

Learning from experience

Special Economic Zones in Southern Africa

Neva Makgetla

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Learning from experience: Special Economic Zones in Southern Africa

Neva Makgetla*

July 2021

Abstract: Special Economic Zones (SEZs) have become common across Southern Africa in the past 20 years. In line with experiences in the rest of the world, they have had at best marginal success. Their essential premise is that it should be more efficient and effective to establish an enclave with world-class administration and infrastructure than to address cross-cutting blockages to growth. In East Asia, this approach was able to build on a broader national industrialization trajectory. In Southern Africa, by contrast, it has proved unable to offset the main constraints on investment. These centre on deep inequality both within and between countries, which leads to continual contestation over economic measures and limited domestic demand, combined with mining dependency, which reduces the scope for substantial linkages through local suppliers or downstream manufacturers. As a result, the SEZs face uncertain and slow regulatory environments, are often unable to deliver on their promises of improved infrastructure and financial incentives, and do little to promote broader industrialization across the region. The case of SEZs underscores the need to develop effective methodologies to test whether policy solutions developed in very different circumstances are viable in Southern Africa. The paper suggests that such a methodology must start with an explicit identification of the problem to be solved and its causes. That lays the basis for evaluating policy options, including those tried abroad, using a theory of change and impact assessments that take into account the differentiated benefits and costs for different stakeholders.

Key words: Special Economic Zones, Southern Africa, industrialization, growth, inequality

JEL classification: O14, O18, O25, N17

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1 Introduction

Over the past 20 years, Special Economic Zones (SEZs) have proliferated across Southern Africa, despite warnings from multilateral agencies that there have been ‘relatively few successful zone programmes’ (World Bank 2020:160; see also UNCTAD 2019) and research suggesting that SEZs rarely accelerate national growth (Frick et al. 2018). In the event, SEZs in Southern Africa have had at best marginal success, with limited visible value add, and in many cases largely vacant sites. This outcome has resulted primarily from the specifics of the economic structures and political economy of the region. This paper reviews the factors behind the shortfalls of SEZs in more detail. It has benefited from earlier research published by UNU-WIDER (Adu-Gyamfi et al. 2020; Dube et al. 2020; Karambakuwa et al. 2020; Phiri and Manchishi 2020).

The next section describes the extent of SEZs in Southern Africa and their outcomes, drawing in part on earlier WIDER research with a framework for a more systematic evaluation of impacts. Section 3 develops a research agenda for analysing factors behind these outcomes, derived from a formal theory of change. Section 4 applies the resulting research agenda to evaluate the core obstacles to successful SEZs in Southern Africa. Section 5 reviews the implications for the evolution of SEZs in the region. The final section suggests some policy and methodological implications.

The analysis here suggests that SEZs in Southern Africa have largely failed because they have sought to establish industrial enclaves with a separate world-class administration and infrastructure, rather than addressing the fundamental obstacles to industrialization in the region. The main blockages are the unusually deep inequalities both within and between countries, combined with heavy dependence on mining exports and comparatively stunted manufacturing. As a result, in contrast to East Asia, Southern African SEZs have been unable to leverage a broader national and regional industrialization trajectory with strong social and political support. Instead, they have faced continual contestation around their aims and resourcing, and have ended up importing most intermediate inputs. From this perspective, the multiple design failures and operational weaknesses of SEZs in Southern Africa are not the root cause of their failure. Instead, these failures and weaknesses are themselves a consequence of mining dependency and postcolonial divisions.

Analysis of SEZs in Southern Africa underscores the need to reflect on how to learn from other countries’ experiences. Successful programmes in other regions may generate new ideas. But they need to be reviewed to see if they in fact address national priorities, and if the measures proposed are the best choice, or even feasible, given Southern African realities. The challenge is not to ask how Southern African countries can copy other countries better, but rather how they can adapt new ideas from overseas to their own, very different, needs and conditions. From this standpoint, the theory of change and impact assessment developed here provide a research agenda for evaluating the potential of SEZs to support industrialization in a specific context.

2 SEZs in Southern Africa

SEZs can be defined as ‘all forms of geographically delineated locations functioning with separate administrative, regulatory, and fiscal regimes in the rest of the country’ that aim at achieving specific economic aims (Karambakuwa et al. 2020: 1). By this definition, the term covers a range of programmes, including free trade zones (FTZs) and export processing zones (EPZs), that add

dedicated administrative structures and incentives to the provision of infrastructure through industrial parks. They generally start with serviced sites, then add some combination of other incentives, usually lower taxes and/or import duties plus some relaxation of national regulations, for instance around licensing requirements and exchange controls. Outside of Southern Africa, these incentives may extend to labour laws or pollution. Many SEZs also provide housing and facilities for management. In a few cases, including in Namibia and Zimbabwe, governments have designated individual companies as SEZs, making them eligible for incentives without investing in a specific location.

All SEZs effectively promise to create a micro-economy where investors will enjoy better administration and infrastructure than in the rest of the country. For both government and business, that provides a tempting alternative to the much larger task of improving the investment environment at the national level. Beyond that, the developmental aims and functions of individual SEZs often remain poorly defined. They typically include some combination of leveraging agglomeration effects,¹ experimenting with less onerous policy requirements, incentivizing new investment, promoting exports, supporting new industrial clusters, and increasing beneficiation of agricultural or mineral raw materials.

Most Southern African countries legislated SEZs between 1995 and 2010. Table 1 provides an overview as of 2021. Since none of the countries has published regular or consolidated national progress reports, the information may not be complete.

The anticipated impacts and attendant costs and risks of SEZs can be summed up using the socio-economic impact assessment system methodology developed to evaluate laws and regulations for the cabinet in South Africa (Table 2). The methodology distinguishes the impacts on the main stakeholders, which frequently diverge. The main anticipated benefits for national development centre on higher overall investment; agglomeration and cluster effects, where synergies arise from locating producers near each other; and in some cases, establishment of a new pole of growth in a less developed region. The costs for the state arise from the diversion of resources to the SEZs in the form of infrastructure, incentives for new investors, and in some cases subsidies for operating agencies. If SEZs fail to perform as hoped, then these allocations may lead to pushback. In the deeply inequitable societies of Southern Africa, it has proved particularly difficult to justify any programmes to support big formal business in the absence of visible benefits in the form of jobs and spillovers for small local business.

Table 1: Designation of SEZs and fiscal incentives in Southern Africa

Country	Designation and numbers	Fiscal incentives
Angola	1 public SEZ, the Zona Económica Especial Luanda-Bengo, transformed into an FTZ in 2021 by a new law. Operated by Sonangol, with 76 mostly state-owned factories. Government plans to privatize Sonangol itself plus 51 companies in the SEZ by 2022.	As SEZ: tax- and duty-free exports and imports; provision for case-by-case incentives. As FTZ from 2021: income tax at between 8% and 15%; capital gains tax at 5%; no property tax or tariffs on imports or exports. Relaxed exchange controls.

¹A concept from urban planning that refers to the benefits of proximity for companies, which enables the development of local economies of scale and network effects around knowledge, skills and hiring, infrastructure, regulatory frameworks, licensing, etc.

Botswana	8 designated SEZs, but only 2 operational as of 2020 (both in Gaborone). Act passed in 2015, but regulations (and therefore incentives) only finalized in 2019. 1 designated in each town plus 2 in villages; mostly mixed, but 1 for mining and 2 for agro-processing.	Incentives only for 100% export businesses using local raw materials. 5% tax for first 10 years, thereafter 10%; no VAT or duties on imports and exports; no property tax for 5 years; no exchange controls.
Lesotho	1 launched; Lesotho National Development Corporation already operated 4 industrial sites. Sole operational SEZ business as of 2021 produces medical cannabis. Contracted research to design implementation and legal framework.	To be determined.
Malawi	Bill still underway as of 2021; expect to start implementation in 2022, with 4 sites initially identified, and land for 1 acquired. From 1995, Malawi granted EPZ status to individual producers, but only if 100% exporters.	To be determined.
Mozambique	Both SEZs and Industrial Free Zones. 5 in operation. Government agencies and Swiss-Mozambican investors jointly operate the largest, in Maputo.	3 years tax-free, then 50% tax reduction for 6 years, followed by 25% reduction for another 5 years. Inputs and equipment for exports (not domestic sales) VAT and duty-free.
Namibia	Planned to replace EPZs with SEZs early in 2022. EPZs can be individual companies as well as industrial parks. Apparently only Walvis Bay was a designated EPZ, but government also developed 5 industrial parks near international trade routes. As of 2020, 19 companies benefited from EPZs, largely diamond-cutting firms but also a copper refinery, a zinc refinery, and auto assembly.	Until 2020, complete tax relief for companies for the life of the project. Shift to SEZs to introduce a more stringent dispensation from early 2022, after the European Union threatened sanctions for running a tax haven.
South Africa	11 designated, of which 7 operational; 1 pending. Operational SEZs mostly centred on ports or airports.	15% income tax (compared with 28% normal rate) and accelerated depreciation for building costs, but not for alcohol, arms, or tobacco. VAT and customs relief. Employment tax incentive with no age limit (outside SEZs, incentive is only for employing younger workers).
Swaziland	SEZ Act passed in 2018. 2 designated sites: Royal Science and Technology Park and main airport.	No income tax for first 20 years, then 5%; no tax or duties on inputs and equipment. Exemption from exchange controls.
Zambia	6 SEZs (known as multifacility economic zones) designated, of which 3 operational, plus 2 industrial parks; plan to establish at least 1 in every province. Of 3 operational SEZs, 1 state-owned (in Lusaka) and 2 operated by private Chinese interests (1 in Chambishi for mining and refining, the other in Lusaka).	2006–18, 5 years tax-free; duty-free capital goods imports; accelerated depreciation. In 2018, eliminated income tax holiday; in 2020, began process to revise incentives.
Zimbabwe	6 public zones, 1 private zone, and 5 factories. Factories established prior to designation (Afrochine Smelting in ferrochrome; Arcadia Lithium; Varun Beverages; Trade Kings Zimbabwe, detergent manufacturer; Vislink Investments, medical manufacturer). Private SEZ is Nkonyeni Agricultural Hub SEZ, run by an agro-processing company.	No duties on imported capital equipment, or on imports of raw materials not produced in Zimbabwe. Tax holiday for first 5 years, thereafter 15%. Zero-rated capital gains tax.

Source: author's compilation based on data from Bobos-Radu (2021), Brandt (2020), Da Cruz (2020), Deloitte (2020), DTIC (2021), Dube et al. (2020), Esteve and Curme (2020), eSwatini (2021), Government of Angola (2015), Msulu (2021), National Treasury of South Africa (2020), Schlettwein (2020), and SEZA Botswana (2021).

Table 2: Anticipated benefits, costs, and risks for SEZ stakeholders

Stakeholder	Benefits	Costs	Risks	Comments
Investors in SEZs	Incentives, infrastructure, and one-stop shop enable profitable operation without having to address national shortcomings in infrastructure and regulations. Benefits from agglomeration and possibly clusters.	Need to locate in SEZ or get state designation of individual factory. Start-up costs. Fees for services and rent (cost and nature vary depending on scheme).	Incentives and/or infrastructure do not materialize, or remain inadequate to outweigh national problems such as electricity load-shedding. Service fees escalate as operating company has effective monopoly. Normal start-up risks. Agglomeration effects do not emerge.	Relocating existing lines from other industrial sites reduces investor risks without actually increasing investment, production, or employment, if authorities permit it.
Workers at SEZs	Formal employment opportunities. Career mobility as SEZ labour market develops.	Need to move near SEZ or pay for commute. Regulations may depress pay and/or protections around health, dismissals, or discrimination (but not in Southern Africa to date).	No housing available near SEZ and expensive commutes. New employers fail. SEZs attract capital-intensive projects that generate few jobs. Internal labour market remains weak.	Reduced pay and protections for labour are harder to maintain in deeply unequal postcolonial societies and where SEZ employment grows slowly.
SEZ operators	Government funding. Fees and rents from investors. Access to land to develop. State support for tenants (e.g., licensing, infrastructure).	Investment and labour to develop and maintain sites. Cost of marketing to investors.	Unable to attract viable investors. State does not provide expected services (tax incentives, easier licensing, infrastructure). Government grants are unreliable or inadequate.	
Communities outside SEZs	Multipliers from SEZ increase incomes and opportunities. SEZs generate net increase in government revenues, enabling improvements in services outside zones.	Diversion of resources (government capacity and funds, land) to SEZs, at least for start-up. SEZs subsidize competitors with non-SEZ businesses.	SEZs do not deliver anticipated boost to national growth or jobs directly or indirectly, even in the long run. Costs to state exceed benefits. Relaxation of rules on pollution means actual costs outweigh benefits.	Relaxing pollution regulations just externalizes costs, making it more difficult to evaluate success. Need to avoid subsidizing companies that have domestic competitors.

Governments	<p>Increased tax revenues as economic growth accelerates based on growing investment plus agglomeration and cluster effects.</p> <p>Improved spatial location of industry.</p> <p>Hive off work of maintaining site and attracting investors to an independent operator, even if it is state-owned.</p> <p>User fees and rentals from SEZ businesses and/or operator.</p> <p>Improved political and social support as economy thrives.</p>	<p>Cost of incentives and at least initial infrastructure investment.</p> <p>Transfers to operators.</p> <p>Land for sites.</p> <p>Reorganization of licensing and infrastructure provision to prioritize SEZ investors (often not actually achieved in Southern Africa).</p>	<p>Operators prove incompetent or corrupt.</p> <p>SEZs fail to stimulate growth as anticipated.</p> <p>Efforts to establish new industrial hubs lead to white elephants.</p> <p>Resentment of prioritization of services for formal business while citizens go without.</p> <p>Anger and litigation over relaxation of environmental and labour protections.</p>	<p>Need defined risk management to avoid sinking resources into hopeless schemes.</p> <p>In unequal postcolonial societies, need to demonstrate that programmes to support formal business ultimately benefit citizens; otherwise, not politically sustainable in the longer run.</p>
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Source: author's compilation.

In practice, it has been virtually impossible to separate out the return on SEZs compared with other large-scale state investments in economic infrastructure. SEZs are essentially industrial parks with benefits (World Bank 2020). The unanswerable question has been how much those benefits—primarily some combination of a dedicated operator, relaxed regulations, and tax holidays—increase new investment and agglomeration effects compared with traditional industrial sites. Internationally, research has found that SEZs generally do not grow faster than the economies in which they are embedded. That finding suggests that their value add is often limited (Frick et al. 2018). In particular, it indicates that the success of SEZs in East Asia reflects, rather than drives, industrialization there.

Multilateral and academic research, including the 2020 WIDER papers, and stakeholders have uniformly pointed to practical shortcomings in Southern African SEZs. As Table 1 indicates, designated sites often do not actually open for business even years after they are proclaimed. Once operational, many sites have high vacancy rates, indicating that investment lags behind expectations. The sole SEZ in Angola cost the state US\$80 million for infrastructure in the 2010s, but in 2018, according to local labour unions, almost none of the companies on-site was actually operating (Jornal de Angola 2018). An SEZ in Zambia cost US\$230 million from 2010 to 2018, and attracted projects worth US\$245 million in the same period. By 2040, it is expected to cost the state US\$1.2 billion (Phiri and Manchishi 2020). Zambia abruptly eliminated income tax incentives for SEZs in 2018 on the grounds that the costs to the fiscus outweighed the benefits. In Namibia, the government concluded in 2020 that ‘the zero tax holiday [on SEZ projects] did not yield the desired outcomes in terms of attracting new investments and creating jobs but instead resulted in a loss to government in revenue collection’ (Schlettwein 2020: 2).

Two SEZs in Southern Africa ended up attracting environmentally unfriendly industries from countries that had stricter regulations. In Namibia, a copper refinery designated as an SEZ used imported concentrates from Zambia and from Bulgaria, where the owner had stopped refining because of stricter pollution laws. The European Union labelled Namibia a tax haven because of its generous concessions to SEZs, presumably spurred in part by this case. The project was extraordinarily large for Namibia. In 2019, refined bulk copper comprised around a quarter of its goods exports, while copper ores and concentrates accounted for a fifth of its imports. Namibia

contributes 10 per cent of global exports of refined copper, compared with only 0.03 per cent for other goods (Makgetla 2021a). In South Africa, the designated but not yet operational Musina Makhado SEZ includes a 3.5-gigawatt coal-fuelled plant. If constructed, the plant's capacity will equal around ten per cent of South Africa's national grid, but it will go entirely to fuel metals beneficiation in the SEZ. The plant was not included in the national integrated resource plan for energy, which foresaw only very small investments in coal plants. It would make it far harder for South Africa to reach its emissions targets over the next 20 years. As of 2021, the project has not obtained the necessary environmental approvals. Musina Makhado is the only South African SEZ entirely owned and designed by private investors (from China) (Makgetla 2021b).

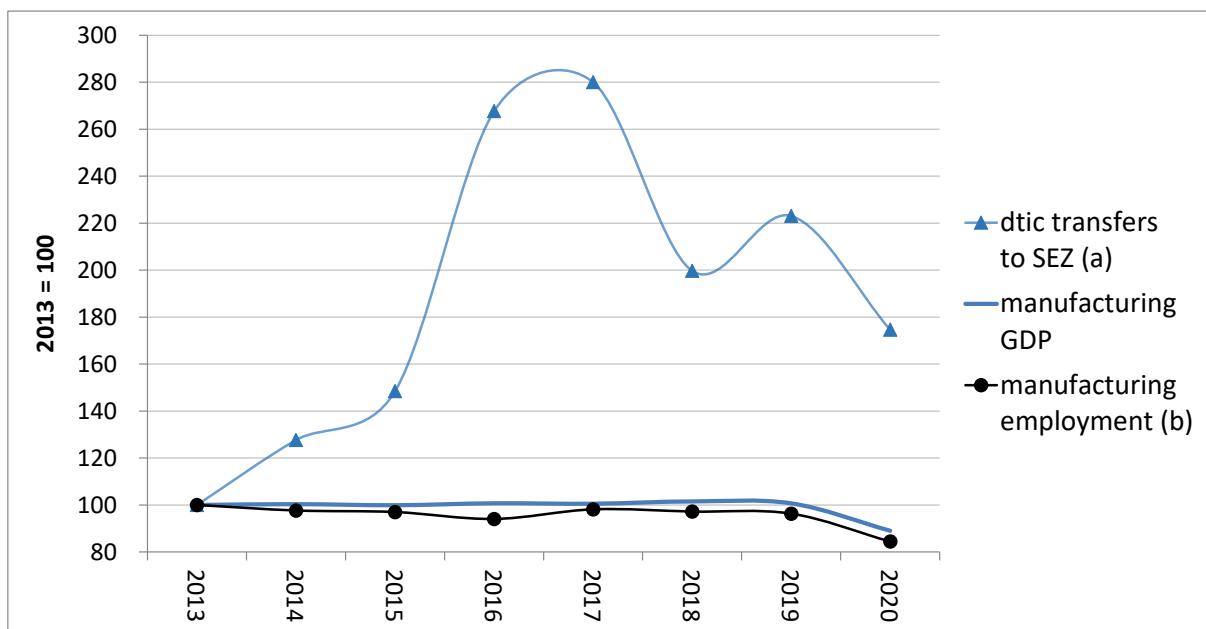
While case studies have suggested that Southern African SEZs have not met expectations, a consolidated analysis has proved impossible. Most governments do not provide progress reports. When they do, they typically only describe outputs, usually the number and value of projects on-site, and the direct employment generated. None publishes consistent updates regarding the cost of incentives and infrastructure to the state, the occupation rates, or how much tenants pay for services. UNCTAD (2019) notes similar obstacles to monitoring SEZs worldwide (see also World Bank 2020).

The South African SEZs, the largest and best equipped in the region, illustrate both the failure of SEZs to drive economic growth as hoped, and the difficulties facing any effort at a cost-benefit analysis. On the one hand, the SEZs have attracted significant sums in investment, reported at ZAR17 billion as of 2021 by the Department of Trade, Industry, and Competition (DTIC). That equals 0.6 per cent of total private investment from 2016 to 2021, and 2.8 per cent of manufacturing investment. On the other hand, it is virtually impossible to figure out how much the government has spent on them, because a variety of agencies provide their funding. It is also unclear how much of the investment the SEZs attract would have occurred in any case. In at least some instances, they have merely relocated producers from older industrial sites (Altbeker et al. 2021).

At the most abstract level, increased spending on SEZs in South Africa clearly has not secured rapid growth in manufacturing value added or employment. Funding for SEZs almost tripled between 2014, when the SEZs formally replaced the earlier Industrial Development Zones (IDZs), and 2017, before falling back by around half. In constant 2020 ZAR (deflated with the consumer price index), transfers to SEZs rose from ZAR600 million in 2013–14 to ZAR1.7 billion in 2017–18, then declined to ZAR1.4 billion in 2019–20. They fell to ZAR1.1 billion in 2020–21, when the pandemic led to reallocation across the budget. These figures understate the actual subsidies to the SEZs, since provinces also provided substantial transfers—well over ZAR500 million a year in the case of the Eastern Cape—and investors benefited from tax incentives and in some cases reduced tariffs for infrastructure. Despite these expenditures, both manufacturing value added and national formal employment had stagnated even before the pandemic downturn, as Figure 1 shows. Value added in manufacturing climbed only 0.7 per cent over the entire period from 2013 to 2019, and manufacturing employment shrank by 3.7 per cent.

As of 2021, one SEZ, Coega, accounts for over half of all private investment in South African SEZs; the East London IDZ (ELIDZ) contributes another 20 per cent. Both of these sites centre on ports in the Eastern Cape province, and are anchored by South Africa's world-class auto assembly industry. A third SEZ, the Dube TradePort in KwaZulu Natal province, claims ten per cent of all investments attracted to SEZs (calculated based on data from DTIC (2021)).

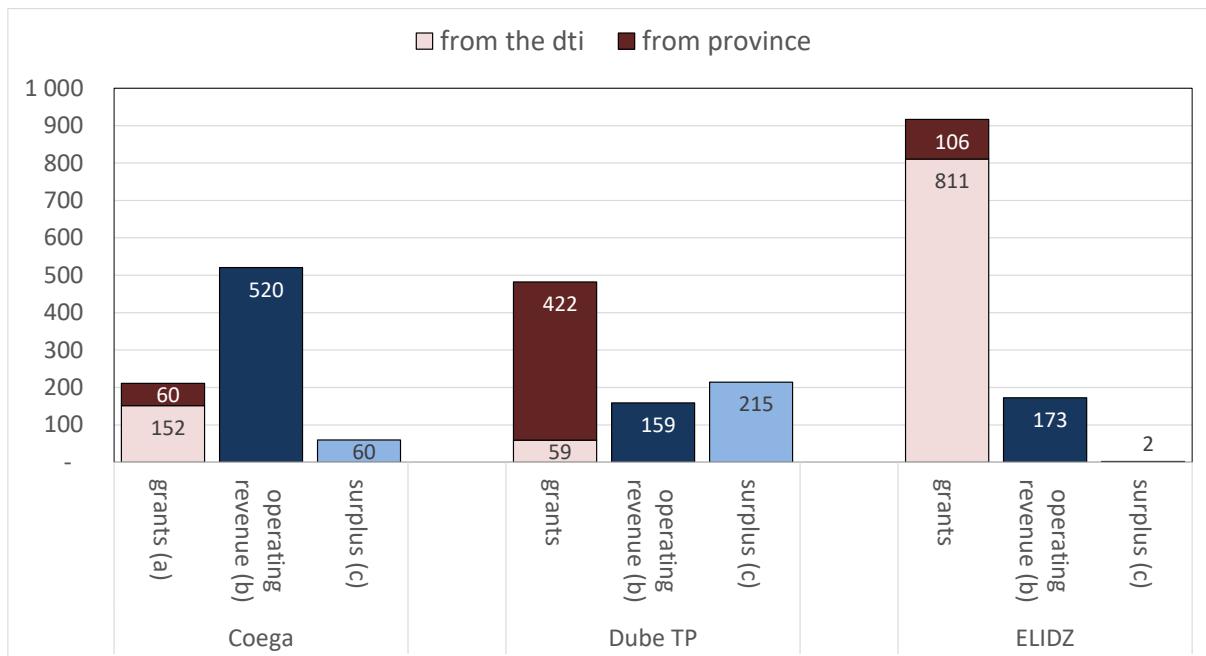
Figure 1: Indices of DTIC spending on SEZs, manufacturing value added, and formal manufacturing employment, 2013–20



Note: (a) deflated with March consumer price index. (b) Formal employment only; average of four quarters for the year.

Source: author's calculations based on data from National Treasury of South Africa (2021) and StatsSA (2021a, 2021b).

Figure 2: Operating costs, subsidies, and pre-tax surpluses for Coega, ELIDZ, and Dube TradePort, 2019–20



Note: (a) Coega accumulated unspent grant funds of ZAR876 million in 2020, ZAR450 million in 2019, and ZAR390 million in 2018. ELIDZ had ZAR574 million in 2020, down from ZAR1.16 billion a year earlier. The accumulated funds were essentially DTIC grants for multiyear infrastructure projects. The differences in accounting practices for the annual budget and operating companies' annual reports make it difficult, however, to track the extent of national support. (b) Rentals and services. (c) Before tax.

Source: author's calculations based on data from operating companies' annual reports for 2019–20.

All three leading SEZs rely heavily on transfers from their provincial governments to cover their operating costs. Without those transfers, each would run a substantial deficit, as Figure 2 shows. The transfers, however, are only reported in the operating agencies' separate annual reports and, without much detail, in provincial budgets. The DTIC publishes its total transfers to SEZs, but not a breakdown for each site, and the National Treasury does not detail the value of SEZ tax relief. None of these sources details concessionary rates on electricity and water, which some local governments provide (Eastern Cape Provincial Treasury 2020).

None of the South African SEZs faced major allegations of corruption in the 2010s, even as big-ticket scandals engulfed other state-owned companies. They did, however, have intriguingly divergent cost structures. In particular, remuneration equalled half of total expenditure at Coega, a third at ELIDZ, and a quarter at Dube TradePort. At Coega, the average pay for executives came to almost ZAR4 million in 2020, or over twice as much as a director general of a national department. Other employees averaged ZAR500,000 a year, compared with an average for formal private property management and consulting employees of under ZAR200,000 a year in 2019. ELIDZ paid its executives an average of ZAR3.5 million a year—still far above their public-service peers—while other employees averaged ZAR766,000 a year. At Dube TradePort, the CEO received ZAR2.5 million, and the average employee ZAR600,000. Both ELIDZ and Coega imposed freezes on executive pay in 2019–20.²

In sum, in Southern Africa as elsewhere, SEZs have not visibly accelerated growth or industrialization. Assessing their value add has proved difficult, however, because most do not provide audited reports on their anticipated impacts, especially around agglomeration and cluster effects and spatial development. Moreover, virtually no country provides a complete overview of the costs to the state of SEZ infrastructure, incentives, and operators.

3 An analytical framework

Despite the information shortcomings, it is clear that SEZs in Southern Africa have failed to match up to the (admittedly often over-optimistic) expectations that they will drive industrialization. Two methodological approaches emerge to understand the shortfall.

One approach, adopted by virtually all of the WIDER papers on SEZs, argues that Southern African countries have not copied the Asian model closely enough to ensure success. In this view, the challenge is to analyse the success factors or best practices that have underpinned Asian SEZs and replicate them more consistently in Southern Africa. By extension, failures are ultimately due to inadequate policy will or capacity, rather than conditions in the domestic or global economy.

This methodology is burdened by a tendency to exaggerate the importance and success of SEZs in the rest of the Global South. Studies have inevitably argued that Africa is lagging behind, often emphasizing that fewer than 250 SEZs are in Africa, and 35 in Southern Africa, compared with over 5,000 globally. In fact, however, both Africa as a whole and Southern Africa as a region hold a higher share in the SEZs outside of Asia than their share in the gross domestic product (GDP) of non-Asian developing economies. Four out of five SEZs are in Asia, with almost half in China

² For Coega and ELIDZ, calculated based on data from EC (2020); for Dube TradePort, calculated based on data from Dube TradePort (2020). Average pay in formal private property management and consulting calculated based on data from StatsSA (2019).

alone. Excluding Asia, Africa holds a third of all SEZs in developing economies, and Southern Africa alone houses one in 20 (calculated based on data from UNCTAD (2019) and IMF (2021)).

An alternative methodology would analyse the factors behind the failure of SEZs in a more open-ended way. From this standpoint, the experience of other countries can generate policy options, but those ideas still have to be tested against local evidence. Specifically, it is critical to demonstrate that the policy targets a priority local problem, and that it provides an appropriate and feasible solution given local conditions. To use a medical metaphor, aspirin is a marvellously successful medication in many circumstances, but it will not help much if you have a broken ankle, or if your headache results from out-of-control blood pressure.

Developing a formal theory of change assists in identifying where social and economic realities may make it undesirable or impossible to replicate a policy that has succeeded elsewhere. The theory of change lays out the logical chain of causality from the initiation of a policy to its ultimate successful impact. That effectively points to the prerequisites for the policy to succeed, and by extension the risks of failure where those preconditions do not exist. In effect, it generates a set of hypotheses about where an option might go wrong because the preconditions for its success do not exist.

Table 3 lays out a formal theory of change for SEZs. In the process, it provides a research agenda to identify factors that might undermine SEZ success, taking into account both the economic and social contexts, and the capacity of public and private actors.

Table 3: A theory of change for SEZs

Step	Prerequisites	Risks
SEZs identified as a way to attract desired new investments (specific aims vary).	Broad agreement within the state and between key constituencies on value of SEZs and on broad aims.	Disagreement about priority socio-economic aims (e.g., exports vs job creation; industrialization vs expansion in mining), especially in highly unequal and divided postcolonial societies, making it impossible to build broad, durable support for SEZs.
Legal basis established and resources allocated for infrastructure and incentives.	Agreement within government that SEZs are a priority for development strategy.	Lack of consensus across government leads to inadequate or unreliable resourcing and support. Fiscal constraints limit funding.
Systems established in government to approve sites and operators and allocate resources.	Authority clarified and adequately capacitated and resourced.	Implementation systems are not established or adequately resourced (typically due to lack of agreement within government, leading to continual delays and debates). Incentives remain vague or inadequate. Infrastructure agencies do not or cannot prioritize SEZs (e.g., where faced with crisis shortfalls in electricity or water supply).
Viable plans with site and operator approved, with necessary infrastructure and other incentives.	Criteria for viability reflect clear aims for SEZs, and are applied consistently to proposals. Public and/or private operators find proposition attractive and feasible.	Aims of SEZs are unclear or contested, leading to approval of unsustainable projects and inconsistent support. SEZs are approved even if they are not viable, for instance where they are distant from inputs, markets, or infrastructure, or where costs to investors are excessive.

		Plans are heavily contested by stakeholders, for instance due to emissions or location, leading to long delays. Incompetent operators are approved.
Infrastructure and incentives provided.	Authority able to secure cooperation across the state (infrastructure, regulatory, taxation). Operators are efficient and effective, so they can leverage state support to attract and sustain investors.	Infrastructure agencies do not prioritize supply to SEZ over other demands, leading to delays and high costs, or to interruptions in services such as water and electricity. SEZ user fees are too high to attract investors. Authorities do not provide incentives even where included in the law (e.g., treasury does not process tax relief; no functional one-stop shop). Operators are incompetent.
Investors begin new production.	Favourable economic conditions. Investors are reasonably competent. Operators maintain supportive ecosystem.	Projects turn out not to be viable because economic conditions change or investors are incompetent. Projects are relocated from elsewhere, rather than generating new production. Operators charge excessive fees or fail to provide adequate support.
Production agglomeration in SEZs and multipliers based on linkages to local suppliers or downstream producers lead to faster and more diverse national industrialization.	Production is sustained over time. Agglomeration effects achieved (e.g., labour skilling and mobility, clusters, joint marketing). Sufficient degree of local procurement and/or exports and/or downstream demand to support broader growth.	Projects fail despite supports due to unfavourable economic conditions or poor company management. SEZs not structured to support agglomeration effects, e.g., inadequate labour market information systems or highly diverse companies that do not have synergies. Projects are not linked in to local economies except for direct employment and infrastructure, so limited multiplier effects.
Increased growth, job creation, and diversification.	Investment in SEZs initiates broader diversification and job creation across the country.	Projects fail. Projects are highly capital-intensive with few local linkages, limiting both direct job creation and multiplier effects. Resources diverted to SEZs at cost of other producers, so benefits cancelled out by decline in other areas. Incentives cut into tax base, constraining infrastructure and services for the rest of the economy, making it less attractive for investors over the long run. Relaxed emissions requirements for SEZs lead to export barriers in the medium to long run.

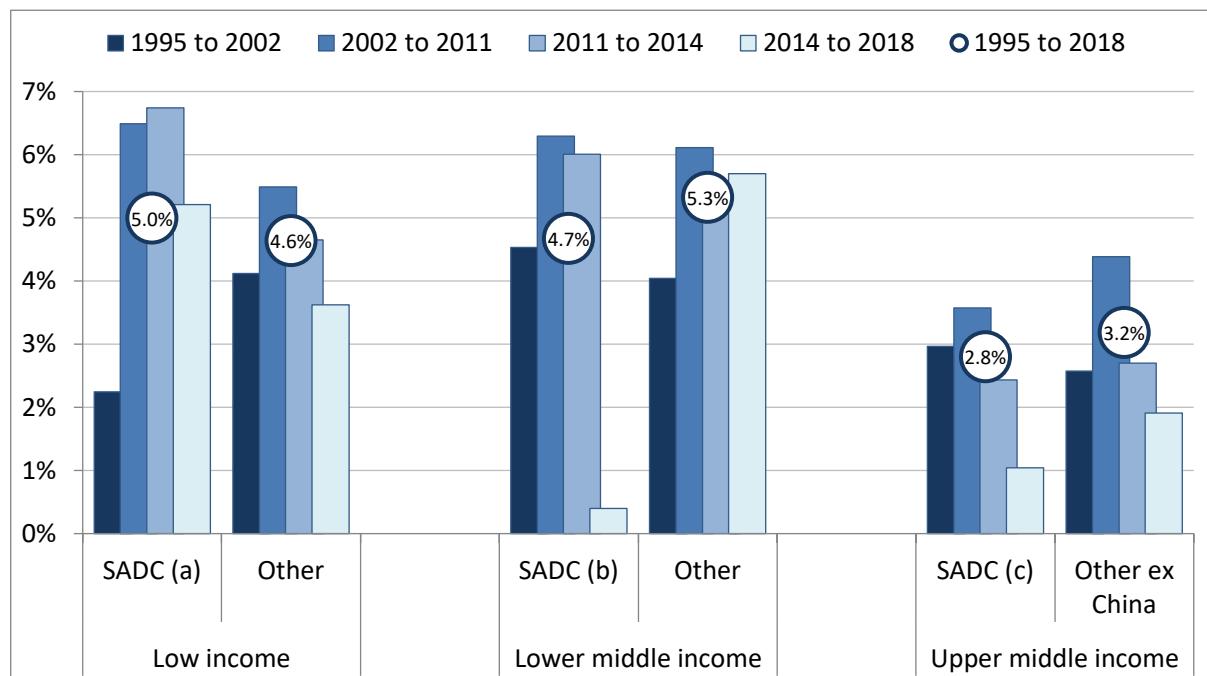
Source: author's compilation.

4 The context for SEZs in Southern Africa

Southern Africa is characterized by unusually deep inequalities both within and between countries, dependency on mining exports with comparatively stunted manufacturing, and small national economies that are distant from leading global trade routes. These broad structural challenges lead to comparatively slow growth across the region except during international commodity upswings. Unless they are addressed systematically, the region cannot hope to copy East Asia's success in industrialization. In these circumstances, SEZs across Southern Africa remain enclaves, providing only very limited stimulus to broader growth.

As noted, international studies show that SEZs rarely grow faster than their host economies (Frick et al. 2018). From 1995 to 2018, the Southern African economy expanded more slowly than the rest of the Global South, even excluding China. It grew less than 120 per cent over this period, while other developing economies outside of China grew 140 per cent. The Chinese economy multiplied sevenfold. As Figure 3 indicates, lower-income economies in Southern Africa grew faster than their peers, but upper-middle-income economies (essentially South Africa plus Namibia and Botswana) lagged. In the continental Southern African Development Community (SADC), which includes the Democratic Republic of the Congo (DRC) as well as the United Republic of Tanzania, lower-income economies generated 15 per cent of the regional GDP, compared with only two per cent in the rest of the Global South.

Figure 3: Average growth rates by income group in continental SADC compared with other developing economies excluding China, 1995–2018



Note: (a) DRC, Malawi, Mozambique, and Tanzania. (b) Angola, eSwatini, Lesotho, Zambia, and Zimbabwe. (c) Botswana, Namibia, and South Africa; South Africa accounted for over 90% of value added in this group.

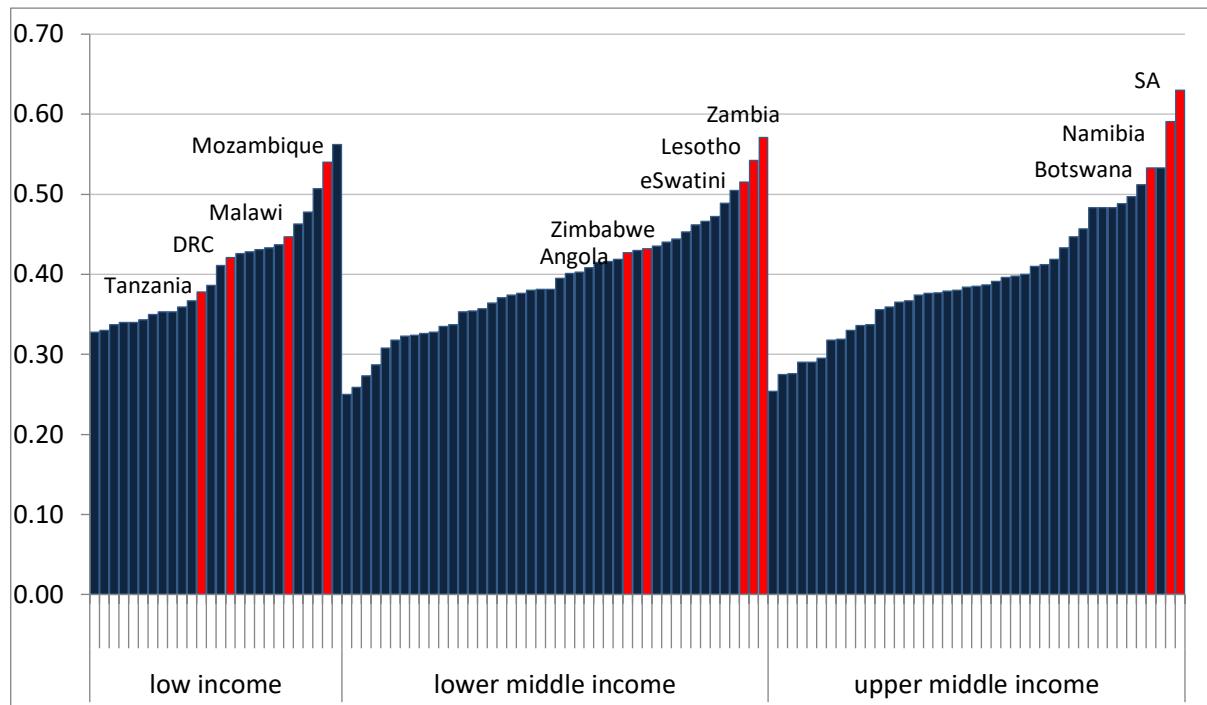
Source: author's calculations based on data from World Bank (2019). Reproduced from Makgetla and Levin (2020), with permission.

SEZs in Southern Africa are hampered by unusually deep inequalities both within and between countries, a key difference from East Asia. From a political-economic standpoint, these inequalities mean that economic measures have sharply divergent implications for different stakeholders—formal businesses, workers, the urban jobless, and rural communities, among others. As a result,

every economic project, including SEZs, faces bitter contestation. This makes it hard to secure consistent policy support and resourcing. Inequalities also limit regional and domestic demand for mass-produced manufactures, which historically initiated industrialization in Asia.

In the 2010s, the average Gini coefficient in the continental SADC (weighted by population size) was 0.48. It was 0.38 for other developing economies that reported a figure for the Gini, excluding China. Internationally, just 13 countries reported a Gini coefficient that exceeded 0.50. Seven of them were in Southern Africa. This finding should not, however, be overinterpreted. Many of the most unequal economies did not report a Gini at all, including most Middle Eastern petro-economies. Angola, Southern Africa's sole petro-state, reported a Gini of just over 0.4, which seemed improbable given the extraordinarily inequitable division of petroleum rents (Figure 4).

Figure 4: Gini coefficients in continental SADC compared with other countries by income level, 2007–17 (latest available figures)

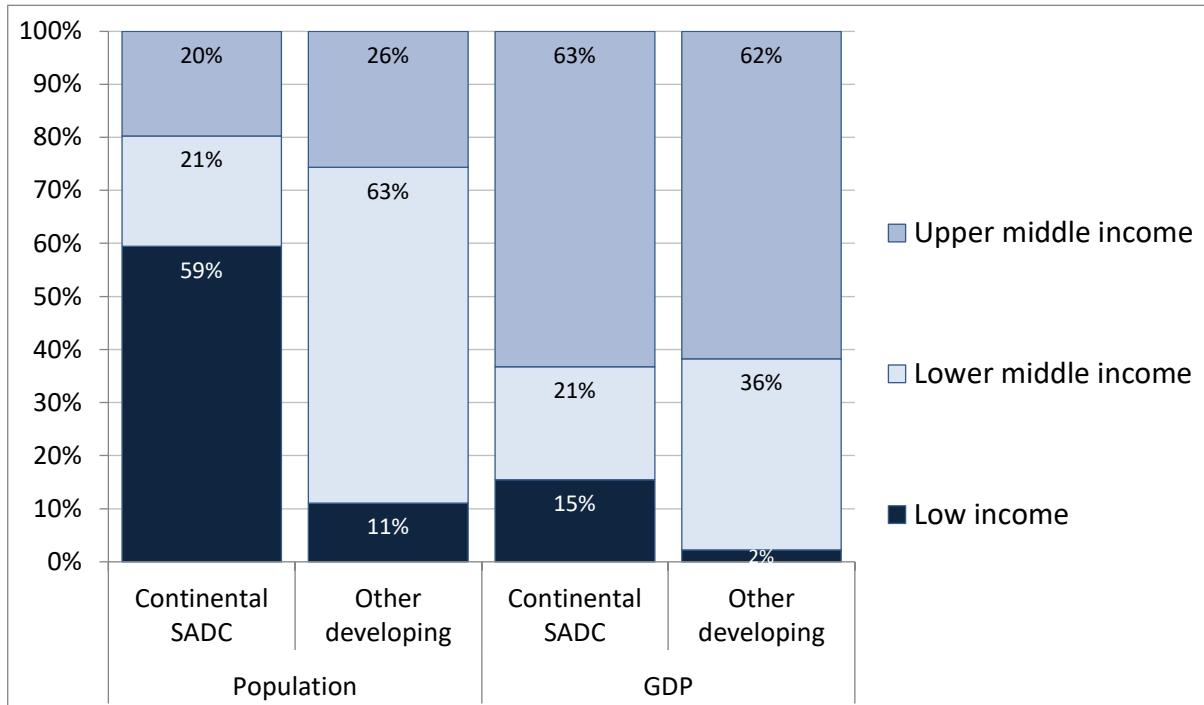


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Southern Africa also has unusually deep inequalities between countries. Almost six out of ten residents in the continental SADC live in low-income economies, compared with just over a tenth in the rest of the Global South. Yet the upper-middle-income economies, dominated by South Africa, contribute close to two thirds of the regional GDP (Figure 5).

Low incomes and deep inequalities across the SADC constrain regional demand and make it more difficult to upgrade logistics for both regional and global exports. In Asia, countries and companies can build on synergies with neighbours to expand industries and trade routes, including extraordinarily advanced and efficient telecommunications and transport to the Global North. In Southern Africa, both internal and trade infrastructure remain comparatively weak. That reduces the attractions of SEZs for investors interested in entering global or regional value chains.

Figure 5: Share of population and GDP by income level in SADC compared with other developing countries, 2018



Source: author's calculations based on data from World Bank (2019). Reproduced from Makgetla and Levin (2020), with permission.

In addition, domestic markets are limited because colonial rule divided Southern Africa into comparatively small countries. In 2018, the continental SADC had 12 member states with a joint population of 316 million and a GDP of US\$700 billion. The average country had 25 million residents, around half as many as other developing economies excluding China. Only the DRC, South Africa, and Tanzania had over 50 million citizens; Botswana, Lesotho, Namibia, and eSwatini had fewer than three million apiece. Low incomes per person further narrow markets in Southern Africa. The average GDP in the continental SADC is only around a fifth the size of the average in the rest of the Global South outside of China (calculated based on data from World Bank (2019)).

South Africa is a partial exception. In 2018, both its population and its GDP were over twice the average for upper-middle-income economies, excluding China. It contributed around a fifth of the population and half of the GDP of the continental SADC. But its dominance reflected the small size of the regional market, which reduced its dynamism in the long run. In the late 2010s, South Africa's GDP per person was four times that of its neighbours, and seven times that of the continental SADC as a whole. In Brazil, Russia, India, and China—the other countries aligned with South Africa in the BRICS association of regional centres—the ratio of GDP per person to neighbouring economies was under two (calculated based on data from World Bank (2021)). Global manufacturing companies often relocate to the Global South at least in part to access new markets. By extension, limited regional demand makes the South African SEZs relatively unappealing.

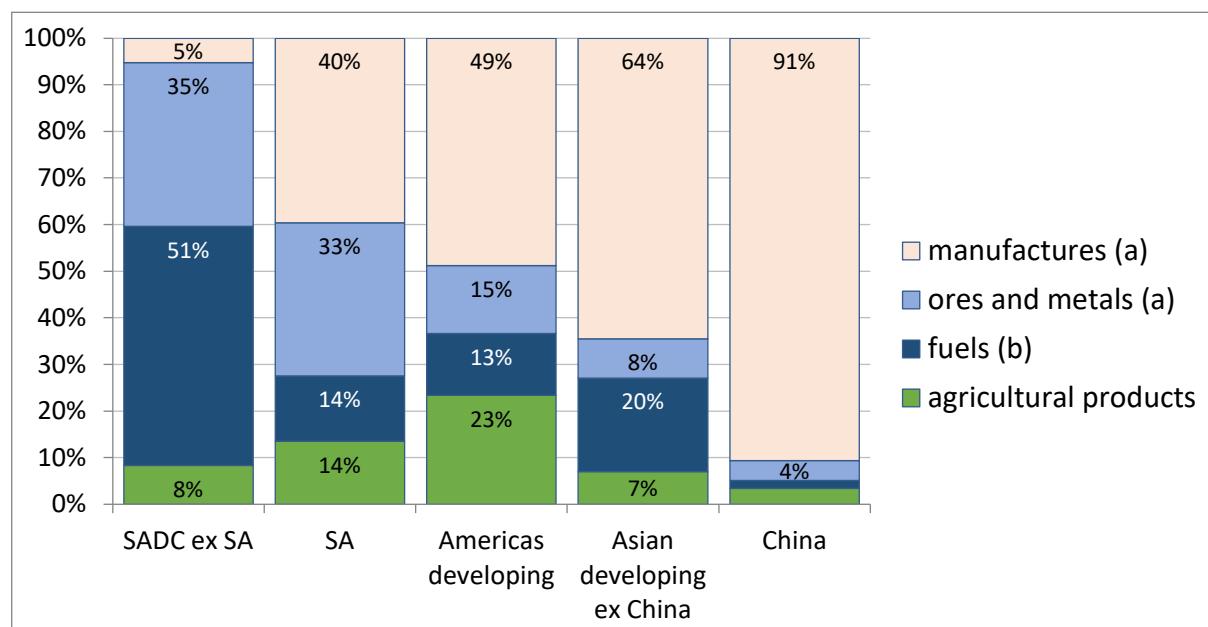
A further challenge for SEZs in Southern Africa arises from the region's unusually strong dependence on mining exports and its limited manufacturing capacity. On the one hand, this situation means that SEZs effectively compete with the needs of the much more established mining value chain for infrastructure funding, including electricity and transport, as well as incentives. On the other, it limits the pool of established local manufacturers able to supply

intermediate inputs to SEZ investors. The result is smaller local linkages and reduced multiplier effects for both production and jobs.

Figure 6 underscores the dependency of Southern Africa on commodity exports compared with the rest of the Global South, especially Asia. South Africa is the region's most industrialized economy, but the mining value chain remains its most important link to international markets. Mining and refining contribute less than a tenth of South Africa's GDP and under a 20th of its formal employment, but around half of its exports. Dependence on mining is even more pronounced in most other Southern African countries, with the exception of eSwatini, Lesotho, and Malawi. Overall, 95 per cent of exports from the continental SADC excluding South Africa comprise commodities, with 85 per cent from mining (and over 95 per cent for Angola and Botswana). For the rest of the Global South, manufacturing accounts for over half of exports, and mining for less than a third. For Asia, manufactured exports climb to over 80 per cent. That well-developed manufacturing base supports strong local small and medium producers, appropriate infrastructure, and experienced workers, all of which provide a strong platform for SEZ growth.

As Figure 7 shows, Southern Africa's dependence on mining has intensified since 2000, driven in part by the international metals price boom that lasted from 2002 to 2011. The only exceptions are two small countries, eSwatini and Lesotho. Historically, eSwatini depended on sugar plantations. In the 2010s, it moved into production of downstream chemicals, mostly regional exports of soft-drink syrup. Since the early 2000s, Lesotho, which accounts for one per cent of the region's exports, has specialized in clothing sales to the United States (leveraging tariff-free status under the African Growth and Opportunities Act) and South Africa. In contrast, the historically agricultural economy of Mozambique shifted heavily into mining exports in the 2000s, with a similar although less pronounced move in Zimbabwe.

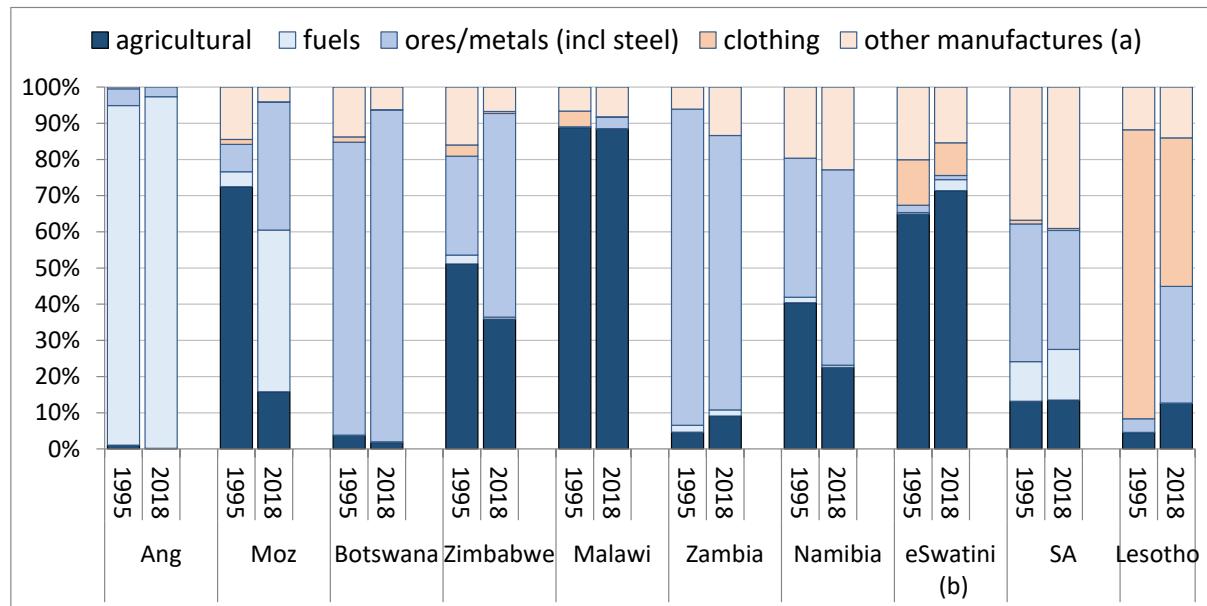
Figure 6: Exports from continental SADC compared with exports from China and other developing economies by region, 2018



Note: (a) manufacturing excludes basic foodstuffs, which are included under agriculture, and iron and steel products, which are included in ores and metals. (b) Mostly oil and gas outside of South Africa, and coal for South Africa.

Source: author's calculations based on data from UNCTAD (2019). Reproduced from Makgetla and Levin (2020), with permission.

Figure 7: Structure of exports by continental SADC economies, 2000 and 2018



Note: (a) foodstuffs are included under agricultural exports, and steel under ores and metals. (b) Sugar-based chemicals are included under agricultural.

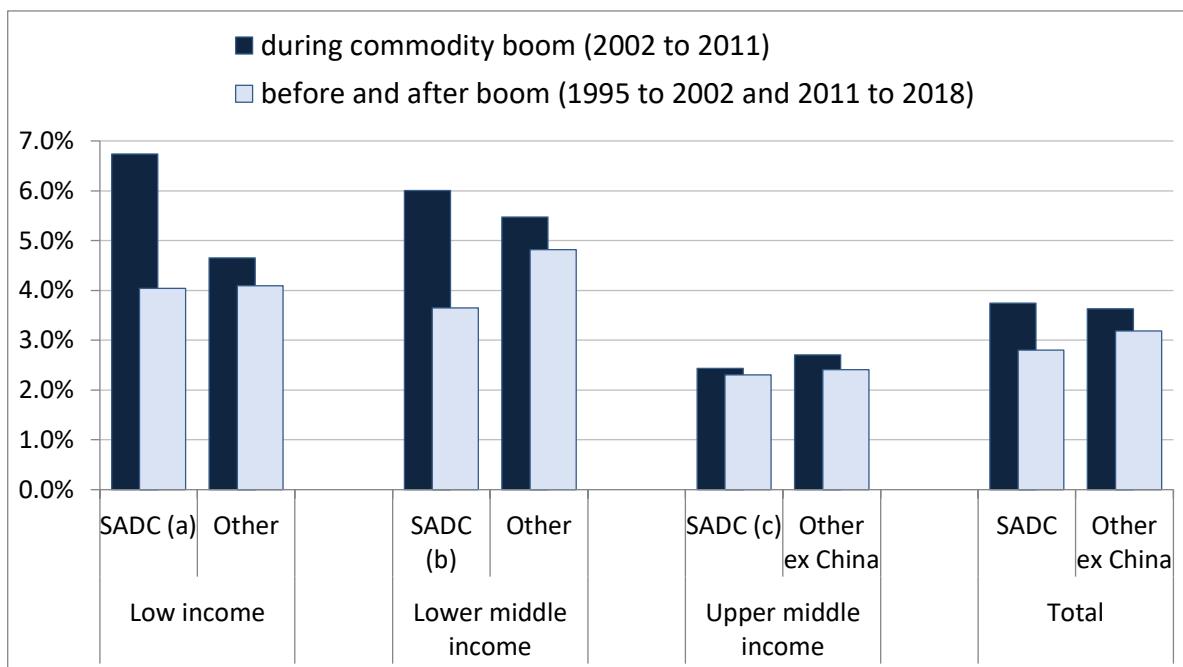
Source: author's calculations based on data from UNCTAD (2019).

Southern Africa's dependence on mining means that its growth rate, and by extension the fortunes of its SEZs, tends to track international metals and fuel prices. Increasingly, those prices have been deeply cyclical as relaxed monetary policies in the Global North foster speculation. In constant US dollar terms, they hit a 30-year high in 2011 before falling by between 50 per cent and 75 per cent, leading to economic stagnation across the region especially from 2015. Angola, Namibia, South Africa, and Zimbabwe were already in recession in 2019, before the pandemic. In 2020, as global monetary policy slackened to counter the COVID-19 depression, metals prices recovered to near-2011 levels. That has assisted the region's recovery from the pandemic downturn. Petroleum and diamond prices have been slower to rebound, however, which has pressured imports and budgets in both Angola and Botswana (Makgetla 2021a).

As Figure 8 shows, the 2002–11 boom in metals and fuel prices boosted economic growth across Southern Africa by around one per cent a year. Low- and lower-middle-income economies saw the greatest benefit in terms of GDP growth. Because of the region's mining economy, the impact of the upswing in metals prices in this period was greater than in the rest of the Global South.

Southern African manufacturing lags particularly far behind for final consumer products outside of food—notably clothing, appliances, and plastics (Figure 9). These industries were the mainstays of early industrialization in Asia. They ensured that manufacturing growth there generated employment on a mass scale, which in turn sustained broad social and political support for industrialization policies, including SEZs. In contrast, Southern Africa's main manufactured exports outside of the mining and agricultural value chain are fully assembled autos and capital goods, produced in South Africa. These goods are mostly manufactured by subsidiaries of international companies using primarily imported components. As a result, even when manufacturing expands, it creates only limited employment and opportunities for small businesses. That in turn makes it difficult to sustain broad support for programmes such as SEZs that focus on high-end formal manufacturing.

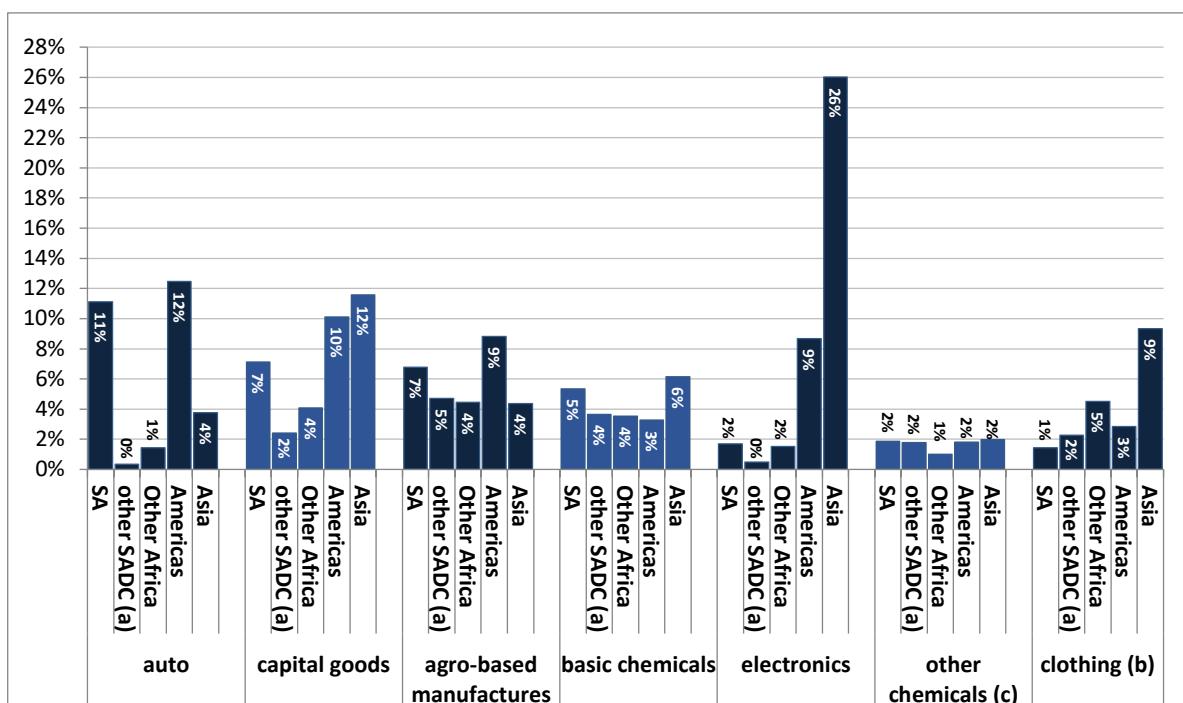
Figure 8: Growth during commodity boom (2002–11), and before and after it (1995–2002 and 2011–18), in continental SADC compared with Global South (excluding China) by income group



Note: (a) DRC, Malawi, Mozambique, and Tanzania. (b) Angola, eSwatini, Lesotho, Zambia, and Zimbabwe. (c) Botswana, Namibia, and South Africa; South Africa accounted for over 90% of value added in this group.

Source: author's calculations based on data from World Bank (2019). Reproduced from Makgetla and Levin (2020), with permission.

Figure 9: Manufactures by type as percentage of total exports from continental SADC compared with developing countries in other regions, 2018



Note: merchandise trade matrix—product groups, exports in thousands of US dollars, annual. SA: South Africa.
(a) Continental SADC excluding South Africa and Angola. (b) Clothing, textiles, footwear, and leather.
(c) Pharmaceuticals, plastics, and other downstream chemicals.

Source: author's calculations based on data from UNCTAD (2019). Reproduced from Makgetla and Levin (2020), with permission.

In short, Southern Africa has faced a range of structural obstacles to national and regional industrialization that did not exist in Asia. SEZs have aimed not to overcome these systemic blockages directly, but to circumvent them in designated areas. At best, they have functioned as enclaves, with only limited multiplier effects. At worst, they have ended up as white elephants, with high vacancy rates and underused infrastructure.

5 Impacts on SEZ policies

The structure of Southern African economies has affected SEZ programmes in two main ways. First, deep inequalities have led to continual contestation over their aims and resourcing. That has translated into unrealistic and sometimes contradictory expectations, paired with inconsistent implementation and funding. It has also opened a space for some companies to lobby for SEZ incentives for investments that maintain dependence on mining rather than fostering diversification, as in Musina Makhado in South Africa. Second, the limited depth of manufacturing capacity across Southern Africa has constrained the pool of local input suppliers and downstream manufacturers. As a result, SEZs have generated fairly small multiplier effects for both the economy and employment.

The situation in South Africa exemplifies the impact of social and economic divides and the associated lobbying by industries, provinces, and businesses. The Special Economic Zones Act of 2014 provides an exhaustive list of objectives for SEZs, ranging from facilitating industrialization and innovation to encouraging beneficiation to regional development and support for small businesses (SA 2014). When lawmakers list every possible aim in an act, it usually means they are unable to agree on priorities. Structurally, the SEZ programme in the DTIC is located in the regional development branch, with performance indicators clustered around ‘increased and enhanced instruments for spatial development of targeted regions and economic transformation’ (DTIC 2021: 73). As of 2020, the DTIC aimed to locate two SEZs in every province, presumably in the name of equality rather than economic logic (Portfolio Committee on Trade and Industry 2020). The population of South Africa’s provinces ranges from 1.1 million in the Northern Cape to 12.3 million Gauteng. Meanwhile, the DTIC’s budget states that SEZs aim not at addressing spatial inequalities, but at facilitating ‘the transformation of the economy to promote industrial development, investment, competitiveness and employment creation’ (National Treasury of South Africa 2021: 795).

Most Southern African countries experience a similar tension between using SEZs to promote competitive clusters and export industries, and using them as hubs for rural development. Colonialism and apartheid entrenched deep spatial inequalities across the region, and SEZs have seemed like one way to provide redress. In most countries, municipalities or provinces have lobbied for SEZs in the hope of kickstarting local industry or least leveraging national funds (Dube TradePort 2020; Select Committee 2021). According to the World Bank, however, SEZs are not helpful for developing ‘lagging’ regions that require high levels of expenditure to catch up on infrastructure and administrative systems (World Bank 2020).

Debates have also emerged around how much to spend on SEZs, whether through infrastructure, incentives, or building institutional capacity. Governments across the region have often promised more than they have delivered. In Zimbabwe in 2020, investors said they had not received the promised tax incentives (Adu-Gyamfi et al. 2020). As noted, Zambia abruptly cancelled most tax subsidies in 2018, and Namibia cut them back in 2020. Both Botswana and South Africa only gazetted the regulations enabling tax cuts for SEZs around five years after passing the acts to establish them.

The regional electricity shortage has underscored the difficulties around prioritizing SEZs over other sites. According to the World Bank (2020), a survey found that reliable electricity was critical for company decisions on investment locations. Yet SEZs across Southern Africa faced regular load-shedding by national grids in the late 2010s (Phiri and Manchishi 2020). In effect, states are not willing to prioritize the SEZs to the extent of exempting them from load-shedding, which would effectively increase the burden on the rest of the economy or on households.

Similar inconsistencies and debates have emerged around regulatory concessions. Businesses frequently lobby for more relaxed requirements on labour, pollution, greenhouse gas emissions, and local (or in South Africa, Black) ownership. In effect, they seek to use the SEZs to carve out exemptions from government efforts to generate more sustainable and equitable economies (Altbeker 2021; Karambakuwa et al. 2020). As of 2021, no SEZ in the region has agreed to these concessions, although the Musina Makhado SEZ would need a concession on emissions to proceed as originally planned.

Alignment across state agencies has also proved hard to achieve. Businesses often find that, even where the SEZ legislation requires the establishment of one-stop shops to facilitate all forms of licensing and permits, they never actually materialize. In Zambia, SEZs have suffered from, among other things, a ‘fragmented incentive framework [and] institutional coordination failures’ (Phiri and Manchishi 2020: 2). In South Africa, ELIDZ has listed as two of its greatest challenges getting the national state-owned utility, Eskom, to finalize power purchase agreements with its investors in renewable energy, and an about-face on support for aquaculture by development finance institutions (Eastern Cape Provincial Treasury 2020). The DTIC itself has said the main risks to SEZs are the lack of alignment across government and the need to comply with environmental requirements, which it blames equally on ‘influencers and NGOs [*sic*]’ and the national department for environmental affairs (DTIC 2021: 147).

The inability to set clear priorities for SEZs in itself undermines a core selling point: that they will effectively outsource government functions and prioritize resources for formal businesses in situations where the state is overburdened, fragmented, and often corrupt. Instead of operating in splendid isolation, however, the SEZs risk deepening contradictions and deadlocks within the state. In effect, they encourage powerful fractions of both the state and business to establish enclaves for growth as an alternative to resolving the systemic blockages and inequalities that have slowed growth across Southern Africa.

A second challenge emerges from the near-absence of local capacity to manufacture intermediate inputs. Except where they benefit agricultural or mining commodities, investors in Southern African SEZs often end up importing most or even all of their inputs. This trend is reinforced by the reduction of import duties on inputs and capital goods, at least for export production, in SEZs across the region (Adu-Gyamfi et al. 2020). Simultaneously, most Southern African governments have sought to encourage local procurement by SEZ investors, although often not very effectively. Zambian policy calls for SEZ tenants to procure 35 per cent of their inputs locally, but the guidelines are not enforced (Phiri and Manchishi 2020).

The auto industry epitomizes the difficulties around encouraging local procurement by SEZ investors. Arguably, it forms the linchpin of the SEZ programme in South Africa, providing anchor tenants for Coega, ELIDZ, and the newly designated Tshwane Automotive SEZ. In addition, in 2021 the Durban TradePort established a satellite site for an auto components cluster on the far side of eThekweni. In addition to support from the SEZ programme, the auto companies enjoyed dedicated rail and port facilities from the state-owned company Transnet, and large tax subsidies. As a result of these supports, some of which dated back to the 1950s, auto became a key export for South Africa in the 2000s. In 2019, it contributed almost 15 per cent of all South

African goods exports. It was the country's only substantial manufactured export outside of the mining and agricultural value chains.

Despite its dynamism, the South African auto industry has done little to stimulate economic diversification. In 2019, it accounted for only around 0.9 per cent of the GDP and 0.8 per cent of formal employment (around 100,000 workers) (calculated based on data from Quantec (2021)). As of 2021, all advanced components, from transmission trains to computers, were imported. Local suppliers only provided structural inputs such as windows, wheels, catalytic converters, and fenders. As a result, the industry's success has not translated into broader industrialization, in stark contrast to the experience of the Global North in the 1920s and 1930s. Efforts to promote local production of intermediate inputs have run up against the dominant global companies' interest in keeping advanced knowledge and production in their home countries.

6 Policy implications

Southern Africa faces high barriers to industrialization, notably deep inequalities combined with heavy dependency on mining exports and stunted manufacturing. SEZs have done little to address these structural challenges. Instead, they have sought to create separate sites with world-class administration and infrastructure combined with low tax rates. In theory, they could generate spillovers in the form of expertise and institutional capacity. In practice, however, in Southern Africa at best they have ended up as efficient enclaves with very few multiplier effects in the rest of the economy. At worst, they have reduced government tax revenues and poured money into industrial sites with sparse new investment to show in return. In the process, they have risked diverting governments away from efforts to address systematic national constraints on economic development.

SEZs would support industrialization in the region more effectively if they focused narrowly on supporting diversification through new clusters with substantial local and regional linkages. That would mean moving away from promoting investment and exports across the board. Such a strategy would, however, require far more discipline about accepting investors, as well as requiring substantial expertise and time.

The discourse on SEZs also underscores the need to strengthen methodologies to generate practical policies for Southern Africa. Academic research can explore solutions from other countries in the name of identifying best practice or sharing innovations. Policy makers, however, must start by identifying problems that require resolution, and diagnosing their causes. Only then can they begin to explore whether experiences in other countries might be relevant. The resulting policy options still have to be evaluated for their viability and appropriateness, not just imported in the name of best practice.

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