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SIGNIFICANCE OF SPECIAL ECONOMIC ZONES (SEZs) AND THE BELT AND ROAD INITIATIVE IN THE GLOBAL SOUTH

Geopolitical & economic drivers of the Musina-Makhado SEZ (MMSEZ)

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INTRODUCTION: THE NEW GLOBAL HEGEMONIC TUSSLE FOR AFRICA AND WHAT THIS MEANS FOR SOUTH AFRICA

The aim of this policy brief is to both frame and contextualise the ways in which South African development policies are being directly and indirectly influenced by global power dynamics, such as China's steady rise to economic power. These power shifts began well before COVID 19, but the pandemic has both amplified the hegemonic shifts and has shifted the balance of global economic power towards the Peoples Republic of China.
The United States of America and the European Union form the core of what is known as the Global North. China, through the formation of various institutional blocs in South-East Asia and Africa, has gradually brought into currency the term Global South to encourage geostrategic re-alignments of state and non-state actors. These realignments have ushered in a new terrain of global rivalry between China and the U.S., described by many analysts as a new Cold War. The Economist, reporting on the Chinese Communist Party's 100th birthday on 1 July 2021 reports:

> "…it was alarming to hear the loud applause and cheers that greeted Xi Jinping on July 1st…. at Tiananmen Square, China's leader had just pledged that any foreigner who tried to bully China would 'dash their heads against a Great Wall of steel, forged from the flesh and blood of over 1.4bn Chinese people'. The party crushes individual liberties with despotic ruthlessness. Yet its leaders are sure that they govern with the consent of the vast majority. As a result they claim to enjoy as much legitimacy as any democracy."

The construction of the Global North/Global South has major implications for Africa, because in proxy battles for economic and political/military influence are increasing on the continent in a similar way to the Cold War between the United States, its Northern allies and the former U.S.S.R. Acknowledgement of this heightened rivalry took place at the June 2021 at the G7 and North Atlantic Trade Organization (NATO) heads of state meeting. The NATO heads of Summit issued an official communique stating that,

> "China's stated ambitions and assertive behaviour present systemic challenges to the rules-based international order and to areas relevant to alliance security,".

The G7- United States, Canada, France, Germany, Italy, Japan and the United Kingdom - announced a $40 trillion Build Back Better World (B3W) by 2035 infrastructural development plan explicitly to counter China's expanding economic and political influence in Eurasia and Africa though its Belt and Road Initiative (BRI). This U.S. inspired initiative is validated in the following way,

> "This is not just about confronting or taking on China," a senior official in Biden's administration said. "But until now we haven't offered a positive alternative that reflects our values, our standards and our way of doing business."

A later U.S. communique stated that the G7 had achieved consensus about the need for a shared, coherent approach to China on trade and human rights issues.

At the core of China's Africa strategy is the rapid rollout of the Belt and Road Initiative (BRI) that seeks to channel aid and trade towards China through large-scale transport-based infrastructural projects, together with the establishment of Special Economic Zones. SEZs, while existing prior to the establishment of China's most successful example, Shenzhen, have been central to China's 'going out', or 'going global' economic policy.

GLOBAL SOUTH BLOCS: BRAZIL-RUSSIA-INDIA-CHINA-SOUTH AFRICA (BRICS) AND THE FORUM ON CHINA AFRICA RELATIONS (FOCAC) AND THE IMPORTANCE OF SEZs

The concept of the Global South has many analytical meanings. North and South in mainstream development narratives draw a distinction between states that are industrialised or developed (North) and those that are developing (South). In critical analysis, colonization is often woven into the narrative as an explanation of why certain states have lagged economically. In the way Global South has been conceptually reconfigured by recent global political and economic contestation between the U.S and China, Global South is used to refer to the global geostrategic power blocs formed and led by China. The rise of this alignment of states reinforces China's economic leadership role in the world economy. As discussed in our first brief, this alignment is politically and economically tactical: to counter the hegemony of the United States backed by Europe - the Global North (Thompson and Tsolekile de Wet, 2018).

In the African context, two blocs are significant to understanding China's expanding political, military and economic footprint on the continent. The first is BRICS – Brazil, Russia, India, China and South Africa, and the second is through the Forum on China - Africa Cooperation, or FOCAC. In both, South Africa plays the dominant role in terms of state leadership on the continent. In coordination with South Africa and in conjunction with the African Union, China has prioritised the Belt and Road Initiative and SEZs as part of its International Development Assistance (IDA) programme in the Global South.

IDA refers to a very particular form of international aid, first championed by Japan after the 2nd World War, but latterly adopted by China (as Japan's aid protégé). IDA refers to China's purported "no strings attached" lending to states throughout South-East Asia and Africa. No strings as a concept implies that there are no conditionalities - it is up to the state concerned to manage the IDA in the appropriate and responsible manner. However, every loan requires repayment and if funds are used unwisely or recipient states are not able to pay back loans, China is known for building in other forms of repayment, such as control of land or ports, the most well know case being the Chinese take-over of the Hambantota Port in Sri Lanka.

Source 1: Shutterstock - G20 Summit, Day 2, Osaka

While theoretically an ethical notion, “no strings” has led to multiple problems with Chinese lending throughout Africa. For example, previously hailed success stories of Chinese lending, Kenya and Zambia, are now struggling to repay loans. For those concerned about the proposed Musina-Makhado Special Economic Zone, it is imperative to understand that for the success of China’s Going Out strategy in Africa, South Africa is a critical state actor in mobilising and coordinating FOCAC and AU goals and strategies.

The integration of Chinese models of industrialisation into the African agenda dates back to the formation of FOCAC in 2000 in Beijing. By 2014 the importance of African industrialization took centre-stage in the African Union’s Agenda 2063. The United Nations Development Programme (UNDP) and the International Poverty Reduction Centre in China state that,

> [1]“The Declaration of the Johannesburg Summit of the Forum on China-Africa Cooperation (FOCAC) and the FOCAC Johannesburg Action Plan (2016-2018) adopted in December 2015 send clear signals for strengthened collaboration on special economic zones in Africa, including through China's establishment of a China-Africa Production Capacity Cooperation Fund with an initial pledge of USD 10 billion” (UNDP and IPRCC, 2015:1).

The central argument for linking SEZs to Belt and Road is that the Zones can act as economically liberalised enclaves to attract foreign and local investment that will accelerate industrialisation and job creation. The major thrust of industrialisation and manufacturing in the Zones are that goods are produced for export. Hence the tight linkage between the establishment of Belt and Road projects and SEZs.

The term SEZ is applied to any geographically demarcated area that offers packages of incentives, including Industrial Development Zones, Export Processing Zones, Industrial Parks and free Ports. This was the logic to China’s first SEZ, Shenzhen, where the Chinese government experimented with a more market-driven, export orientated economic growth model in a fairly remote area so as not to compromise the Chinese political ideology of state communism. Shenzhen was thus China’s first capitalist experiment, and one that has fundamentally influenced the restructuring of the Chinese economy. This model has been adopted by a number of African states that have also played a key role in China’s expansion of BRI, Ethiopia and Kenya in particular. As the UNDP/IPRCC report states,

> “African SEZs aim to achieve this by offering a number of advantages to investors, such as reduced customs duties and value added taxes; simplification and centralization of administrative procedures through “one-stop-shops”; access to key national and international infrastructure; secured access to, and reduced factor costs for electricity, water, and telecommunication services; relaxation of foreign

> exchange regulations; preferential interest rates offered by local banks and reduced freight rates. In return African governments are putting regulations in place that oblige investors to create local unskilled and skilled jobs, ensure linkages with the local economy and transfer technology and knowledge, while complying with local social and environmental regulations (UNDP/IPRCC, 2015).

Although a relative latecomer to Chinese model of SEZs, through BRICS and FOCAC, the South African government, chiefly through the Presidency and the Department of Trade, Industry and Cooperation have moved Special Economic Zones to development centre stage. In 2014 the then Minister of Trade and Industry, Rob Davies, rebranded and restructured South Africa's ailing Industrial Development zones through new legislation which brought the IDZs into line with the Chinese Shenzhen model. The 2014 Special Economic Zones Act legislated the raft of tax and other concessions that now characterize all of South Africa's 11 SEZs. Industrialisation and the stimulation of manufacturing which is labour intensive are core priorities in our National Development Plan and South Africa's post COVID 19 Economic Reconstruction and Recovery Plan. Further details of South Africa's SEZs and the logic behind them can be found in our first policy brief and in ACCEDEs short introductory video on SEZs.

SPECIAL ECONOMIC ZONES AND CHINA'S BELT AND ROAD INITIATIVE IN AFRICA: THE ROLE OF CHINESE INTERNATIONAL DEVELOPMENT ASSISTANCE

In terms of China's expanding political and economic footprint in Africa, the logic of linking the Belt and Road Initiative to industrialization in SEZs is fundamentally about linking financial support to the continent to expanding China's export and import markets. The idea of "win-win" cooperation at the heart of this strategy, repeated in every FOCAC and BRICS heads of Summit meeting, is that this mutual benefit form of assistance differs from what is framed as neo-colonial and imperial forms of aid. Northern lending characterised by International Monetary Fund (IMF) structural adjustment programmes that wreaked havoc in many African states, as well as World Bank loans, have made China's marketing of its new model of International Development Assistance (deliberately not called aid) very compelling to African governments.

IDA is marketed as a bilateral economic partnership based on Chinese SOE and private company investment, low interest loans, and Chinese led assistance in building large scale infrastructural projects to boost growth and "inclusive people to people development". There is no break-down of how much should be investment, a loan, or other forms of assistance (Brautigam, 2009). The general lack of disclosure and opacity of IDA terms and conditions lie at the heart of critiques presenting this as debt trap diplomacy.

As Deborah Brautigam wrote as far back as 2009,

> "Although China has become increasingly transparent about many aspects of its governance and policymaking, aid figures remain state secrets. The Chinese government releases only the barest of information about the quantities of aid it gives. There are no official figures on aid allocations to individual countries or regions, no breakdown by sector or purpose. The tradition of secrecy fuels misunderstandings, rumour, and speculation" (Brautigam, 2009:12).

A classic example of the lack of disaggregation of IDA and its opacity, are the FOCAC pledges made every three years by China for assistance to the African Continent. This is one of the central critiques of Chinese IDA and lies at the heart of the Chinese debt trap debate. Chinese lending beyond states capacity to repay lies at the heart of this debate, together with the general lack of disclosure and opacity on IDA and its terms and conditions. The FOCAC 2018 Action Plan shows this vagueness with regards to concessional loans

"China will extend loans of concessional nature, export credit line and export credit insurance to African countries, make the loans reasonably more concessional, create new financing models and improve the terms and conditions of the credit to support China-Africa Belt and Road cooperation and industrial capacity cooperation, and the infrastructure construction, development of energy and resources, agriculture, manufacturing and the comprehensive development of the whole industrial chain of Africa. China will extend US$20 billion of credit lines and support the setting up of a US$10 billion special fund for development financing" (FOCAC Action Plan 2018)[1].

At the 2015 FOCAC heads of state meeting, guidelines for African states, the government of China and Chinese investors were drawn up to structure Chinese infrastructural support and investments in SEZs. These are provided in the table on page 6.

Sources: Mercator Institute for China Studies; HKTDC Research; *The Economist*

As can be seen from the FOCAC recommendations on the establishment of SEZs with Chinese state and non-state development assistance, the Zones form the central focus point of Chinese-led IDA. The UNDP/IPRCC Report (2015) uses the analogy of SEZs as "nests" to which FDI "birds" will be drawn. A wholesome analogy, but is it a truly reflective one? We turn to the question of whether SEZs do in fact meet promises of increased FDI linked to sustainable growth before turning to an example of the largest and dirtiest proposed SEZ "nest" in South Africa, the Musina-Makhado SEZ. The MMSEZ most likely got the official nod from the Presidency and the DTIC, despite all its negative environmental impacts, because of its potential regional significance to

[1] FOCAC Action Plan 2018 http://www.focac.org/eng/zywx_1/zywj/t1594297.htm

the Southern African Development Community (SADC) and to China's increased trade and aid footprint in South and southern Africa. It is important to note that the MMSEZ was publicly mooted after FOCAC 2015, when the lease for the 8000 hectares of land was already signed between the Mulambwane Community and LEDA on behalf of the Chinese operator5. The 99-year lease (with a 30-year extension option) was thus signed before the Zone was even officially designated.

Recommendation for African Governments to further advance SEZ development:

- Ensure high-level political commitment and support for effective inter-ministerial collaboration;
- Integrate SEZ programmes into national development strategies and plans;
- Support all industries that have a comparative advantage through SEZ development;
- Ensure sufficient funding for infrastructure development within, and availability of good infrastructure outside the SEZ prior to the SEZ approval;
- Provide incentives for the creation of joint ventures between foreign SEZ companies and local companies;
- Respond to SEZ labour requirements by aligning curricula of universities and Technical Vocational Education and Training (TVET) institutions;
- Set high environmental standards in line with the United Nations Industrial Development Organization's Guidelines for Green Industry Parks and put a system in place to ensure their enforcement; and
- Establish low minimum SEZ investment thresholds for established local companies.

Recommendation for the Chinese Government to support SEZ development in African countries

- Launch a training and exchange programme for African government representatives and SEZ managers;
- Establish a funding window under the China-Africa Development Fund for SEZ development and management by African governments;
- Support the development of a comprehensive, pan-African database that sets out various models of SEZ legislation, incentives, job creation agreements and procurement agreements for linkages with the local economy (supported by the African Union);
- Provide incentives to Chinese companies to enter into joint ventures with local companies in SEZs;
- Support technical education and training for industries targeted by SEZs; and
- Promote the use of energy efficient and renewable energy technologies in SEZs.

Recommendation for Chinese SEZ developers and managers

- Prioritize the identification of a strategic geographic location of the SEZ;
- Employ managers with international work experience, cross-cultural competence and excellent communication skills;
- Promote linkages between SEZ companies and the local labour market and local companies; and
- Conduct local, national and international marketing campaigns and ensure the availability of key information on the SEZ in English and the local language.

Source: FOCAC DECLARATION 2015

DO SPECIAL ECONOMIC ZONES ATTRACT FOREIGN DIRECT INVESTMENT (FDI) IN A GLOBAL SUSTAINABLE DEVELOPMENT FRAME?

The Global Sustainable Development Goals (SDGs) developed by the United Nations aim to pick up on what the Millennium Development Goals did not achieve in encouraging equitable global development. The SDGs are centred on five core Principles: People, Planet, Peace, Prosperity and Partnerships. Eradicating poverty and all forms of inequality while protecting the environment are at the of the SDG framing (sustainabledevelopmentgoals.un.org). Chinese IDA, in its official articulation, endorses all 5 UN principles. As can be seen from the guidelines in the FOCAC Declaration, the Chinese government has also committed to green SEZs and renewable energy solutions. IDA to the Zones and the links to large scale infrastructure are purportedly a winning combination for attracting FDI for sustainable development through economic diversification.

However, there are many potential problems and debates about how to structure SEZs in regard to sustainable development, as acknowledged in UNCTADs 2019 World Investment Report. For example, although Shenzhen SEZ grew from a remote fishing village to a thriving techno-smart city, not all Zones that are set up in remote areas to boost economic growth will succeed. The skill sets required for large scale industrial and manufacturing development may not be available locally, and access to efficient and effective transport is also critical for success. The logic of boosting FDI to boost development cannot rely only on SEZ incentives, such as customs and VAT concessions and slashed corporate tax rates - from 28% to 15% in the case of South Africa. Governments in Africa committed to the SEZ-BRI Global South initiative have to secureclear contractual agreements with investors to both employ and upskill local workers, *and* to commit to clean energy technologies. - in building SEZ “nests” as the UNDP and IPRCC put it, governments have to carefully negotiate the terms and conditions of FDI investments within the Zones (UNCTAD, WIR, 2019).

Furthermore, the creation of enclaves with generous tax incentives can also disadvantage broader economic growth that could similarly benefit from reduced corporate taxation and job stimulation across the entire economic spectrum. Without careful negotiation on terms and conditions that benefit South Africans, both through boosting Gross Domestic Product and through employment creation, amongst other indicators, there is no guarantee that FDI will lead to sustainable development.

It must also be noted that government incurs start-up costs in providing for infrastructural investment, even if the project is to be rolled out by foreign or local companies. The Global Infrastructure Hub (a G20 initiative) has estimated that usually about 5 to 10% of project preparation costs have to meet by government. These costs need to be factored into the overall framing of any infrastructural initiative, especially of the scale planned by Cyril Ramaphosa’s Presidency, whether within an SEZ or in linking SEZs to one another. Badly planned SEZs can land up being costly white elephants, as the UNCTAD WIR Report makes clear and the Centre for Development and Enterprise points out in a recent report (UNCTAD WIR Report 2019, CDE Report, 2021). In the case of Coega SEZ, established in 2001 with huge infrastructural support from government, but with limited contribution to both employment and GDP to date and complex linkages to FDI and sustainable development, there is no trajectory towards a positive Shenzhen style outcome (Thompson, 2018).

BRI AND MMSEZ IN THE CONTEXT OF AFRICA IN THE GLOBAL SOUTH

Despite the complexity of linkages between FDI, SEZs and development, since 2014 SEZs are a primary government strategy for boosting industrialized development linked to large scale job creation. The largest - the proposed MMSEZ in Limpopo province (see Brief 1[2]) – is linked to other largescale development initiatives

[2] Thompson, L and Shirinda, H. What is the Role of Special Economic Zones in the Global South? https://accede.co.za/2021/06/03/what-is-the-role-of-special-economic-zones-in-the-global-south/

led by the Presidency, including three of South Africa's Strategic Infrastructural Projects (SIPs), with SIPs 1, 2 and 17 explicitly mentioned in the initial Environmental Impact Assessment for the Zone. SIP 1 aims to ramp up South Africa's road and rail transport corridors from Limpopo province to Richards Bay, primarily in support of minerals export, while SIP 17 provides for linkage with Southern Africa through Zimbabwe.

In his State of the Nation Address in his February 2021, President Cyril Ramaphosa announced that the R100 billion Infrastructure Fund, for which the SIPs provide a foundation, was fully operational. It appears that the 3 SIP projects link Chinese IDA funding through FOCAC to both funding and constructing of the SIPs, because they will also integrate other port based SEZs to the MMSEZ and into the Southern Africa region.

HOW DOES THE MUSINA-MAKHADO SEZ LINK TO BRI AND COULD IT BOOST SOUTHERN AFRICAN DEVELOPMENT?

The MMSEZ was been in the FOCAC pipeline for almost a decade and was geographically designated in 2017. President Cyril Ramaphosa's announcement of the MMSEZ go ahead after FOCAC 2018 makes it clear that the Zone is aligned to FOCAC and AU regional integration plans. In the same year, the Department of Trade and Industry appointed the Chinese operator, Shenzhen Hoi Mor. In order for Hoi Mor to operate as part of the State-Owned Company Board (MMSOC) headed by the Limpopo Economic and Development Agency (LEDA) Hoi Mor is now registered as the South African Energy Metallurgical Base (SAEMB) (see Brief 1). China, and many Chinese State-Owned Enterprises, through the SAEMB, have pledged US $3.8 billion, or R55 billion to the Zone's operational success. If MMSEZ marketing by LEDA is to be believed, another US $27.5 billion, or R400 billion is secured for private company investments from China in the MMSEZ[3]. CEO of MMSOC, Leghonolo Masoga, is on record stating the MMSEZ is "doable and viable"[4].

The Zone has two geographically distinct components, a light industry zone that has an EIA already approved (the northern Antonville site) and the Southern site (big industry metallurgical complex). The Zones links to SIPs 1,2 and 17 clearly show its developmental significance in the FOCAC frame and why the South African government are so pressed to push ahead with a mega-project that is in direct contravention of current climate change commitments and the move away from coal fired energy.

Our first brief touches on how the ongoing EIA process around the MMSEZ has been a shambles. Aside from the many environmental sinkholes that the Zones extractive metallurgical nature brings into sharp focus, there is an uncorroborated correlation in this particular SEZ between economic growth, employment creation and long-term sustainable, people-centred development. The EIA addresses offsetting or mitigating negative environmental impacts in superficial ways, but is the antithesis of China's pledges to green industrialization through SEZs in the Global South.

Aside from the "right to know" dilemmas explored in our first policy brief on the EIA process, environmental and development organisations have emphasized the importance of free, prior and informed consent. This central right is a high priority in the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP) which has been violated in the case of the MMSEZ.

As will be discussed in more detail in brief 3, current proposed revisions to the MMSEZ show that environmental groups have indeed managed to make an impact on the dirty energy footprint of the Zone. The

[3] https://deltabec.com/wp-content/P17102/19.%20APPENDIX%20S%20-%20ENERGY%20ASSESSMENT/Final%20MMSEZ%20Energy%20Consultancy%20Report%2029%2008%202020.pdf

[4] https://www.sanews.gov.za/south-africa/limpopo-sez-readies-lift

EIA consulting agency Delta BEC has proposed a trimmed down SEZ, to half of its original geographic size and with a much smaller proposed coal plant (reduced from 3300MW to 1320MW).

The status of the changes with the foreign investors remains unclear, although DELTA BEC as implementing agency having presented these at recent PPP meetings as a *fait accompli*. The devolvement of the planning of the SEZ to LEDA and LEDET as provincial government institutions has raised many comments from I&APs but is largely due to the institutional weakness of the DTICs SEZ hub and its reliance on SEZ SOEs to manage SEZ development effectively. If we take the example of the so called most successful SEZ in South Africa, COEGA, with its astronomical start-up costs and poor delivery on both contribution to GDP and employment, then the trust of the DTIC in SEZ SOEs is sorely misplaced (Thompson 2019).

The EIA process is currently on pause due to a legal technicality around the length of time the provincial authority, LEDET, has to respond to the final EIA. Yet as highlighted here, the MMSEZ is central to the expansion of BRI into South Africa. Given the scale of Chinese investment in the Zone it is likely that halt in the EIA process is a temporary one.

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Looking for the MMSEZ