer of LEDA, Leghonolo Masoga. Masoga has a somewhat tarnished reputation in terms of professional accountability, having been ousted from the ANC Youth League as Chairperson in 2010. Having made a come-back as a Deputy Speaker of the Limpopo Legislature, Masoga hit national headlines over an official phone bill of R125 000. The SAEMB Corporate Executive Officer in the even more infamous Yat Hoi Ning. In 2017, the Zimbabwean government issued a warrant for Ning's arrest on charges of company fraud. This does not bode well in terms of future government oversight. As the diagram above clearly shows, Ning's SAEMB will be in charge of operations and the EIA and Master Operational Plan make clear that security and labour within the SEZ will be tightly controlled. Shenzhen Hoi Mor, operating as the SAEMB, have pledged US $3.8 billion, or R55 billion to its operational success of the Zone. Figures released in the SEZs Operational Master Plan of August 2020 state a further US $27.5 billion, or R400 billion has been secured for private company investments from China in the MMSEZ.

THE TOXIC ZONE UNPACKED.

According the first high level Environmental Impact Assessment, the SEZ is environmentally sustainable after mitigation. This is conclusion is problematic for a number of reasons outlined below.
The first iteration of the MMSEZ was scoped to contain a 3300 mega-watt coal plant, a coal washing plant, steel, vanadium and other metallurgically extractive industries.

It is glaringly apparent that the MMSEZ is a fundamentally dirty energy megaproject, and a potential developmental travesty in its current form if situated in the ecologically sensitive and pristine Vhembe Biosphere. As organisations such as Earthlife, the Centre for Environmental Rights, Save our Limpopo Valley (SOLVE) and others have pointed out, the proposed SEZ runs against South Africa's Just Transition commitments to move away from coal fired energy. Yet, it is being endorsed as a way to kickstart development in Limpopo Province, and as a way to link South and southern Africa to China's ambitious Belt and Road Initiative. Unfortunately, the Zone does not show this potential in its current design, with the Operational Master Plan showing the Zone to be low on beneficiation and high on extractivism.

PUBLIC PARTICIPATION AND THE ENVIRONMENTAL IMPACT

The first high level Environmental Impact Assessment or EIA was released for public comment in September 2020. The consulting company, Delta BEC, together with the Limpopo Economic Development Agency, LEDA, then rushed through a series of public participation processes (PPPs) most of which occurred during Stage 3 lockdown. The final EIA was submitted to Limpopo Economic Development, Environment and Tourism provincial body (LEDET) in February 2021. On the 4th of March LEDET referred the EIA back to Delta BEC, for amongst other reasons, more assurance of development sustainability and more community participation.

SEZ STRENGTHS AND WEAKNESSES

The EIA shows many of the weaknesses of SEZs and mega-projects throughout the developing world in that there is a debatable correlation between economic growth, local job creation and long-term sustainable development.

The EIA makes vague statements about offsetting or mitigating negative environmental impacts. While green industrialization is possible in SEZs, it is clear that the green component to this SEZ is non-existent in its current proposed form. The vagueness in the EIAs tabling of the Advantages and Disadvantages of the MMSEZ are very evident from this table:

Advantages	Disadvantages
• Infrastructure creation within an area in need of infrastructure development • Job creation for the poor • Huge capital investment for the region • Beneficiation of minerals in the area Skills transfer • Housing infrastructure • Etc.	Specialist findings: • Site sensitivity in terms of biodiversity (aquatic, wetland, fauna, flora) • Air quality impacts on human health • Climate change from site and cumulatively contributing to SA Carbon budget • Water availability is limited

Source. Draft Final EIA 2021

FURTHER PROBLEMATIC IMPACTS OF THE MMSEZ ARE:

- The aggravation of acute water scarcity: The Zone is projected to require an annual 80 million m3 of water – the EIA gives no clear plans as to where the water will come from.
- The production of huge amounts of toxic waste: slag, sludge and other toxic substances to be disposed of, have no clear waste disposal strategy in the current EIA.
- A negative impact on vulnerable rural farmers, especially women: Initial water needs from the MMSEZ are likely to be drawn from the Thuli Karoo Aquifer, thus aggravating long term water scarcity and the livelihoods of poorer farmers.
- The destruction of indigenous flora and fauna: although the EIA mentions the relocation of both, again there is no clear strategy. It will be impossible to replant the 150 hectares of baobab trees on the MMSEZ site.
- A hugely negative contribution to climate change, the environment, and the health of local communities: the EIA mentions that smelting and refining processes cause long term damage to the environment and the health of communities, but does not have a clear offset strategy.

WHO WILL BENEFIT FROM THE PROPOSED MMSEZ?

Globally it is understood that the creation of SEZs benefits foreign and local corporations (UNCTAD, WIR, 2019). The creation of enclaves with generous tax incentives is seen to have multiple disadvantages to the broader economy, but does boost FDI. Most often, promises around job creation lead to the temporary creation of jobs for local communities. The MMSEZ, should it go ahead, is a technologically sophisticated SEZ, with most of the metallurgical products (70%) destined for China, according to the current Masterplan (MMSEZ Operational Plan, 2019). There is very little beneficiation involved in the way in which the zone will operate according to the current Master Plan. In addition, while the EIA states that 53 800 jobs will be created, mostly for locals, there is no sign of this occurring in terms of long term sustainable development planning. There is insufficient time to upskill local communities for anything other than temporary construction and service related employment. As Omega Mudimele of the Mudimele royal family insightfully comments "…they are going around saying that they will create jobs but what sort of jobs exactly? If they were truly talking about jobs, why haven't they approached students in affected areas and given them bursaries to go study for those jobs?". Calvin Leshiba, interim chairperson of the newly formed community property owners association, concurs, stating the MMSEZ will only ensure employment for the very few, at a high risk of destroying our environment".

In current circumstances, the reality is that if the MMSEZ is given the go ahead without investors actively encouraging appropriate skills creation, local communities will suffer job losses and livelihoods stress from the collapse of other industries such as tourism.

RECENT DEVELOPMENTS IN THE MMSEZ EIA PROCESS

During the EIA process, environmental and development organisations have emphasized that communities in the Limpopo and the general public in South Africa have the right to know about the MMSEZ. Communities in the area need to also participate in public participatory fora with *free, prior and informed consent*. This right is entrenched in the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP) and is frequently referred to by the United Nations Department on Economic and Social Affairs (ECOSOC)

The proposed geostrategic importance of the MMSEZ to China's controversial Belt and Road Initiative in Africa (to be discussed in future policy briefs), is very high (Brautigam, 2009).

Fortunately, in addition to LEDETs extension of the EIA PPP process, more EIAs are needed for each of the dirty energy industries of the MMSEZ. Robust Public Participation and activist research be able to positively influence the establishment of the MMSEZ. Public pressure for oversight and accountability could allow for the revision of the MMSEZ Master Plan to bring it into line with sustainable development best practice.

The most recent current round of public participation in March 2021 was promoted by LEDA and LEDET as a round to give communities the chance to have their say. The meetings, held between the 28th and the 30th of March, were well attended. Yet, two of the most important community meetings in Musina and Louis Trichardt descended into chaos, clearly underlining the controversial nature of the Zone.

A major gain for Interested and Affected Parties (I&APs) is that in the last round of participation LEDA and DELTA BEC proposed to halve the size of the zone and to reduce its dirty energy impact by slashing the coal plant size to one third of its original size proposed in the EIA. The two MMSEZ footprint maps show current proposed revisions to the MMSEZ to half of its original geographic size and with the coal plant reduced from 3300MW to 1320MW. The reduced footprint is a clear indication that environmental groups and I&APs have indeed managed to make an impact on the dirty energy nature of the Zone. The question remains whether this reduced footprint will be sustainable developmentally. The commitment to "super-critical clean coal" for the reduced 1320 MW power plant may signal a step in the right direction, but as environmental groups unanimously state, "there is no such thing as clean coal" (unless it stays where it belongs, in the hole).

A direct outcome of the last round of public participation is that the Environmental Assessment Practitioner (EAP) Ronaldo Retief of Delta BEC Consultancy has handed in his resignation after having been forced to admit in a public meeting held in Pretoria that the extension of the EIA consultative process appears to be illegal according to the provisions of National Environmental Management Act. The Act stipulates that a decision on the outcome of the EIA must be made within 107 days. This timeframe expired on the 19th of May. Given that the proposed MMSEZ is the largest regional development project in South and Southern Africa, it is unlikely that this setback will derail the project entirely. Future briefs will unpack the significance of SEZs to broader Global South and Belt and Road Initiatives. Another important dimension for elaboration is the extent to which interested and affected parties and civil society have influenced the establishment of the trimmed down MMSEZ. Further specialist reports dealing with the water, toxic waste, energy and biosphere impacts of the zone also require close critical scrutiny.

Given the positive outcomes of varied strategies from Interested and Affected Parties, further pressure, which include the formulation of viable alternative developmental models for the Zone, may well yield positive outcomes. The outcome of this civil society engagement with government and Chinese investors on development initiatives could conceivably lead to a Zone that addresses the desperate need for sustainable development in Limpopo with large scale employment creation for local communities.

MMSEZ original footprint 8000 hectares - EIA 01 February 2021

MMSEZ revised footprint 4500 hectares - EIA 30 April 2021

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