SDIs and IDZs: promoting growth or promoting poverty?

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ILRIG

International
Labour Resource
and Information Group

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John Pape and Neil Newman
For ILRIG

Introduction

In 1996 ILRIG published a booklet entitled Export Processing Zones: Solving the Problems of Southern Africa? Since that time the South African government, along with many other governments in the region, has moved ahead with export-oriented economic policies. In many cases, this has included the setting up of export processing zones, free trade zones, and, in South Africa, Spatial Development Initiatives (SDIs) and Industrial Development Zones (IDZs).

The expansion of sites which produce only for export (no matter what these facilities are called) has serious implications for workers and working class communities. In this booklet we will try to explore some of the key issues which have emerged from the issues of export oriented initiatives:

- Are these initiatives creating jobs?
- Are these initiatives protecting the rights of workers and communities?
- Is increasing export production a viable economic and industrial strategy?
- How have workers and communities responded to these initiatives?
- Is there an alternative to these initiatives?

We focus particularly on the development of export-oriented sites in South Africa. We also provide a brief update of the increase in EPZ production in some other countries in the region. We hope this booklet will help to prepare you and your organisation to engage more effectively in the debates and struggles around industrial strategy and economic policy.


LIBRE

What are SDIs and IDZs?

Since South Africa's first democratic elections in 1994, the government has taken a number of measures to try to increase our links to the global economy. The overall thinking is that increasing these links is key to economic growth and prosperity in South Africa. Two of the most important of these measures have been Spatial Development Initiatives (SDIs) and Industrial Development Zones (IDZs). In this chapter we will provide background on SDIs and IDZs, explaining their aims and their importance to South Africa's economic strategy. We will also highlight some of the key features of specific SDIs and IDZs.

In the next chapter, we will look at the debate which has emerged around SDIs and IDZs.

What are SDIs and IDZs?

SDIs and IDZs fall broadly into the category of Economic Zones. These zones have more than twenty names in different parts of the world, with the most common name being Export Processing Zones (EPZs). In Mexico they are called Maquiladoras, in Mozambique they are called Industrial Free Zones, in China they are called Special Economic Zones. The International Labour Organisation (ILO) calls them EPZs.

What are economic zones?

These are demarcated areas which are set aside from the rest of the country's economic activity. In these zones local or foreign investors can engage in production of goods mainly for the world market. While these zones are not identical around the world, there are certain features that are common:

- They are special demarcated geographical areas for economic activity.
- Production in these areas is mainly for export.
- Special benefits and privileges (incentives) are offered to the investors.
- Sometimes trade union rights are removed or changed in these areas.
- Usually these zones are located next to or near a harbour or airport.

Let us now look more closely at South Africa's two forms of economic zones: SDIs and IDZs.

SDIs

Strategic Development Initiatives (SDIs) were announced in 1996 as a key feature of the Growth, Employment and Redistribution (GEAR) economic policy. GEAR shifted South Africa away from the Reconstruction and Development Programme (RDP). Under GEAR the South African economy was supposed to focus on attracting foreign investors and producing for the export market. In fact the DTI refers to SDIs and IDZs as "the practical implementation of GEAR". SDIs and IDZs involve:

- identifying particular areas that have potential to produce economic growth and development, but which in the past – because of apartheid policies - have been neglected.
- In an SDI, the Government will invest some resources into a big project, such as a new road, airport or port – in partnership with a private company. Such partnerships are often called PPPs - public-private partnerships.

- These projects are supposed to help encourage other companies to invest in the area (this is called 'crowding in' private investment) and so will help to create jobs.
- The national government will devolve responsibility of the SDI to local authorities who can raise funds by going into public-private sector partnerships.

Companies can get incentives like a two-year tax holiday if they invest in an SDI area. If they also invest in an industry which Government is trying to promote, such as automobiles, they can get a further two years tax-free.

As part of GEAR's commitment to competitiveness, SDIs aim to attract companies that produce goods for export. The Government-supported infrastructure projects are often aimed at making it easier to export the goods produced in the SDI, for example the upgrading of a road between a mine or factory and a port. Examples of SDIs are:

- The Lubombo SDI
- The West Coast Investment Initiative
- The Wild Coast

(The map on page 6 shows the major SDIs)

The aims of SDIs

The main aims of SDIs for South Africa are to:

- promote export orientation amongst South African firms

The official story on SDIs

According to the DTI:
"SDIs aim to unlock inherent economic potential in specific southern Africa locations by enhancing their attractiveness for investment. The SDIs aim to facilitate the creation of viable new jobs as potential investment opportunities, identified through the process, are taken up by the private sector."

"The SDIs are targeted, short-term and often extremely comprehensive initiatives driven by private capital, designed to facilitate global competitiveness, access to global capital and investment, infrastructure development and 'sustainable' job creation in areas which have unrealized economic potential due to a range of historical and political reasons, primarily apartheid." (Paul Jourdan, key thinker behind the SDIs, 1998)

For the South African government, the concept of SDIs and IDZs is a response to changes in the global economy.
According to the Department of Trade and Industry, SDIs and IDZs are aimed at "strategically positioning South Africa as a global export manufacturing platform…" Government argues that increased exports will lead to growth, jobs and empowerment.

Zav Rustomjee, director general of the Department of Trade and Industry (DTI), said that South Africa had no alternative: *"the country had no choice but to promote exports vigorously because the small domestic market and low economies of scale could not produce growth to create sustainable growth".* (Business Report 8/6/98)

- earn foreign exchange
- ensure sustainable job creation
- ensure better utilisation of infrastructure and resources
- broaden the ownership base of the economy

SDIs and the SADC region

More and more the South African Government is seeking to expand the idea of SDIs into the Southern African region. The idea is that by creating zones or corridors that cross borders, the whole region will be in a better position to attract investment and create jobs. The aims for Southern Africa in building these cross border SDIs are to:

- strengthen regional development
- help Southern Africa attract foreign investment in an increasingly competitive global environment.

The DTI argues that a bigger and more integrated market will be more attractive to foreign investors, will help SADC countries achieve "self-sufficiency, industrialisation and modernisation of their economies" and will "increase SADC countries' bargaining power in international markets".

What are IDZs?

In September 2000, legislation regarding IDZs was promulgated. These regulations have been enacted in relation to the Manufacturing Development Act No. 187 of 1993. The Act spells out clearly what an IDZ is and what incentives are offered to IDZ operators.

According to the DTI, an IDZ is:
"… a purpose-built industrial estate linked to an international port or airport in which quality infrastructure and expedited customs procedures are coupled with unique duty-free operating environments suited to export-oriented production."

IDZs have two zones of operation:

- The Customs Secured Area (CSA) is the delimited area with entrance and exit points controlled by customs officials, with a dedicated customs office providing rapid inspection and clearance services.
- The Industries and Services Corridor (ISC) is an industrial and/or office park environment adjacent to the CSA, which will be occupied by service providers to the CSA companies.

Key features of IDZs:

- Linked to an international port or airport
- World-class infrastructure
- Suited to export-oriented production
- Approved environmental standards
- Dedicated customs office
- Special customs regime
  - Duty-free imports
  - Zero rate on VAT
  - Finished goods regarded as imports to South Africa

Import/export incentives and special customs rules

Duty-free imports

- A company operating in the CSA can import equipment and raw materials for production of exports inside the CSA tax-free. These will only apply for use inside the CSA.

Exemption from VAT

- Goods imported into the CSA will be exempt from VAT.
- Goods supplied to the CSA operator from inside SA will be subject to VAT at the rate of zero percent.

- Goods exported from the CSA will be subject to a refund on VAT.
- Supplies of goods from the IDZ into South Africa for domestic consumption will be subject to VAT.

IDZ imports into South Africa

- If goods produced in an IDZ are sold in South Africa, they will be treated as imports and will be subject to tariff. This makes it unlikely that such goods will be sold in South Africa.

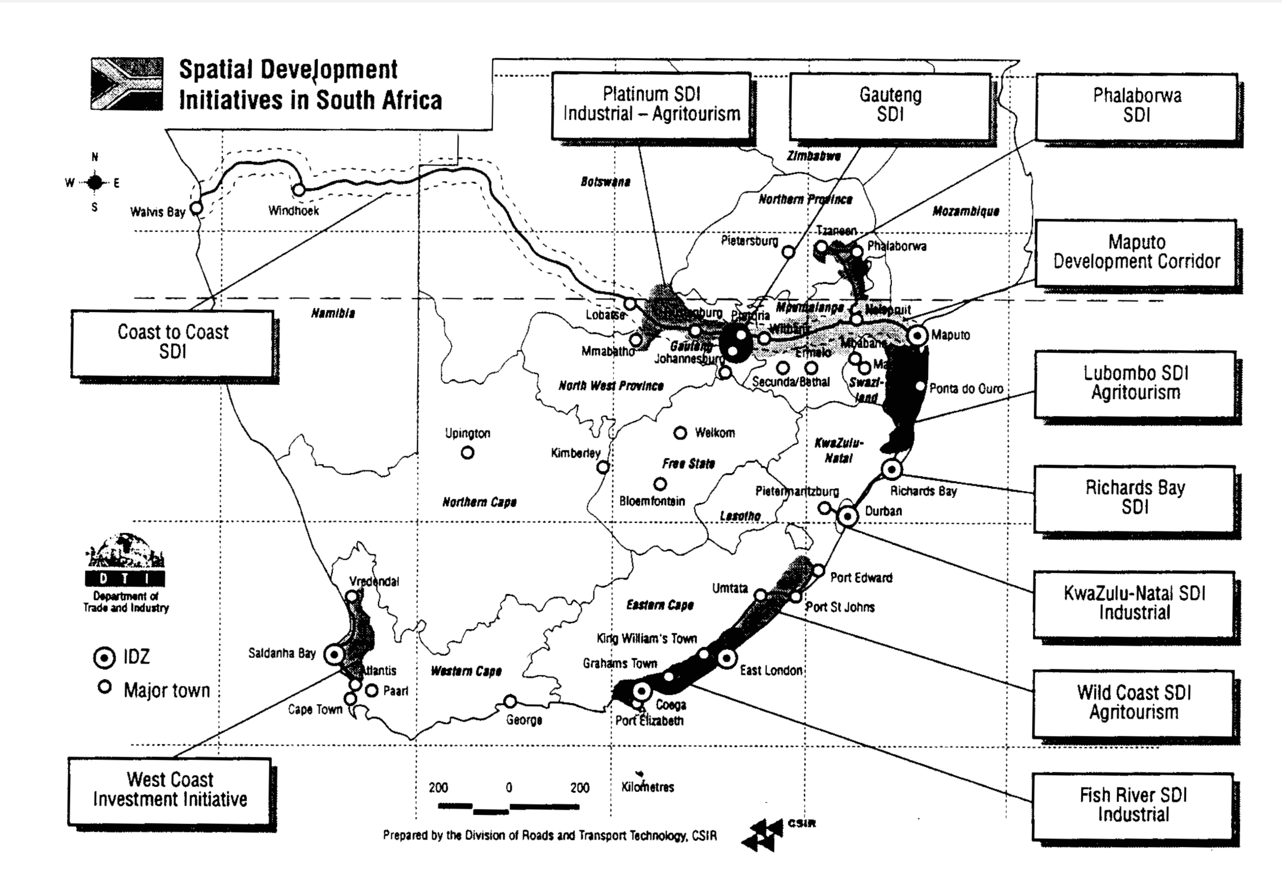
Customs rules and procedures

- The CSA in an IDZ is treated as an export country for customs purposes.
- The CSA will have its own customs office and personnel whose salaries (during working hours) will be paid by the South African Revenue Service (SARS).
- The CSA operating company can employ and pay officials who are already employed by customs to work outside of normal working hours
- For imports, the customs official at the port of entry is bypassed in favour of the official at the CSA
- For exports, the customs official at the port may not open the container or package for inspection once it is sealed by the official at the CSA (unless the customs seal is broken)

Although SDIs and IDZs are the major forms of economic zones in South Africa, there are also a number of development corridors. Let us look briefly at these.

Development corridors

Development Corridors are transport links between one or more production sites and a port. Although most development corridors



include a well-developed road, the corridor is also supposed to be a zone of development. The aim is that along this road there will be various sites of business and commerce (called “nodes”) which will grow and benefit from traffic along the corridor. In particular, corridors are intended to create opportunities for small, medium and micro entrepreneurs from the historically disadvantaged community.

Is there a difference between SDIs, IDZs and Development Corridors?

All of the three, SDIs, IDZs and Development Corridors are based on similar ideas:

- they produce for export
- they try to attract foreign investors through a range of incentives.

But there is an important difference between SDIs and Development Corridors as opposed to IDZs. The areas designated as SDIs or Development Corridors are generally areas that were neglected under the apartheid regime. For example, much of the area included under SDIs and Development Corridors is rural. Part of the aim of SDIs and Development Corridors is to upgrade the underdeveloped areas of South Africa. This is an attempt at geographical redress, particularly to redress the inequalities between rural and urban areas. On the other hand, IDZs are focused on a single point of production. In most cases, IDZs are located in industrialised or relatively well-resourced areas. So while IDZs are intended to create jobs, they do not make a significant attempt to address problems like the underdevelopment of our rural areas.

In this section we have described the main features and aims of South Africa’s economic zones such as SDIs, IDZs, and Development Corridors. These zones have been the subject of much debate, both in South Africa and internationally. In the next chapter we will examine these debates.


ACIONES
RECHOS
LOS
ANJEROS
COMITE DE
HUELGA DE
HAN YOUNG

2 Debates around the strategy of export orientation

Globalisation: The background to economic zone

The concept of economic zones is not new and was not new during the mid-1990s. At the end of the 1960s, the world economy began to experience a slow down. By the 1970s, this slow down had reached proportions of crisis and capital was beginning to find new ways of doing its business, ie. making profit. Production was becoming more and more expensive, with labour costs being one of the main expenses. Corporations in the most developed countries began to change the way production was done. These changes are commonly referred to as globalisation.

For the large corporations, the restructuring of the world economy process had a number of key features/strategies/components:

- the search for new markets – changing the regulations for international trade to make it easier for goods to move across borders
- the search for new ways to invest money capital – many investors found it more profitable to put their money in stock markets and other types of speculation rather than investing in production
- changing the production process – introduction of lean production. This included outsourcing, new technology, and use of more flexible labour such as casuals or part-timers – all measures to cut costs.
- Changing government policies – corporations put more pressure on governments to adopt policies that were more favourable to business
- changing ideological perceptions – promoting ideas of competition and individualism rather than co-operation and collective development

One of the key components of globalisation is export-oriented industrialisation (EOI). This refers to the policy or set of policies which promotes growth and development based on production being primarily for export. The idea behind EOI is that countries speed up the process of industrialisation by exporting goods which they can produce efficiently and cheaply. Once they have sold these goods on the world market, they are then supposed to use the profits to build more industry. In the 1970s and 1980s underdeveloped countries were being convinced (and often coerced) into following EOI as a strategy for

development and ending poverty. Economic zones or EPZs were one of the key elements of EOI. Pressure to create EPZs came from big corporations but also from major multilateral institutions like the World Bank and the International Monetary Fund (IMF). Many countries which borrowed money from these institutions were forced to adopt export-oriented policies to secure their loans.

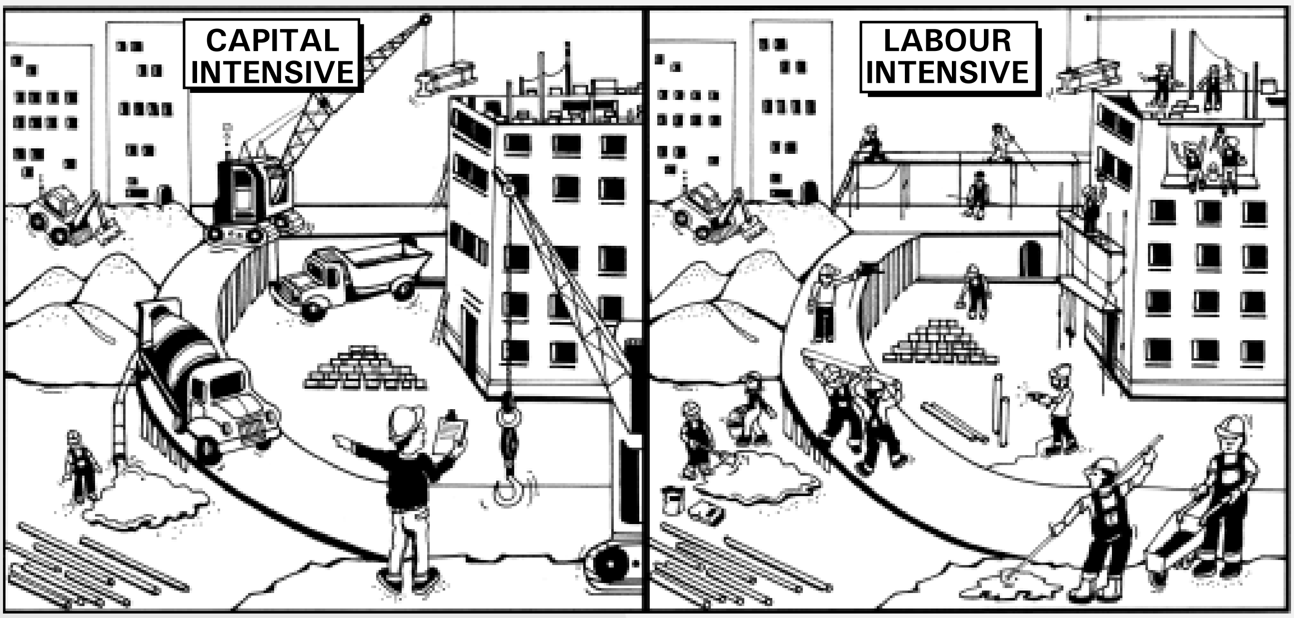
The debate

There has been much criticism of export-oriented industrialisation by trade unions, grassroots organisations, progressive economists and others. They have raised a number of criticisms of EOI. These include:

a) **Producing for the export market leads to a "race to the bottom".** Many countries compete in the global market by trying to reduce wages, relax environmental standards and lower labour standards in order to produce the cheapest product for the global market.

b) **Producing for the export market often leads to high levels of debt.** This is particularly the case for most countries which mainly export raw materials. Over the last twenty years the relative price of raw materials as compared to machinery and manufactured goods has been decreasing. In most cases, countries of the South must pay in hard currency (eg. US dollars, Japanese Yen) for their imports. But with the price of raw materials falling, many countries have been forced to take out loans in order to continue paying for their imports. These loans are in hard currency and must be repaid in hard currency. Hence, as debt increases, the country must increase exports. When exports increase, less and less is available for the local market.

c) **For African countries in particular, producing for the export market follows an historical pattern of colonial oppression.** During the days of colonialism, the economies of most African countries were structured to meet the needs of the colonisers. In most cases, African economies became producers of one or two raw materials. As a result, the only item these economies have to export to the global economy today is these same raw materials – typically goods like copper, coffee, cotton or cocoa. But increasing the



Many economic zones include construction of hi-tech ports which undermine local fishing.

exports of these raw materials means that African countries will never develop their own industries. They will have to continue to rely on importing machinery and manufactured goods from the rest of the world.

d) **Promotion of high technology methods of production.** Trade unions and communities with high unemployment rates have criticised export orientation for often leading to capital-intensive investments. Capital intensive means producing in a way that uses more technology than labour. Most unions and communities favour labour-intensive production — methods which use more labour than technology

e) **Promoting gender oppression.** Many labour and womens' organisations have criticised economic zones for exploiting women. In a number of EPZs and Free Trade Zones, young women have been employed for low wages, long hours and under horrific conditions.

The alternative to EOI

Critics of EOI have proposed a number of alternatives. Most of these alternatives involve focusing on producing for the local market to meet the needs of the population rather giving priority to exports.

One alternative to EOI which was followed by many developing countries in the 1960s and 70s was Import Substitution Industrialisation (ISI). Under Import Substitution Industrialisation, economic growth was based on state support for the promotion of domestic production and consumption. Under ISI, production in the local economy would substitute for what was imported from the industrialised countries. However, many countries which followed ISI floundered. They borrowed heavily to build up their industries but then were unable to repay their loans. While they succeeded in building up some local industry, in many cases there were not enough local consumers who could afford to buy the manufactured products. To some extent South Africa followed import substitution in the 1960s and 70s. The apartheid government built up the capacity to produce goods like cars and fridges. But these industries could only grow to a certain point, since few black consumers could afford to buy these cars and fridges.

In South Africa in recent years a number of alternatives to EOI have been posed. For example, the RDP focused on kick-starting the domestic economy through massive social expenditure on public works projects like low income housing. The thinking behind the RDP was that mass projects like low income housing would create jobs. Once people were employed, they would spend money buying other goods which would lead to more growth and jobs in other industries. However, before the RDP was implemented for any length of time, it was replaced by GEAR in 1996. GEAR follows the path of EOI.

There are also broader criticisms of EOI and ISI as development strategies. Both EOI and ISI define development as industrialisation. But some critics argue that development should be seen as more than simply building up industry. For example, some people argue that development should be people-centred and include popular participation in decision-making about economic strategies and budgets. Critics also argue that development should be about developing the entire human being and not merely focus on production. They also talk about sustainable development – a type of development which protects the environment and natural resources as well as providing social security and peace for citizens.

For more information on EPZs in Asian countries, see the book "We In the Zone: Women Workers in Asia's Export Processing Zones" published by the Asia Monitor Resource Centre, in Hong Kong. Their email address is amrc@hk.super.net.

The debate over economic zones

Apart from the general debate over strategies for development and industrialisation, there has been lots of debate and struggle over economic zones. According to the International Labour Organisation (ILO) there are more than 850 economic zones in the world. They are located in more than 70 countries and employ about 27 million workers. The supporters argue that these zones have been key elements in the industrial strategy of the countries where they are located. They argue that economic zones:

- Have attracted foreign investors
- Brought more advanced technology to underdeveloped areas
- Provided jobs for local citizens
- Have provided opportunities for young women to escape from gender oppression in traditional households

But there have been many criticisms of these zones. Many trade unions have attacked the zones for low wages and poor working conditions. The Asia Monitor Resource Centre carried out a study of women's working conditions in a number of Asian EPZs. They found practices which included 16 hour days, no paid leave or holidays and extremely low wages. In many instances, the government actively repressed any attempts to organise unions. Gender and women's organisations have also criticised economic zones. More than 80% of workers in these zones internationally are women. Gender activists have questioned why so many workers are women. They argue that the employment of women is often a form of gender discrimination based on:

i) gender stereotypes about women. Many managers in EPZs claim that women have ‘nimble fingers’ and are therefore more able to do jobs like computer assembly. Another stereotype raised by management is that women are more “docile” ie. less likely to challenge their bosses.

ii) parents’ bias against female children. In some countries workers for economic zones are recruited in rural areas with high levels of poverty and unemployment. Often rural parents will be more willing to take their daughters out of school than their sons. Hence, many women workers are recruited with the “blessing” of their parents.

Critics of economic zones have also noted that a large part of production is contracts for major transnational corporations who pay millions for sports and entertainment stars to advertise their products, but will not pay a living wage to their workers.

The debate over economic zones has also been ongoing in South Africa. Let us briefly look at this now.

The South African debate over economic zones

Like the debate about globalisation, there are different views about the concept of economic zones. Government and business generally favour economic zones in South Africa. On the other hand, the trade unions and other organisations of civil society have, for the most part, rejected the strategy of economic zones.

In particular trade unions have focused on two problems with economic zones:

- Labour standards (including wages, conditions of employment and the freedom of unions to organise
- The hi-tech nature of production in many economic zones – leading to few jobs being created.

Here are some of the comments from labour on the debate over economic zones and EPZs in South Africa.

In a report in the Business Day 11 February 1998, Herbert Mkhize (of SACCAWU), labour convenor at Nedlac’s trade and industry chamber, said, “Unions were opposed to plans to create ‘concentration camps’. Labour was also against export processing zones by any other name”.

…there is a danger that the IDZs will actually become EPZs. There are many features of an EPZ that can be found in our IDZs… IDZs are an integral part of GEAR. They are another component of a neo-liberal economic agenda which has not benefited the working people in other parts of the world and is unlikely to make any contribution to redistribution and sustainable development in South Africa.

At its Inaugural Central Committee meeting in 1998 COSATU responded in this way:

“COSATU remains opposed to EPZs as they downgrade labour standards. We

While labour has raised some key issues in this debate, there is a broader debate about SDIs and IDZs within communities.

Within some communities initiatives like SDIs and IDZs are seen as possible opportunities for employment. In communities where unemployment runs up to 50 or 60%, any measure taken by government to provide jobs can be taken seriously. At times, such opportunities for employment may pit communities against organised labour. Many employers use the argument that unions contribute to unemployment by demanding wages which are too high. Even amongst the unemployed, a low wage job may often look far better than no job at all. So not all those amongst the unemployed are automatically the allies of labour in criticising SDIs and IDZs.

At the same time there are community groups and NGOs which have organised against SDIs and IDZs. They have raised a number of questions. Two of the most important are:

Do we promote SDIs and IDZs as long as labour rights and union agreements are respected in the zones?

Do we need to look for other ways of promoting employment and economic growth besides economic zones?

The ILO and many unions have argued that many economic zones are run like sweatshops.

Conclusion

People representing different organisations, interests or structures have very different views about SDIs and IDZs (or whatever the economic zones are called). In particular, there are different opinions about whether this strategy will solve some of the economic problems that South Africa is experiencing.

For the government, the strategy is a positive move, aimed to bring about economic growth, create jobs and make South Africa internationally competitive, thereby attracting foreign direct investment into the country.

For business, these zones mean opportunities to gain resources from the state: tax concessions, subsidised infrastructure and services. Such state support can lead to much higher profits. They argue that offering incentives and high profit rates is the only way to attract investment in South Africa.

For the trade unions, South Africa's SDIs and IDZs seem very similar to export processing zones (EPZs) as adopted in other countries. The unions warn that these types of zones will not be accepted by workers in South Africa. The unions believe that EPZ's working conditions in many countries amount to no more that slave or prison labour.

For communities with high rates of unemployment and poor facilities, SDIs and IDZs offer promises of employment and building up of infrastructure. In many parts of South Africa the question remains as to whether SDIs and IDZs can actually deliver anything significant to these communities.

But SDIs and IDZs are not totally new in South Africa. They have been in place for more than five years. Let us now look at what has happened so far – and to what extent these initiatives have promoted growth, investment and job creation.

Worker stories: Life in economic zones world wide

Many people who have studied economic zones or EPZs describe working conditions as similar to sweatshops of the 1800s. Here are some stories and descriptions of life for workers in such zones around the world.

Mexico

The maquiladoras of Mexico are economic zones along the border of the United States. There are more than 2 600 maquilas where nearly a million workers are employed. Here is a journalist's description of working life in a maquiladora:

This is work that almost anyone can do and no-one with any real choice in the matter really wants…No one lingers here. There is no human contact, no conversation. A canteen serving food during the break is deserted – two died recently after eating in a maquila canteen down the road. We manage to talk to some of the children before their shift starts…"I sleep and I work. I can do nothing else," one of them says (from No-Nonsense Guide to Fair Trade by David Ransom).

Philippines

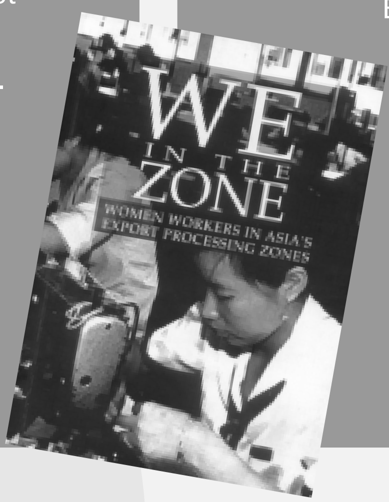
In the Philippines there are 52 economic zones which employ nearly 500 000 people. The hours are long, with strict discipline imposed on workers. Canadian journalist Naomi Klein visited the Cavite Export Processing Zone. Above the entrance hung a sign which said: "Do not listen to agitators and trouble makers."

Although unions are allowed in the EPZs according to the law, in practice they are suppressed. Klein talked to workers about the story of Carmelita Alonzo, a young woman worker at Cavite who had recently died. They told her this story:

"There were lots of products for ship-out and no one was allowed to go home…in February the line leader had overnights almost every night for a week." Not only had Carmelita worked those shifts but she had a two hour journey to get home after work. She got pneumonia, a common illness in these factories which are more than 35 degrees during the day but become cool and damp at night. She asked for time off but was refused. She was eventually admitted to hospital and died on 8 March- International Women's Day. One worker said: "Carmelita died because of working overtime. It can happen to any of us."
(from No Logo by Naomi Klein)

Indonesia

Mrs Dayani works in the PT Wearwel clothing factory in Tanjung Priok EPZ in Indonesia. The factory employed 2 500 workers, 90% of whom are women. She normally works from 7:15 to 6:00 p.m. but often has to do overtime until 10:00 p.m. The workers have to stand all day and are watched closely. They need a ticket to go to the toilet. Workers are only allowed a company medical permit once per month. A medical permit with a doctor's certificate is needed to get sick leave pay but the company makes it difficult to get the permit. Workers must meet a tight production quota and if they fail to do so, management gets angry.
(from We In The Zone by the Asia Monitor Resource Centre)



Despite the difficulties which workers face in EPZs, there have been many successful efforts to organise. For example:

In the maquiladoras, the Authentic Labour Front (FAT), a general union, as well as a number of NGOs have made some strides in organising and providing education to workers in the zones.

In Cavite the Workers' Assistance Centre has been able to assist workers in campaigning against overtime which sometimes had shifts extending from 7 a.m to 2 a.m.

In the industrial zones of Vietnam, more than 2 000 workers were involved in strikes in 1997. They were protesting forced overtime and disciplinary action which included being forced to stand in the rain for long periods of time.

In Bataan EPZ, the first such zone in the Philippines, there has been more than two decades of organising unions. At times employers have succeeded in breaking the union's strength by repression or closing down certain plants. Some trade unionists argue that the Bataan case shows that international solidarity, especially amongst workers in the same company, is critical in defending workers' rights in EPZs.

Solidarity

There are a number of international solidarity campaigns which focus on workers in EPZs. These include:

The Maquila Solidarity Network:
A group based in Canada which gives support to Mexicans working in the maquiladoras.
Clean Clothes Campaign: A London-based campaign which tries to encourage consumers to only buy clothes which are produced by workers who work under acceptable conditions. “Clean clothes” are those which are not produced through severe exploitation of workers. Often the worst conditions for clothing workers are in EPZs.

Sweatshop Watch:
A London-based group which monitors companies which have sweatshop conditions. They try to give bad publicity to companies which treat workers poorly. Many of the sweatshops they target are in EPZs.

3 SDIs and IDZs: what has happened so far

In this chapter we will examine the experience of South Africa to date with SDIs and IDZs. For both SDIs and IDZs we will look at what has been implemented, what type of investment has been involved, jobs created and the role of the government. We will also look at some of the debates over these initiatives.

SDIs

In 2000 the Industrial Development Corporation (IDC) conducted a study of the 14 existing SDIs for the Department of Trade and Industry. The study showed that 1 216 projects had been identified as part of SDIs. At that point 338 were in the implementation stage, 77 were completed, 531 were at the concept/pre-feasibility stage, 213 were at the feasibility stage, 40 were approved and 17 were dropped. Of the 222 projects that were actively implemented and the 38 completed, the overwhelming majority were in three SDIs:

- 109 in Fish River
- 60 in the Maputo Corridor
- 37 in the Lubombo SDI.

On the surface, these figures for implementation look impressive. But there are a number of questions that must be asked before we make an assessment.

1. Are all these projects related to SDIs?
2. Have the SDIs attracted foreign investment?
3. Have the SDIs created jobs?

1. Are all these projects related to the SDIs?

Not all the projects listed were a direct result of the SDI. Some of the projects recorded as SDIs actually existed before there was an SDI programme. For example, the Namakwa Sands investment in Saldanha began in 1992, well before there were any SDIs. Yet it was counted as an SDI project because it falls in the area of the West Coast Investment Initiative SDI.

This is the Mozal Industrial Free Zone in Maputo, Mozambique. It cost R4 billion to build and created just 800 permanent jobs.

Another set of projects which were taken as part of the SDIs were three casino developments in Mpumalanga. These were funded by Tsogo Sun, a black economic empowerment grouping. But it is unlikely that the casinos were built due to the SDI policy. Casinos have been part of a national and provincial economic strategy which has existed outside the SDI process.

Lastly, the Ramatex investment in East London was linked to the implementation of the US African Growth and Opportunities Act (AGOA), not the SDI. Under the AGOA, textile exports from South Africa gained access to US markets.

ILRIG Research

Our own ILRIG research team's findings also cast doubt on the level of investment flowing into SDIs. We interviewed a number of SDI managers. Most of them said that investment levels in their area were much lower than expected. One manager even said that he could not think of a single investment in his area that was a result of the SDI.

2. Have the SDIs attracted foreign investment?

Many of the major investments in SDI areas have come from government or parastatal bodies. For example, three major SDI irrigation projects in Mpumalanga were totally funded by government.

In some instances, foreign investment has been supported by major government money as well. For example, in the Duferco Steel Processing Plant, also at Saldanha, the project was funded 50:50 between government and a Swiss Company. The total value of the project was R1,7 billion. But government involvement in Saldanha has been even more extensive. In mid-2001, the government took a decision to invest R5 billion to help the Saldanha Steel plant which was making losses. Although the plant was not directly part of the SDI, the R5 billion clearly has a great impact on the initiative which sits very close to the actual SDI site. Moreover, serious questions have been raised as to why the government put R5 billion into a failing steel plant instead of investing in the West Coast Investment Initiative which included seventeen projects, many of them lacking in resources.

3. Have the SDIs created jobs?

The IDC estimated that these projects had created 77 249 jobs and that eventually some 163 136 jobs would be created when all the projects were implemented. While these may be large numbers, it is important to look at the cost to create a job and what types of jobs have been created. The biggest creator of jobs amongst the SDIs has been the Fish River SDI where 20 252 jobs were created. But the overall investment in Fish River as of September 2000 was more than R20 billion. This means that creating one job cost about R1 million. The second largest creator of jobs amongst the SDIs was the Maputo Corridor where 16 469 jobs were created from an investment of R34.68

Many economic zones spend millions upgrading ports.

billion. This means that it cost just over R2 million to create one job in the Maputo Corridor. At the time, the Lubombo Corridor was even more expensive, producing just 71 jobs for an investment of R1,4 billion – an average of just under R20 million per job created.

While the big projects have not created huge numbers of jobs, one of the promises of SDIs was to create jobs through forward and backward linkages. Since SDI production is primarily for export, few jobs are created from forward linkages. Backward linkages have created employment through providing contracts to Small, Medium and Micro Enterprises (SMMEs).

In particular, jobs have been created as a result of greater investment in the building of roads to connect the various SDIs. This has led to more employment as well as the involvement of SMMEs. For example, in the Maputo Corridor phase four of the building of the road linking Northern KwaZulu Natal and Maputo, 62% of the contracts went to SMMEs, most from the local area.

Nonetheless, the record of SDIs in terms of job creation has not been impressive. Clearly most of the activity in the SDIs has been either capital-intensive (making use of machines not workers) or has merely made use of those already employed. In some cases, SDI investment has merely shifted employment from one part of the country to another. This may be particularly true in the tourism industry. Tourism in South Africa is a limited market.

What are forward and backward linkages?

Jobs created through the forward linkages of an SDI would be employment in companies which use the products produced in an SDI. So if an SDI project produced timber, then jobs created to transport the timber or process the timber would be part of the forward linkages. In SDIs there are generally few forward linkages since most of production is oriented toward export. Backward linkages are the links with suppliers to an SDI project. So if an SDI project grew maize, the jobs created in companies that produced seeds or fertilisers would be part of the backward linkages.

Yet many SDIs are focusing on tourism. Many major cities in South Africa are also promoting tourism in their region. With so many competitors for the tourist market, jobs created in an SDI like the Wild Coast may merely be jobs lost when tourists change their preference from Kruger Park to the Wild Coast.

Another key question about job creation in SDIs is permanence. In many instances, the bulk of the jobs created, especially during construction processes, are temporary. For example, in the construction of the N4 toll road as part of the Maputo Corridor, 2000 people were employed. But once the construction was over, there was no employment for these people.

Lastly, there has been debate about who really benefits from the employment opportunities, especially in the high-tech operations. Clearly many West Coast residents expected to benefit from employment opportunities in the area resulting from the SDI and Saldanha Steel. One NUMSA organiser commented:

Saldanha is there, yes, but who benefits? Most black people are in low-grade work whilst there are still foreigners in the technical positions. How long should this carry on?"

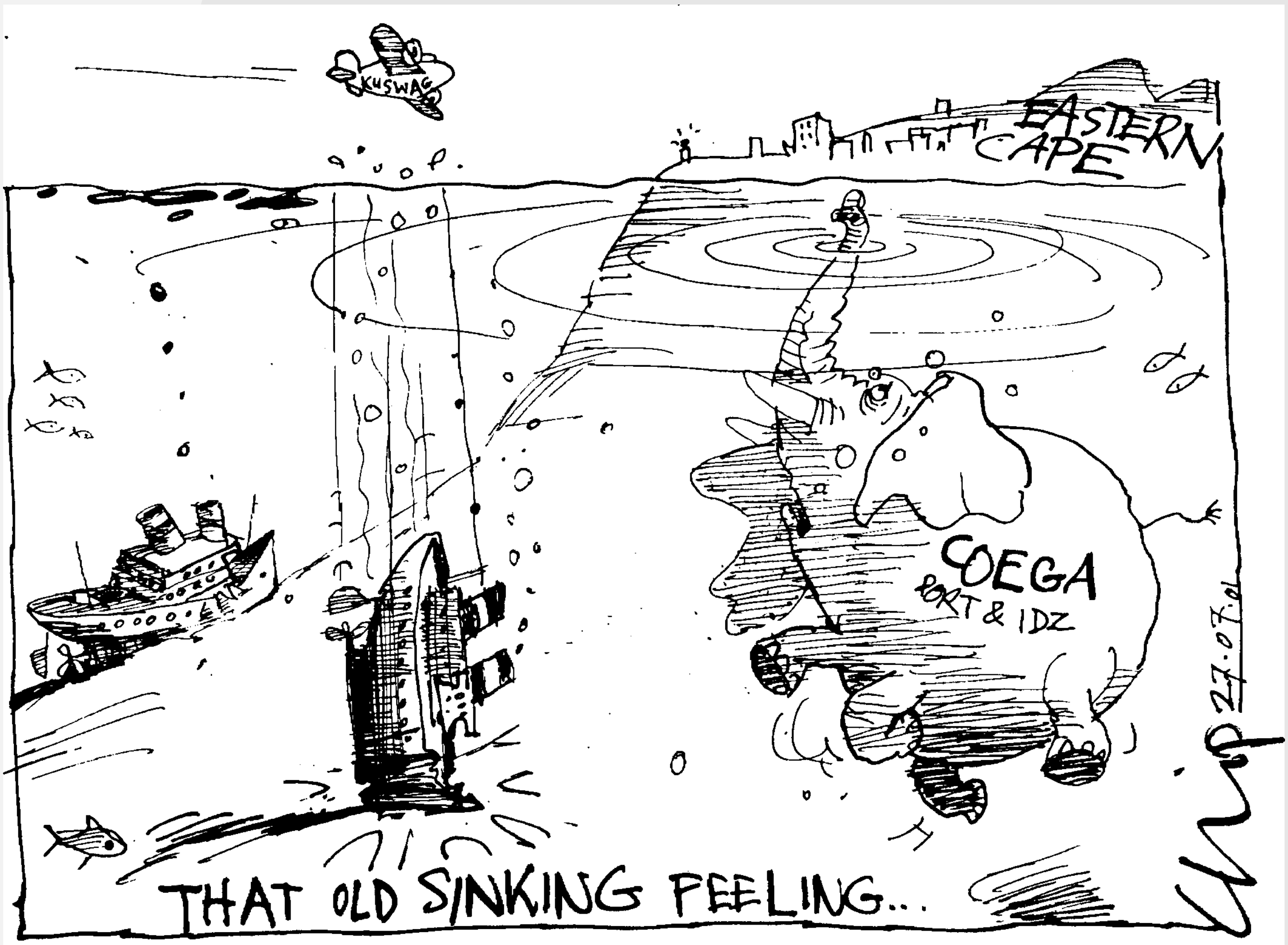
The community perception was that the Saldanha project will be for their benefit, but so far they have only had the crumbs from the table.

(Simon Arries, NUMSA Regional Organiser on the West Coast of the Western Cape commenting on the West Coast Investment Initiative)

IDZs

IDZs have not been implemented as widely as SDIs. The only large IDZ in which there has been major developments is Coega. In December 2001, Coega became the first IDZ to be approved by cabinet. Since Coega has been quite controversial we will discuss it in some detail.

The major project in Coega is the building of a deep water port in Port Elizabeth in the Eastern Cape. This includes the construction of a facility which can handle more shipping containers than any existing port in South Africa. This facility is justified by the argument that many ships are increasing their capacity and will be able to carry more containers than South African ports can presently handle. The building of Coega has drawn considerable support from business. Kevin Wakeford – chief executive officer of the PE Chamber of Commerce and



President of the South African Chamber of Business said of Coega:

"The plan is to develop a world-class port, with purpose-built facilities and infrastructure. It is hoped to offer tax incentives, duty-free benefits and an acceptable labour dispensation… The zone would be developed on a negotiated labour dispensation, with agreed rates and increases in advance to make forward planning feasible and the investment attractive."

Wakeford's words indicate two things. Firstly, business sees Coega as a positive development for the city. Secondly, he looks forward to "a negotiated labour dispensation". This likely means lower wages than the normal union levels.

However, despite Wakeford's positive words, business has been slow to invest in Coega. In fact, there has been a history of various investors pulling out of the project.

The original plan was that Billiton would build a R3 billion aluminium smelter next to the Coega port. However, Billiton pulled out of this initiative. Then the German company Ferrostaal promised a similar investment. The Ferrostaal investment was linked to the South African R43 billion Rand arms deal of 1999. Part of the agreement included "counter trade". Counter trade meant that under the terms of the arms deal, if South Africa agreed to buy arms from German producers, then German companies would agree to invest in Coega. However, Ferrostaal subsequently pulled out of the agreement. This does not cancel the arms deal, but may force the Germans to pay a small fee for failing to deliver on the counter trade. The failure of Coega to deliver the expected major investor has led to a number of struggles in the area. There remain two major debates: i) whether to go ahead with the deep water port ii) what to do about the people who have been removed.

i) the deep water port

The revised cost estimate for the port is R5 billion. This includes both building the port facility and upgrading local infrastructure like roads to service the port. Those who oppose Coega or who are uncertain about its potential success argue that this money should not be spent. They suggest that there is a strong possibility that once the port is built, there will be no users for the facility and R5 billion will have been wasted. The supporters of Coega, especially the Department of Trade and Industry, argue that it is necessary to provide this infrastructure in order to attract an investor.

ii) the people removed

In order to make way for the deep water port, about 300 familes were removed from the Coega area. There has been considerable debate as to whether or not this amounted to forced removals. Some families were apparently only given six days notice to move. Many lost cattle and other livestock as they were relocated to a densely-populated housing settlement.

Coega and job creation

There is a further problem with Coega, promises of job creation. There have been some difficulties in calculating exactly how many jobs Coega might create. The estimates are that the port itself would only create a few hundred temporary jobs during construction and 80 permanent jobs upon completion. The proposed refineries are not labour-intensive. The original Billiton refinery, with an investment of R3 billion, would have only created 600 permanent jobs – at a cost of about R5 million per job created. Depending on what else is constructed at Coega there could be up to 2 500 temporary jobs created. But this must also be weighed against existing jobs which will be destroyed. These include mainly people who make a living from the sea where the port is to be built. They are involved in activities like fishing, saltworks and eco-tourism. One report done by the Mandela Metropole Sustainability Coalition estimated that more than 9 000 people would lose their job/livelihood as a result of the planned Coega IDZ.

But other community groups in the Eastern Cape have also been busy protesting against Coega. They argue that the proposed port does not address the basic needs of one of South Africa's poorest provinces. Their case against Coega rests on the following points:

a) that Coega is located in the most well-resourced area in the province. Building such a big facility in the province's largest urban area will merely drive more people into the urban areas, putting more pressure on services and housing. They argue that investment should be made in the rural areas of the Eastern Cape.

b) that Coega will have major effects on the environment and resources in the area. Firstly, there is concern that any major smelter at Coega will pollute both the air and water. Secondly, large processing facilities typically use huge amounts of water and electricity. Yet these services are already in short supply for most residents. There is a fear that large usage at the Coega site will force the province or municipality to either delay delivery to townships and rural areas or to spend millions on building new systems to deliver water and electricity.

In addition, there has been some concern from labour that Coega will lead to further privatisation in the ports and in the transport sector more broadly. The CEO of the South African Chamber of Business, Kevin Wakeford, has said that :

"Coega should be a beachhead for port privatisation in South Africa."

Despite the concerns of labour and community, the government was determined to continue its plans. In the words of Provincial MEC for Economic Affairs and Finance, Enoch Godongwana (a former trade union leader):

"*I am putting my head on the block. Coega is going ahead. I am not going to run for cover about this issue."*

Economic zones in SADC

Apart from South Africa's SDIs and IDZs, economic zones have been spreading rapidly within the SADC region.

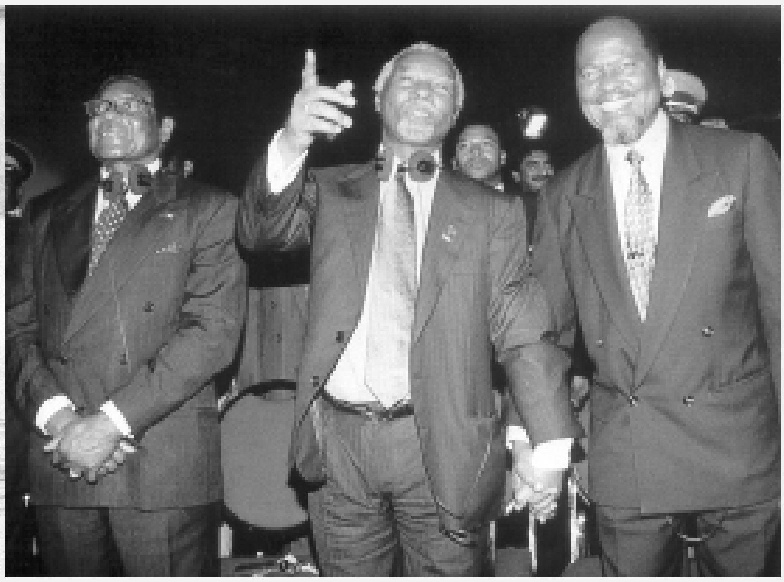
The biggest project in the region is the Mozambique Aluminium (Mozal) Plant just outside Maputo in Mozambique. Mozal is part of the Maputo Corridor. Mozal is a world class aluminium smelter which cost R4 billion to build. Finance for the project came from Billiton (formerly part of Gencor in South Africa but now based in London), the Japanese company Mitsubishi and the South African parastatal IDC. The plant aimed to create 800 permanent jobs. It is the biggest single investment in the history of Mozambique.

Critics have noted that the plant uses more electricity than the entire country put together! There is also concern that Mozal's water usage will be so high as to threaten the supply to the entire city.

Mozal began operation in 2001. After only a few months of operation, workers went on strike. The strike focused on two issues. Firstly, Mozambican workers wanted the principle of equal pay for equal work to apply. They argued that foreign workers received higher wages for the same job than Mozambicans and also were favoured for high paying posts. Secondly, the workers wanted a review of the agreement signed between the employer and the union Sintime. Before anyone was employed at Mozal the union had signed a five year agreement with the employer. The workers argued that since they were not yet employed,

Coega: Is there an alternative?

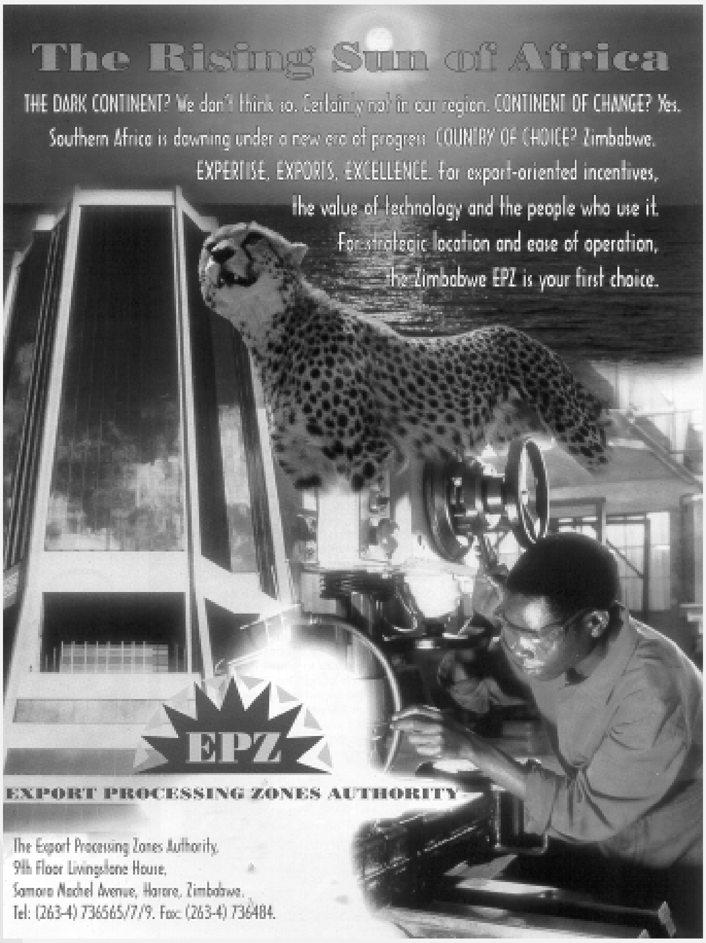
A number of groups within the Eastern Cape have put forward suggestions for a different approach to economic development. While strategies vary, one group known as the Mandela Metropole Sustainability Coalition has suggested the possibility of irrigating about 3 200 hectares of adjacent land to make it viable for agriculture. This region is already a successful citrus growing area. It is estimated that the 3 200 hectares, if devoted to agriculture, could generate 7 500 jobs. The investment required to irrigate the land would be about R350 million – far less than what is required to build the port. Furthermore, such an agricultural emphasis would preserve the environment. This plan also includes an empowerment component involving small-scale black farmers in the production. Other options put forward by members of the Coalition include eco-tourism and mariculture (eg. raising shellfish).



they should not be bound by that agreement. In order to continue production, management brought in South African workers as scabs. These workers were offered double pay and accommodated at the Holiday Inn, one of the most luxurious hotels in Maputo. This heightened the conflict. In the end, 40 workers lost their jobs. The National Union of Metalworkers of South Africa (NUMSA), a COSATU affiliate which organises aluminium workers in South Africa, supported the strike of the Mozambican workers. They raised the Mozal issue with management at the two Billiton plants in South Africa, Hillside and Bayside. NUMSA also took an active part in building an international campaign through the International Metalworkers Federation to get the 40 sacked workers re-employed.

Zimbabwe

In Zimbabwe an EPZ Act was passed in 1996. By early 2001, 138 projects had been improved and 66 were operational. With the economic problems in Zimbabwe, EPZs had increased their share of the country's total exports to about 7%. But this production was based on low wages (typically R200 a month). Unions had tried campaigned to ensure labour rights, but the EPZ Act allowed longer working hours and shorter leave for workers in EPZs than in other workplaces.



Namibia

In Namibia, an EPZ Act was passed in 1995. By late 1999 only nine EPZs were actually operating and a number had actually closed down. These EPZs only managed to employ 370 people, of whom 150 were temporary workers. The Namibian ministry of trade and industry's offshore development company had projected that 25 000 people would be employed within the first five years of the programme. To make matters worse in terms of job creation, the EPZ companies only employed foreigners in management and technical posts. Most of the machinery and raw materials used by these EPZ companies was imported from South Africa.

One of the main features of Namibian EPZs is the absence of collective bargaining. Although unions submitted proposals for recognition agreements, only one company, NamGem, a diamond polishing company, signed such an agreement. In another case where a company (Libra Bathroom Ware) signed such an agreement, immediately after signing they retrenched 37 of their 72 workers. All were union members.

Tanzania

Cape Times Business Report, dated 17 February 1998, states:

"*Economic Processing Zones (EPZs) established five years ago in the Tanzanian island of Zanzibar to attract foreign investments and promote industrialisation have failed to meet their target even after gobbling millions of dollars of public funds.*

The Zanzibar Free Economic Zones Authority (Zafresa) was to co-ordinate industrial development and woo investors with the aim of generating employment and transferring technology.

But, five years down the line, the EPZs appear to have failed dismally to prop up the economy. Only a handful of investors, mainly in the textile industry, were lured to the designated zones. Within two years even some of those closed down. It was expected that up to 7 000 jobs would be generated. The EPZs managed to create only 2 000. With closure of some of the firms, only 500 jobs now remain."

SDI and IDZs: A relic of the past?

Some critics of the SDI/IDZ strategy argue that these initiatives are a continuation of the mega-project approach to development of the apartheid regime. The mega-project approach held that the key to development was the construction of massive infrastructure projects like dams, highways, stadiums, hotels and conference centres. Other types of mega-projects included high-tech production sites like aluminium smelters or steel mills. In 1992, right before the first democratic elections, government initiated a number of mega-projects, particularly in the metals sector. These involved the creation of high-tech processing plants such as Columbus Steel, Alusaf II and Namakwa Sands. In addition, the 1992 plans included the refurbishing of Middelburg Steel and its re-opening as Highveld Steel and Vanadium. Mega-projects had a number of features in common:

Energy: They used enormous amounts of electricity.
Capital: They required enormous amounts of money to start up. In many

cases this was expected to come from state funds or from parastatal bodies like the Industrial Development Corporation.
Foreign Exchange: These projects required large amounts of foreign exchange (e.g. US dollars, pounds sterling) to set up and operate. This was needed to import machinery and expertise to build the projects. The supporters of the mega-projects argued that by producing for the world market, these mega-projects would get that foreign currency back.
State subsidy: Apart from finance, these mega-projects required other forms of support from the state. In some cases, these mega-projects could only be viable if the roads from the production sites to ports were upgraded. In other cases, the mega-projects expected to receive cheap services such as electricity or water.

By the end of the apartheid regime, many people in the democratic movement argued that the mega-project approach to development had produced many "white elephants". Projects like Mossgas, for example, were seen as massive investments which never delivered any benefits to the country. In addition, the mega-project approach to development by passed communities. Mega-projects are top down – typically designed by consultants and built by large corporations. Communities usually remain spectators to mega-projects, both in terms of deciding what is to be built and in participating in the actual building of the project. As one critic, Paul Jourdan, wrote in 1993:

"The cost per job created for these projects is extremely high, at 1 to 3 million Rand and there does not appear to be any provision for guaranteeing the creation of downstream industries with employment potential."

These were the words of Paul Jourdan when he wrote for the Industrial Strategy Project in 1993. Today he works for the Department of Trade and Industry and plays a major role in implementing SDIs and IDZs.

The question is: Have SDI and IDZs solved the problems Jourdan wrote about in 1993 or are SDIs and IDZs old wine in new bottles? Do they merely repeat the mistakes of mega-projects of the past?

Conclusion

SDIs and IDZs are still relatively new to South Africa. While the government has repeatedly assured labour that these zones will be nothing like the EPZs in other countries, it is difficult to see how Coega or MOZAL are so different from other EPZs around the world. Yet, because SDIs and IDZs offer communities the possibility of jobs and infrastructure, not everyone within the broad working class immediately rejects the strategy. If labour wants to protect jobs and working conditions from being undermined by initiatives like Coega, then they need to rise to the challenge. In the final chapter of our booklet we will look more closely at some of these challenges.

4 Challenges facing the working class

In this section we will look at the important issues for workers when facing the challenges of SDIs and IDZs.

These issues will be divided into four broad categories:

- Labour standards inside the zones
- An alternative industrial strategy
- Building links with other social movements
- International solidarity

While government has repeatedly said that they were not going to create low wage Export Processing Zones (EPZs) where labour legislation would not be enforced, we have seen that economic zones come with many names and in many forms. But the basic features are the same – competitive producing for the export market. Once this approach of promoting "international competitiveness" is accepted there is pressure on labour to lower standards.

1. Labour standards inside the zones

Economic zones like SDIs and IDZs are part of the global trend to restructure economies to attract investors. Restructuring typically includes offering incentives like subsidised infrastructure and tax holidays. But more importantly for labour, incentives often include a relaxing of labour legislation inside these zones. This may include low wages and poor working conditions. In some of the countries labour legislation was not relaxed on paper, but governments turn a blind eye so as not to chase investors away. This forces workers to accept lower and lower conditions. Competing countries often compete to offer the lowest labour standards to attract investment. This has been called the "race to the bottom". In other words, the race to have the lowest wages, the lowest standards and the highest productivity.

If SDIs and IDZs become centres of low wages and poor working conditions, they can put downward pressure on other workers as well. Already we have seen the government put in place a process to review the labour legislation that was passed in the 1990s. Labour needs to be vigilant to ensure that variations in the labour legislation or non-enforcement of the legislation do not drive down wages and working conditions, not only in SDIs and IDZs but in other parts of the country as well.

2. The debate around an alternative industrial strategy

SDIs and IDZs are based on an industrial strategy of an export orientation. EOI focused on attracting foreign investors. This strategy is based on a hope and a promise – both of which may not materialise if business feels uncomfortable or is not guaranteed profits. Moreover, producing primarily for the export market makes our economy more vulnerable to changes in the global market.

An alternative framework to EOI is needed. Within this framework could be included policies and strategies on attracting investment, but the primary focus should be on local, provincial and national economic development. In the past, organised labour has participated in producing several economic policy frameworks that focused on the local market:

In 1993, labour joined the Mass Democratic Movement in producing the MERG report. This was to inform the first economic policy of the democratic government. MERG focused on using public works projects to kick-start the economy. It did not rely on EOI.

In 1994, the RDP, although it had some export orientation, still laid the primary emphasis on the domestic market.
In 1996, organised labour produced the Social Equity document which also focused on meeting the needs of the majority before prioritising exports.

In South Africa and many other countries we have seen mass mobilisations against poverty and corporate power. This march took place in Durban at the World Conference Against Racism in 2001.

In 2001, COSATU produced a "New Growth Path" which, like the MERG, the RDP and Social Equity, gives priority to meeting the basic needs of the people, particularly the working class.

Organised labour has been able to produce alternatives to an export oriented strategy. But to date, government has not responded positively. To further pressure the government, labour needs other allies.

As early as 1992 COSATU was addressing the issue of industrial policy. The resolutions passed at the 1992 Economic Policy conferences charted a very different path from SDIs and IDZs. The federation's proposals at that conference included the following:

- Industry must create jobs so as to achieve and maintain full employment.
- Industry must produce high quality basic goods and services at prices that are affordable to everyone.
- Industry must be capable of paying a living wage to all and have an equitable wage structure.
- Industry must contribute to the development of human resources of our society.
- Industry in South Africa will have to function in a world economy. Our objective in relation to the world economy should be that our costs and prices should compare favourably with world cost and prices. Our objective in regard to trade should be polices that ensure that trade contributes to full employment and fair labour standards in all countries.
- Industry must ensure it implements environmentally sustainable polices including healthy and safe working and living conditions.

To achieve these objectives, we should negotiate and campaign at national, regional, industry and company level the following:

- The structure of the economy and industries. Particular attention should be paid to:
  - Labour intensive production
  - Maximising the potential for beneficiation of our national resources
  - Ensuring sustainable growth
  - Stopping the outflow of capital

3. Building links with other social movements

While labour is directly affected by the export-oriented strategy, it is not only labour that is affected. SDIs and IDZs affect the entire development of the country. If labour merely campaigns against SDIs and IDZs on the basis of wages and working conditions, there will be no victory. A broader strategy is required.

The proposed SDIs and IDZs raise a number of issues around which many people are organised already. Perhaps the most important of these is the role of the state. We have seen, for example, that government is prepared to sink R5 billion into Coega when there is no key investor in the project. The IDC is prepared to spend another R5 billion to bail out the unprofitable Saldanha Steel operation. The IDC has also sunk nearly R1 billion into the construction of Mozal. These huge sums of money are being spent when government says that:

- Anti retrovirals for treatment of HIV are unaffordable
- People must pay their arrears for services or have water and electricity cut off
- A pension of R570 per month is all that we can afford
- A child support grant of R100 per month is all that we can afford
- We must sell off state assets to pay our debts
- Land can only be made available on a "willing buyer, willing seller basis".

These are all issues which affect the broad working class and rural dwellers. Much of organised labour has already joined together with churches and NGOs on issues like privatisation, HIV/AIDS, service delivery and debt. SDIs and IDZs offer another opportunity to bring together a wide range of unions and social movements to press for an economic policy and an approach to development which prioritises peoples' needs, not corporate profits.

Womany sectors have struggled for a living wage in South Africa. Will they become the sweatshop workers of the new millenium?

4. International solidarity

As we have seen, the strategy of economic zones, EPZs, SDIs or whatever they may be called is not unique to South Africa. Across the Southern African region and around the world there is a wealth of experience in dealing with these issues. In many instances, the companies that invest in these zones operate globally. This often means that workers need to find ways to link up with workers employed by these companies in other parts of the world. Economic zones become most profitable when workers can be made to compete with one another. We have seen that economic zones have been implemented in a number of countries in southern Africa: Namibia, Tanzania and Zimbabwe just to name a few. Moreover, when Mozambican workers went on strike at Mozal in 2001, South Africans workers were brought in as scabs. Such situations can undermine labour standards in the entire region. Only cross border campaigns to support the workers in these zones will keep the wages and conditions can help to drive up wages and labour standards throughout the region.

We have also noted that a number of international campaigns such as the Clean Clothes Campaign and the Maquila Solidarity Network have tried to mobilise citizens and consumers around the conditions of employment of EPZ workers. Unions in South Africa and the region need to see how they can make effective use of these campaigns to advance the interests of their members and the working class as a whole.

In dealing with the issue of economic zones, EPZs and SDIs, no single union or social movement of can "go it alone". Trade unions, women's movements, community organisations, environmental groups and others need to formulate common goals and strategies to contest models which are driven by the interests of big business, not the needs of people. There is a need to create national and international campaigns in order to eliminate the sweatshops. They may have names that range from EPZ to IDZ, but they have one common feature: increasing profits through the superexploitation of workers.