

**An Evaluation of the Perspectives of Government and Small to Medium Enterprises  
on the Viability of Special Economic Zones in Limpopo Province**

**By**

**Logambal Naidoo**

**Student no. 201330467**

A Dissertation Submitted to the Faculty of Commerce, Administration and Law in Fulfilment  
of the Requirement for the Master of Commerce (Management) Degree.

**University of Zululand**

**August 2018**



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Supervisor: Prof I Kaseeram

Co-Supervisor: Mr S Heeralal

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## **DECLARATION**

I, the undersigned, hereby declare that this dissertation, save for guidance received, is the product of my own work and effort. I have, to the best of my knowledge and belief, acknowledged all the resources of information in line with normal academic conventions. I further certify that the dissertation is original and has not been submitted before at this or any other university for obtaining a degree.

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Logambal Naidoo

Date: 18 August 2018



## **ACKNOWLEDGEMENTS**

Upon completing my research, I would like to express my sincere appreciation towards the following persons and institutions.

I would like to thank my Master and Guru, Shri Mataji Nirmala Devi, for the perseverance in completing this research.

This thesis owes its existence to the help, support and inspiration of several people. I would like to express my sincere appreciation and gratitude to my supervisors, Prof I Kaseeram and Mr S Heeralal for their guidance and unwavering support during my research. I would also like to acknowledge with great gratitude the authors whose work I have cited and to the participants for agreeing to participate in this study amidst their busy schedules and high-profile jobs.

I would also like to thank my family and friends for their support, encouragement and guidance during this thesis project.

Special thanks go to my dearest friend Dr P Moodley (Sam), without her I would have never started this journey and my remarkable daughters (Daphne and Nadine) who coaxed me to complete this study when tragedies and circumstances consumed my existence.

I am grateful to all the people I have met along the way and whom have contributed to the development of my research. I would like to extend my heartfelt gratitude to officials within SALGA, LEDET, the DTI, the SEZ Team and key members within the Municipalities whom I have become close acquaintances with, for their unwavering support and assistance in my research.

I dedicate this thesis to my late Dad who advocated the importance of education, my late sister, Angie Govender, who supported and encouraged me in this journey, although in spirit, she was my inspiration and pillar of strength.

Last but not least, the financial assistance received from the University of Zululand towards this research is hereby acknowledged. Opinions expressed, and conclusions arrived at, are those of the author.



## **ABSTRACT**

This study investigated the perspectives of government and small to medium enterprises on the viability of special economic zones in the Limpopo Province of South Africa. South African studies by various scholars have documented many challenges faced by South Africa's experiments with IDZs which prevented them from being the panacea for the huge unemployment and development constraints that the country faced. The research methodology was based on a qualitative baseline study designed to gather primary data, via a purposive sampling approach, from key informants in Limpopo province, namely, the municipalities and SMEs in Tubatse and Musina. Nineteen key informants in the province were interviewed. Additionally, the study was supplemented by the review of national and local government documents regarding the identified SEZs.

Descriptive statistics were used to analyse the data, the findings suggested that the local government and the small to medium enterprises believed that SEZs were a viable vehicle for attracting investments and promoting SME development in the Limpopo Province. However, there were gaps in terms of information gathering from national, provincial and local government and the SMEs. The main limitation in this study is that the Department of Trade and Industry refused to be interviewed and informants from all levels of government were afraid of shared information being disseminated to the public domain. Furthermore, a group of farmers also refused to be part of the study for fear of losing a plot of land allocated to them.

The main recommendations from this study is that the South African government should not repeat the errors it made with the IDZs in regard to inflexible labour policies and limited incentives; to formulate a successful industrial policy that attracts the investment and skills transfer commitment from all successful South African businesses and international investors instead of relying on certain 'politically correct' partners; government and all investors to develop a memorandum of understanding to address the mass unemployment, produce black industrialists and promote SMEs as recommended by the National Development Plan; government's communications strategy should be transparent with regular information dissemination concerning the ongoing establishment of SEZs; government should create an investor friendly environment through ensuring the protection of private property rights and rooting out corruption and patronage in state owned enterprises and government, and finally the implementation of a business friendly National Development Plan.



## Table of Contents

<b>ACRONYMS .....</b>	<b>12</b>
<b>CHAPTER 1.....</b>	<b>14</b>
<b>OVERVIEW OF THE STUDY .....</b>	<b>14</b>
1.0. Introduction.....	14
1.1. Background of The Study .....	14
1.2. Problem Statement .....	17
1.3. Aim of the Study .....	18
1.4. Objectives of the Study .....	18
1.5. Research Questions .....	19
1.6. Intended Contribution to Knowledge .....	19
1.7. Research Methodology.....	20
1.8. Organisation of The Study .....	20
1.9. Conclusion .....	21
<b>CHAPTER 2.....</b>	<b>22</b>
<b>THEORETICAL AND CONCEPTUAL FRAMEWORK.....</b>	<b>22</b>
2.0. Introduction.....	22
2.1. Spatial Development Initiatives .....	22
2.1.1. Industrial Development Zones: A precursor to the SEZ.....	23
2.1.2. IDZs: Reasons for failure:.....	23
2.1.3. Defining Special Economic Zones (SEZs).....	25
2.1.4. SEZs: A History .....	25
2.1.5. The success of SEZs.....	26
2.1.6. Definition of SMEs.....	28
2.2. SMEs and Macroeconomics.....	29
2.2.1. Global Forces .....	31
2.2.2. SMEs and Global Competitive Advantage.....	31
2.2.3. Technological Innovation .....	33
2.2.4. Innovation .....	34
2.2.4.1. Diffusion of Innovation.....	35
2.2.5. Risks .....	36
2.2.5.1. Political Risks .....	36
2.2.5.1.1. Government Capacity Risks.....	38
2.2.5.1.2. Economic Risks.....	39
2.3. SMES and Creating Competitive Advantage.....	39
2.3.1. Cost Competitive Advantage.....	39
2.3.2. Product/Service Differentiation Competitive Advantage .....	40
2.3.3. Niche Competitive Advantage .....	40
2.3.4. Building Sustainable Competitive Advantage.....	40



2.3.5.	Porter's Five Forces .....	42
2.3.6.	The Value Chain .....	43
2.4.	Microenvironment.....	44
2.5.	Strategic Management.....	44
2.5.1.	Strategic Business Units .....	44
2.5.2.	The Marketing Plan .....	45
2.5.3.	SWOT Analysis.....	45
2.6.	Marketing Strategies.....	46
2.6.1.	Product Strategy .....	46
2.6.2.	Place (Distribution) Strategy .....	46
2.6.3.	Promotional Strategy .....	47
2.6.4.	Pricing Strategies.....	47
2.7.	Communication.....	47
2.8.	Challenges Faced by SEZs and SMEs .....	48
2.9.	Challenges Faced by SMEs.....	48
2.9.1.	Asymmetric Information .....	49
2.9.2.	Adverse Selection – Pre-Contractual Opportunism.....	51
2.9.3.	Moral Hazard – Post Contractual Opportunism .....	51
2.10.	The Concept of Clustering and SEZs.....	52
2.11.	Foreign Direct Investment .....	54
2.12.	Conclusion.....	54
CHAPTER 3.....		55
LITERATURE REVIEW .....		55
3.0.	Overview.....	55
3.1.	Introduction.....	55
3.1.1.	Definitions.....	56
3.1.2.	Objectives of SEZs.....	56
3.2.	Special Economic Zones Internationally.....	57
3.3.	Chinese Special Economic Zones .....	59
3.3.1.	SEZs Contribution to Chinese Economic Development .....	60
3.4.	Definition of Foreign Direct Investment (FDI) .....	61
3.4.1.	The Benefits of Foreign Direct Investment.....	61
3.5.	India's Special Economic Zones.....	63
3.5.1.	Proponents of SEZs in India.....	65
3.5.2.	Opponents of SEZs in India.....	65
3.6.	Special Economic Zones – Sub Saharan Africa (SSA).....	66
3.6.1.	Mauritius .....	67
3.7.	Global Experiences with SMEs and SEZs .....	68
3.8.	Clustering .....	69



3.8.1.	Benefits of Cluster Formation .....	71
3.9.	Success Factors and Lessons Learned .....	72
3.10.	Public Private Partnerships .....	74
3.10.1.	The Impact of Private Sector Involvement .....	75
3.11.	Special Economic Zones – South Africa .....	75
3.11.1.	Background: The Transformation from IDZs to SEZs .....	75
3.11.2.	SEZ Bill – Nature of Intervention .....	77
3.11.3.	Objectives of the Act .....	77
3.12.	SEZ Policy and Programme: Intervention in South Africa .....	78
3.12.1.	Economic Rationale.....	78
3.12.2.	Economic Analysis .....	78
3.12.3.	Implementation of Special Economic Zones as a Development tool in South Africa .....	79
3.13.	Incentives Offered Globally vs Incentives Offered in South Africa .....	80
3.14.	Small and Medium-Sized Enterprises: General Characteristics .....	80
3.15.	SMEs in Sub Saharan Africa (SSA) and South Africa .....	81
3.15.1.	Challenges Faced by African SMEs .....	81
3.16.	Conclusion.....	82
CHAPTER 4.....		85
RESEARCH METHODOLOGY .....		85
4.0.	Introduction.....	85
4.1.	Research Design.....	86
4.2.	Research Objectives.....	88
4.3.	Research Methodology.....	89
4.3.1.	Mixed Methods Approach .....	89
4.3.2.	Qualitative and Quantitative Methodologies .....	90
4.4.	Target Population .....	90
4.5.	Sampling Method.....	91
4.6.	Sample Selection and Size.....	91
4.7.	Research Instruments .....	93
4.7.1.	Interview Guide.....	94
4.7.2.	Quantitative Methodology.....	95
4.8.	Data Collection.....	95
4.8.1.	Data Collection Instrument .....	95
4.9.	Data Analysis .....	97
4.9.1.	Thematic Analysis.....	97
4.10.	Credibility, Transferability Dependability and Confirmability .....	98
4.10.1.	Validity.....	98
4.10.2.	Reliability.....	99
4.11.	Ethical Considerations.....	99



4.11.1. Anonymity and Confidentiality .....	99
4.12. Limitations of the Study.....	100
4.13. Conclusion.....	100
CHAPTER 5.....	101
RESULTS AND FINDINGS.....	101
5.0. Introduction.....	101
5.1. Background.....	101
5.2. Initiatives .....	102
5.3. Results and Findings.....	103
5.3.1. Challenges Faced by SEZs and SMEs .....	107
5.3.2. Infrastructural Needs .....	108
5.3.3. Asymmetry of Information .....	109
5.3.4. Incentives.....	109
5.3.5. Foreign and Non-BBEE Ownership/Partnership .....	110
5.3.6. The SEZ ACT .....	111
5.4. Descriptive Statistics.....	111
5.5. Analysis of official documents .....	115
5.6. Discussion.....	118
5.6.1. Infancy Stage of SEZ Implementation.....	118
5.6.2. Viability of SEZ .....	118
5.6.3. Foreign Partnerships .....	119
5.6.4. Holistic Development-Infrastructure Needs .....	119
5.6.5. Importance of Cluster Projects .....	120
5.6.6. Selection of SMEs for Cluster Projects.....	120
5.6.7. Skill Shortages and Labour Issues .....	121
5.7. Limitations.....	122
5.8. Validity and Reliability and Generalisability .....	122
5.9. Conclusion .....	123
CHAPTER 6.....	124
6.0. Conclusion .....	124
6.1. Literature Review Highlights.....	124
6.2. Summary of Research Methodology .....	128
6.3. Summary of the Findings .....	129
6.4. Limitations and Future Research Directions .....	133
6.5. Policy Recommendations .....	133
6.6. Conclusion and recommendations.....	135
REFERENCES .....	138
APPENDIX A: ETHICAL CLEARANCE .....	151
APPENDIX B: QUESTIONNAIRES .....	153



<b>B1: QUESTIONNAIRE (The Department of Trade and Industry).....</b>	<b>153</b>
<b>B2: QUESTIONNAIRE (Local Government) .....</b>	<b>163</b>
<b>B3: QUESTIONNAIRE (Small to Medium Enterprises) .....</b>	<b>173</b>
<b>APPENDIX C: PHOTOGRAPHS .....</b>	<b>184</b>
<b>C1: visit to identified SEZ: .....</b>	<b>184</b>
<b>C2: SMEs identified: Bakery.....</b>	<b>184</b>
<b>C3: SMEs identified: Panel Beater .....</b>	<b>185</b>
<b>C3: Focus group session with farmers at MAKOPI Community Garden.....</b>	<b>185</b>
<b>APPENDIX D: OFFICIAL DOCUMENTS .....</b>	<b>187</b>
<b>APPENDIX E: OFFICIAL DOCUMENTS .....</b>	<b>188</b>
<b>E1: MIWEC Conference:.....</b>	<b>188</b>
<b>APPENDIX F: PRESENTATION BY LEDA: MUSINA .....</b>	<b>190</b>
<b>APPENDIX G: PRESENTATION BY LEDA: TUBATSE.....</b>	<b>196</b>
<b>APPENDIX H: TURN-IT-IN REPORT .....</b>	<b>204</b>
<b>APPENDIX I: EDITOR’S REPORT .....</b>	<b>205</b>



### **List of Tables:**

Table 2.1. Potential benefits derived from SEZs.....	27
Table 3.1: Critics and Proponents of the 'Zones' .....	58
Table 3.2. Overview of African zone programs by decade of launch .....	66
Table 4.1: Differing Characteristics of Quantitative and Qualitative Research Approaches.....	87
Table 4.2: List of Key Informants.....	93
Table 5.1: Industrial Clusters.....	102
Table 5.2: Key informants .....	104
Table 5.3: Themes and Subthemes .....	104
Table 5.4: Comparison of Perceptions of Challenges Faced by SEZs.....	111
Table 5.5: Comparison of Perceptions of Incentives to Attract FDIs .....	113
Table 5.6: Comparison of Perceptions about the Global Wish List Incentives .....	114
Table 5.7: Key deliverables .....	115

### **List of Figures:**

Figure 2.1. Model for global competitive advantage .....	31
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## ACRONYMS

ASGISA	Accelerated and Shared Growth Initiative of South Africa
BEE	Black Economic Empowerment
BFL	Brothers for Life
CDE	Centre for Development and Enterprise
CPI	Consumer Price Index
DTI	Department of Trade and Industry
EIS	Environment impact studies
EPZ	Export Processing Zone
FACB	Free Association and Collective Bargaining
FAIS	Financial Advisory and Intermediary Service Act
FDI	Foreign Direct Investment
GBR	Global Business Report
GDP	Gross Domestic Product
GVCs	Global Value Chains
ICT	Information and Communications Technologies
IDZs	Industrial Development Zones
ILO	International Labour Organisation
LED	Limpopo Economic Development
LEDA	Limpopo Economic Development Agency
LIEDA	Limpopo Industrial Economic Development Agency
MDA	Manufacturing Development Act
MIDA	Mauritius Industrial Development Authority
MILE	Municipal Institute of Learning



MNC	Multinational Corporation
MNEs	Multi National Enterprises
MOU	Memorandum of Understanding
MSE-CDP	The Micro and Small Enterprises Cluster Development Program
NCR	National Credit Regulator
NDP	National Development Plan
NEA	National Empowerment Fund
NPD	New Product Development
NSB	National Small Business
NSF	National Skills Fund
OECD	Organisation for Economic Cooperation and Development
PPP	Public-Private Partnership
SADC	South African Development Community
SALGA	South African Local Government Association
SBU	Strategic Business Units
SDF	Special Development Framework
SDIs	Special Development Initiatives
SETAs	Sector Education and Training Authorities
SEZs	Special Economic Zones
SITA	State Information Technology Agency
SMEs	Small-and Medium-sized Enterprises
SMIDO	Small and Medium Industry Development Organisation
SMME	Small Medium and Micro Enterprises
SOEs	State Owned Enterprises
SWOT	Strengths, Weaknesses, Opportunities and Threats
WTO	World Trade Organisation



## **CHAPTER 1**

### **OVERVIEW OF THE STUDY**

#### **1.0. Introduction**

This chapter introduces the main construct of the study which is to evaluate the perspectives of government and small to medium enterprises on the viability of special economic zones (SEZ) in the Limpopo Province.

The South African government established the Industrial Development Zones (IDZ) programme in an attempt to reposition itself in the world economy, its focus was to attract foreign direct investment and export value-added commodities (the Department of Trade and Industry, 2014). The IDZs achieved some major successes however, there were some weaknesses that led to the policy review and the new SEZ policy. Post-apartheid, South Africa was faced with the challenge of attracting domestic and foreign direct investments that was desperately needed to accelerate economic growth (Nyakabawo, 2014). Furthermore, the economy lacked a wide range of exports and relied primarily on primary production which further hampered growth within the country and the continent at large.

The Department of Trade and Industry (the DTI) established the Industrial Development Zone (IDZ) programme under the Manufacturing Development Act (MDA) in 2000 to address the employment crisis and to support the much-needed economic growth in South Africa (Todes, 2013). The intention was to prevent industrial decline and support the growth and diversification of South Africa's manufacturing sector (Industrial Policy Action Plan (IPAP), 2013/4 – 2015/6). Apart from attracting foreign direct investment and increasing exports of value-added manufactured products the IDZs aimed to create linkages between domestic and zone-based industries (the DTI, 2014). This resulted in the designation of six IDZs to date, namely Coega; East London, Richards Bay, OR Tambo, Saldanha Bay and the most recent Dube Trade Port which was designated in July 2014 (DTI, 2012). This chapter considers the research methodology that was undertaken to achieve the main objective of the study and the research objectives are introduced where the main constructs of the literature review are derived.

#### **1.1. Background of The Study**

South Africa created its own adaptation of the export processing zones (EPZs) which was designed based on global trends and the country's socio-economic history (Chinguno, 2009). Chinguno further states that South Africa implemented the model much later than the other African countries, moreover, it had the opportunity to learn from their experiences. This adaptation was known as the Industrial Development Zones (IDZs) which reflected its



difference from the labour repressive elements of the generic EPZs. The author alludes that the zones were introduced with the sinister intention of preventing urbanisation of Africans (known as “influx control”) by setting up so-called “border industries”. The apartheid regime created the industrial enclaves in an attempt to diffuse the rise of organised labour in the main industrial hubs. “This led to an inward oriented industrial policy and the apartheid system of government, along with the economic isolation due to sanctions, created a manufacturing sector that was a non-competitive with a distorted and captured market”.

South Africa’s experience with spatial economic interventions were not praiseworthy owing to the IDZ programme failing to generate the anticipated development (Bisseker, 2012). This resulted in the policy being shifted to the imminent launch of the Special Economic Zones (SEZs) as tools for national (re)industrial development and supporting underdeveloped regions (Bisseker, 2012 and the DTI, 2016).

According to a report by Global Business Reports (2013), “South Africa is faced with the challenges of high unemployment and crime rates and a less than stellar education system”. The National Development Plan (NDP) aim to improve South Africa’s low employment rate by eradicating poverty and addressing income inequality. Job creation can be attained by creating a labour market that is flexible and by improving the education system (Kitanov, 2012).

“The state of South Africa’s informal economy, especially with regards to the development of SEZs is worrisome”, April (2012), questions “how will South Africa manage to absorb its large unemployed and informal sector?”, since much of the South African population is excluded from the formal labour market.

South African studies by Chinguno (2009, 2011, 2012), Bernstein (2012, 2015) and Altbeker (2012) have documented a number of challenges faced by South Africa’s experiments with IDZs which prevented them from being the remedy for the huge unemployment and development constraints that the country faces. Bernstein (Centre for Development and Enterprise, (CDE) 2012), states that the biggest challenge faced by South Africa is the lack of jobs for unskilled workers. The author adds that SEZs needs to be used to create an environment that is conducive to attract businesses that can employ the masses of unskilled people. The report states that a range of interventions are required to achieve this and the most important are reforms to the labour market. Bernstein (CDE, 2012) asserts that “developing low-skill, labour intensive industries means that labour costs and labour market flexibility have to be addressed”. Bernstein (CDE, 2012), notes that without the suggested reform, the only way that South African companies would be able to compete against Chinese,



Vietnamese and Indian companies is by mechanisation, but this would result in fewer people being employed due to a greater reliance of skills.

According to Rob Davies (2012), some of the challenges faced by the IDZs included the following: “a design structure that favoured a few regions, support that focused narrowly on the production of infrastructure, planning done on an ad-hoc basis, inadequate coordination among key government agencies and stakeholders, financing arrangements that made it impossible to do long term planning, and inadequate targeting of investments”.

Special economic zones must offer investors something significantly different from what is available in the rest of the economy. Precisely what an SEZ offers, and how this differs from conditions elsewhere, depends on the goals of the country's SEZ programme. International evidence indicates that SEZs are most successful when they are targeted toward particular industries and offer concrete solutions to the challenges faced by those industries (CDE, 2012). The SEZs in Tabatse and Musina attempts to address this and the master plan in this regard may bode well for the SEZ.

Global competitiveness is a quintessential requirement for an economy to thrive hence it is not enough just to be better than the host economy (CDE, 2012). The report states that South Africa's SEZs need to be globally competitive. SEZs are chosen by local and foreign investors for varied reasons. Location, market access and logistics are some of the factors considered whilst others consider wage levels and labour market practices, access to skilled labour, and a favourable regulatory environment. According to Kim (2015), many countries in Africa have provided unprecedented fiscal and non-fiscal incentives to attract foreign direct investment into the special economic zones, however, the expected outcome did not materialise. The author adds that poor location choices and the lack of strategic planning and management were amongst the reasons for this failure to deliver.

Tax incentives may also help to attract first movers who may be uncertain of the area's competitiveness. Chinguno (2011) states that the tax incentive might not be attractive enough since the National Treasury is afraid that businesses may relocate to take advantage of tax breaks thus eroding the traditional tax base which is already quite thin.

South Africa's IDZs are exclusively government-owned, promoted and financed, the zone operator manages the delivery of services to firms, which are owned by provincial and local governments. This is however contrary to the global trend, which favours greater private sector involvement in owning, operating, and promoting SEZs. From their conception, the IDZs have lacked a comprehensive policy framework which has resulted in deficiencies in governance, planning, implementation, management, and operation (CDE, 2012). Moreover, “a lack of inter-agency management has resulted in serious inefficiencies, for example, ten years after



the policy's inception, none of the IDZs offers a custom secured area or a one-stop centre for customs duties and VAT regulatory requirements" (CDE, 2012).

The shortcoming in the IDZ design was that the policy focused solely on one type of SEZ, which were biased towards regions which had access to sea or airports, and this limitation hindered the programme from harnessing the long-term development potential of all regions, resulting in economic marginalisation and spatial inequalities (Nyakabawo, 2014). According to the Government Gazette (2012), the IDZ Programme needed to be redesigned and expanded into the Special Economic Zones Programme to accommodate the diverse types of SEZs based on the changing national and regional economic development priorities, needs and contexts. Having reviewed the performance of the IDZs, government recognised that due to many critical design weaknesses, its IDZs failed in achieving the desired outcome in promoting investment and job creation (Woolfrey, 2012). According to the Municipal Institute of Learning (MILE, 2011), a new paradigm shift is required whereby the IDZ policy needs to be reviewed and a bill for SEZs to be developed. A draft Special Economic Bill was released by the Department of Trade and Industry (DTI) for public comment in early 2012 (Woolfrey, 2012).

## **1.2. Problem Statement**

The South African economy has registered positive economic growth since the demise of apartheid, however, the formal sector has not been able to provide adequate jobs for the unemployed labour force (Mahadea and Simson, 2010). The authors allude that "the government put various structures and strategies in place to meet the challenge of job creation. These include (some of which are no longer in effect) the Growth, Employment and Redistribution strategy (GEAR), Special Development Initiatives (SDI), the Umsombuvu Youth Agency, SMME development institutions, National Skills Fund, the Sector Education and Training Authorities (SETAs), National Empowerment Fund, Accelerated and Shared Growth Initiative of South Africa (ASGISA), and expanded cabinet responsibilities to deal with development and employment in June 2009". The authors state that "despite all these initiatives, South Africa's contemporary growth and unemployment rates are a development concern, together with associated issues regarding aggregate demand, inflation, interest rates, budget deficits and increasing income inequalities".

The current economic policy is skewed towards high-skilled and high-wage methods of production and does not address the core of South Africa's unemployment crisis. The manufacturing sector has failed to absorb the high unemployment rate and have been in the decline over the past twenty years (Department of Trade and Industry, 2013).



According to April (2012), per capita gross domestic product (GDP) has proved mediocre, improved at a snail pace, that is, 1.6 per-cent from 1994 to 2009, and by a dismal 2.2 per-cent over the decade from 2000 to 2009. In the second quarter of 2010, the unemployment rate increased to 25.3 per cent, and the number of employed people fell by 61 000 to 12.7 million. The hardest hit was the manufacturing industry which lost 53 000 workers. "South Africa, in comparison to other developing markets, such as China, struggled through recession in the late 2000s, and the recovery has been predominantly led by private and public consumption growth, however export volumes and private investment are yet to recover" (Zeng, 2012).

Many critics argue that in establishing effective SEZs or IDZs, implementation strategies remain a challenge on the continent, both from a local and national government level (April,2012). There is a strong possibility that the problems encountered in the IDZs are likely to spill over into the SEZ framework since there is no set guidelines on how not to repeat the mistakes evident in the IDZs. Furthermore, official documents are still unclear in terms of policy reforms, public private partnerships and the involvement of small to medium enterprises. SEZs are difficult to get right, many conditions are required for zones to be successful. A country needs to have significant comparative advantage in labour costs or a large internal market, failing which, a number of factors such as location, policy, planning, legal framework, infrastructure, and management must come together for a zone to be successful in attracting and retaining investment (Farole, 2011).

### **1.3. Aim of the Study**

The overall aim of the study is to evaluate the perspectives of government and small to medium enterprises on the viability of special economic zones in the Limpopo Province.

### **1.4. Objectives of the Study**

The study sets out to achieve the following objectives by relying on the support of the background of the study, literature review, problem statement and motivation of the study. Ultimately the objectives will be achieved through the responses elicited from the qualitative approach used in this study.

1. To identify the key concerns, challenges, and risk factors that affect the success and sustainability of SMEs located within SEZ's.
2. To highlight communication barriers that hinder the success of SME's and SEZ's.
3. To investigate the possibility of SMEs, especially light manufacturing industries, involving themselves in SEZ projects.
4. To identify the incentives provided to attract local and foreign investors.
5. To investigate whether the incentives are adequate to satisfy the needs of SMEs.



6. To ascertain whether the SEZ ACT and South Africa's governance is adequate to provide basic services and to promote economic and political interests.
7. To establish whether government and entrepreneurs are working towards identifying cluster strategies in the identified zones.
8. To establish whether clustering is a priority amongst SEZs and SMEs in Limpopo province.

### **1.5. Research Questions**

To achieve these objectives, the following research questions are raised:

1. What do stakeholders believe to be the key challenges that hinder the success and sustainability of SMEs located in the SEZs?
2. What are the perceived communication barriers that are faced by SMEs and SEZs?
3. What are the possibilities of SMEs wanting to be based at the zones?
4. What are the incentives provided to attract local and foreign investors?
5. Are the incentives adequate to satisfy the needs of SME's?
6. Do stakeholders believe that the SEZ ACT and South Africa's governance effective enough to provide basic services and to promote economic and political interests?
7. What are the expected plans by stakeholders towards creating clustering within the zones?
8. Do stakeholders believe that cluster models need to be a priority for the success of SMEs and SEZs in the Limpopo province?

### **1.6. Intended Contribution to Knowledge**

Special economic zones are a new concept, the industrial development zones have failed to achieve their objectives and have received unrelenting criticisms from research scholars who are of the perception that the SEZs will meet with a similar fate. These scholars also state that the government has failed to fully incorporate the lessons from both local and international experience with SEZs.

This study aims to provide information that support the belief that the proposed SEZs in Limpopo will learn from the failures of the IDZs, which more importantly, can become a catalyst in helping South Africa in attracting foreign direct investment, diversifying production and in growing exports. The nature of the design, implementation and management of such SEZs is likely to prove crucial in determining whether the South African SEZs can promote employment and economic growth and the researcher intends to provide such information in green papers and official documents to support this study and to provide an updated account on SEZs Internationally, in Sub-Saharan Africa and in South Africa. Moreover, through the in-depth



interviews with key stakeholders, a better perspective can be obtained which could help government in developing more successful strategies for special economic zones.

### **1.7. Research Methodology**

This study follows a descriptive design which is cross-sectional in nature. A qualitative approach which is supplemented by some quantification in the form of descriptive statistics is used to capture the perceptions of key participants on some of the issues. The researcher will conduct open-ended interviews, supplemented by questionnaires, focus group and telephonic interviews with 19 key informants (participants) from various government departments, parastatals and SME entrepreneurs.

A third strand of research methodology will be employed, the thematic content analysis of policy documents, white papers of DTI, other parastatal agencies and Local Economic Development (LED) documents, to generate categories and themes in this study. This will provide the researcher with a better understanding of the perception of the various sectors involved in this study.

### **1.8. Organisation of The Study**

This dissertation consists of six chapters, chapter one provides an overview of the entire research study. Chapter two provides a clear definition of IDZs, SEZs and SMEs and presents relevant theories and models that support these policies and strategies. Additionally, chapter two also incorporates the conceptual literature on macro and micro economic factors and deliberates the impact of each factor on SEZs and SMEs respectively.

Chapter three covers empirical considerations on the impact of special economic zones and small to medium enterprises on economic growth, regionally, nationally and internationally. All pertinent existing empirical studies internationally, in Sub-Saharan Africa and in South Africa are reviewed to ascertain general findings on the subject matter and gaps that this study has identified.

Chapter four discusses relevant research methodology, design and instruments used to gather the relevant research information. Purposive sampling was used to select participants who were from various government departments such as the Department of Trade and Industry, Local Economic Development (LED), SALGA, Municipalities, Stakeholders, and the SEZ Team. A qualitative research approach using in-depth interviews will be used to secure vital information that this study relies on.

Chapter five covers the findings and the recommendations of the study.



Chapter six concludes the study by succinctly summarizing the empirical findings and outlining their relevance to SEZs and SMEs. Finally, recommendations of the study are provided.

### **1.9. Conclusion**

This chapter presented the study, its main aim and key objectives. The background to the study as well as the problem statement was provided which gives a clear indication of the scope and nature of the study. The chapter concluded with the breakdown of the various chapters in which the study is discussed. In the next chapter, the theoretical and conceptual frameworks are examined.



## CHAPTER 2

### THEORETICAL AND CONCEPTUAL FRAMEWORK

#### 2.0. Introduction

This chapter reviews relevant theoretical and conceptual literature dedicated to exploring industrial development zones (IDZs), special economic zones (SEZs) and Small to Medium Enterprises (SMEs). The chapter is divided into three sections, the first section explores the South African economy, and the policy framework and definitions of IDZs, SEZs, and SMEs, the second section explores the macroeconomic environment, relevant theories and its relevance to special economic zones and small to medium enterprises whilst the third and final section unpacks the micro economic factors and its impact on SEZs and SMEs.

#### 2.1. Spatial Development Initiatives

According to an OECD report (2017), economic growth in South Africa has been disappointing over the past few years due to a weak consumer demand, business investment kept falling, policy uncertainty, and the prolonged drought weighed heavily on economic activity. Unemployment rate had increased, and income inequalities remain wide, moreover it was imperative to revive economic growth and to boost entrepreneurship which is crucial to job creation (OECD, 2017).

Governments within Africa have started to implement industrial policies as a strategy to diversify and expand its export markets and that policy instrument used is the special economic zone (SEZ) (Scheepers, 2012). The economy has grown rapidly in the past two decades, in 1986 the International Labour Organisation (ILO) reported 176 zones in 47 countries and by 2006 the number grew to 3500 zones in 130 countries despite many zones having failed to meet their objectives (Farole, 2011). In 1995 South Africa became a party to the Marrakesh Agreement of the World Trade Organisation (WTO), a period of liberation ensued which included the reduction and restructuring of tariffs, the end to surcharges and the General Export Incentive Scheme was scrapped (Scheepers, 2012). There was significant growth in some zones due to foreign direct investment, exports, employment and their role in integrating global trade and structural transformation including industrialisation and upgrading (Farole, 2011).

Spatial Development Initiatives (SDIs) were introduced in 1996 to generate growth and investment in regions that displayed significant potential for growth (Todes, 2013). Furthermore, the aim of SDIs was to 'unlock' this potential through providing improved infrastructure and facilitating new investment with the intention to generate wealth and job creation. The spatial development initiative concept was linked to the GEAR macro-economic



strategy which emphasized export oriented and private sector led growth (Todes, 2013). The policy attempted to address apartheid spatial distortions in ways which would enable these areas to become competitive internationally. Moreover, they would assist in economic empowerment through fostering small, medium and micro-enterprises, thus broadening the ownership base of the economy (Todes, 2013).

#### **2.1.1. Industrial Development Zones: A precursor to the SEZ**

IDZs were initially proposed as part of the SDI programme discussed above, but were only implemented from 2000 (Todes, 2013). IDZs were linked to a port or airport for the purpose of investment in export and related industries. The aim of these zones was to promote growth and employment creation by means of encouraging foreign direct investment and the export of value-added commodities (Todes, 2013).

In 1997 the South African government adopted a policy that would “shift the country from an inward-looking industrial strategy to export-led growth, the objectives were to promote investment in under developed regions, job creation, enhance the manufacturing sector, and facilitate integration into the global economy” (CDE, 2012). The report states that due to the negative perceptions of export processing zones and special economic zones in Asia and other parts of the world, these enclaves were named industrial development zones (IDZs).

The Industrial Development Zones (IDZs) in South Africa were established in 2000 in the following regions: Coega, East London, Richards Bay, and OR Tambo International Airport, with the sole purpose of encouraging export industries and attracting foreign direct investment (the Department of Trade and Industry (DTI) (2012). A direct foreign investment is a foreign production facility that is controlled domestically (Kuratko, 2014).

Although the IDZs were in existence since the establishment of Coega in 2001, they failed collectively to deliver on jobs, industrial development, and exports (CDE, 2012).

#### **2.1.2. IDZs: Reasons for failure:**

The CDE (2012) report suggests that South Africa’s IDZs failed to attract investment and to make a significant contribution to economic growth and job creation since there was nothing ‘special’ about these zones (CDE, 2012; Woolfrey, 2012). The South African government failed to offer any special incentives to firms investing in these zones, for example, labour regulations in the IDZs did not differ from those in the rest of the country, moreover, firms that invested or operated in IDZs did not receive preferential treatment in terms of tax obligations (Woolfrey, 2012). The author argues that the failure to devise a comprehensive policy framework has resulted in poor planning, implementation and management of the IDZs, coupled with the lack of inter-agency coordination and a failure to adequately involve the



private sector in the ownership and management of the zones, has negatively impacted the performance of IDZs in South Africa.

It is widely agreed that the policy was unsuccessful (DTI, 2012; CDE, 2012; Chinguno, 2009, McCullum, 2011). Only three IDZs are operational, the OR Tambo airport IDZ was to be established (CDE, 2012). From 2002 to 2012/3, 42 investors were attracted into the three zones, with a total R2,8b in investments and an output of 48 758 jobs created, consisting of short-term construction jobs and only 5169 direct jobs were created in firms in the zones (DTI, 2013a). According to McCullum (2011), firms in capital-intensive industries were mainly attracted and the backward linkages into the local economy were weak, hence the local economic impacts were limited. Furthermore, the integration of these zones into the international economy made them vulnerable to global economic crises and pressures, such as rising import prices. The development of the Richards Bay IDZ was constrained by land and environmental issues, thus only managed to attract one investor allured by the availability of cheap electricity, but since the 2007 power crises, it has struggled to attract investors (MILE, 2011). There was also a lack of complementarity between the intentions of the IDZ and the port, which only deals with bulk cargo, reducing its attractiveness further (Chinguno, 2012; MILE, 2011).

The Eastern Cape IDZs were more successful, Coega managed to secure 21 investments valued at R9, 2b, which created 2837 jobs, unfortunately most were relocations from other industrial areas. The East London IDZ attracted original equipment manufacturers supplying Mercedes Benz, these were highly capital-intensive firms with an investment of R1m per job, and only created 1450 jobs (Chinguno, 2011).

Overall, IDZs were not viewed as a positive model or approach to spatial targeting since government investment has been enormous relative to private investment and job creation, and local linkages have been poor (CDE, 2012). Several authors argue that the key to the failure of IDZs was due to the lack of a comprehensive policy framework and guidance, poor inter-agency coordination, coupled by problems in governance, planning, implementation, management and operation (Chinguno, 2010; DTI, 2012). The annexure to the 2013 Special Economic Zones Bill summarised these problems as: “a weak policy and legislative framework; poor institutional and governance arrangements; ad hoc funding arrangements that render long term planning in the IDZ impossible, lack of IDZ specific incentives; lack of targeted investment promotion, lack of programme definition and strategic direction and poor coordination and integration” (DTI, 2013). It is evident that these issues need to be appropriately addressed in any kind of spatial targeting.



The CDE (2012), report suggests that there is a need for synchronicity between policies and programmes affecting key elements of infrastructure and the zone, and amongst departments and agencies and argued that zones should not be set up which are dependent on infrastructural and other conditions which cannot be met. Furthermore, the energy intensive model of development in some zones is arguably problematic, given South Africa's constraints in this regard.

Critics argued that internationally such zones were operated by the private sector, in contrast to the situation in South Africa (CDE, 2011), and that greater private sector involvement is necessary. IDZs did not offer investors more (including incentives) than what is available outside of the area, and promised customs secured areas and one-stop centres have failed to materialize (Nyakabawo, 2014; CDE, 2012). The lack of exemption from labour, social and environmental regulations was also a concern for investors, thus IDZs were unable to attract significant investment under these circumstances (McCallum, 2011; CDE, 2012). The CDE (2012) and others argue that "special zones must be 'special' and what needs to be 'special' to make such zones work is open to debate and is certainly controversial".

### **2.1.3. Defining Special Economic Zones (SEZs)**

Special economic zones (SEZs)<sup>1</sup> are a generic term that covers recent variants of the traditional commercial zones and includes several specific characteristics: "(a) It is a geographic delimited area, usually physically secured; (b) It has a single management or administration; (c) It offers benefits based on physical location within the zone; and (d) It has separate customs area (duty-free benefits) and streamlines procedures" (Zeng, 2012). SEZs, vary in size and scope and operate under different regimes such as Economic and Trade Cooperation Zones, Free Trade Zone, Export Processing Zones and Industrial Zones (Brautigam, and Xiaoyang, 2011). Export processing zones are geographically bounded area where free trade, including duty free import of capital and intermediate goods are permitted and a significant amount of goods produced within the zone are exported (Domician, 2009). China's reform policy was based on the creation of SEZs which were export processing zones open to international trade and foreign investment (Kitanov, 2012).

### **2.1.4. SEZs: A History**

The South African unemployment crisis was the most severe globally with approximately six million being unemployed and addressing this was seen as the most unrelenting political and economic priority thus SEZs are looked upon as the catalyst for the much-needed

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<sup>1</sup> Most texts use a variation of the following names: free zones, foreign trade zones, export processing zones, free trade zones, special economic zones and industrial development zones. To avoid confusion, this research paper uses the generic term 'special economic zones' or 'SEZs' to encompass the range of modern free-zone types worldwide.



transformation (CDE, 2012). In January 2012, the draft Special Economic Zones Bill was released with the hope of improving the country's IDZ model, and in March 2013 the SEZ Bill was passed (CDE, 2012).

According to FIAS (2008), the SEZ was a policy tool that was endorsed in Ireland in 1959 that attracted considerable influence over the decades, China adopted this policy in 1979 and is currently being adopted by more than 130 developing countries world-wide. China has more than ten thousand economic zones which are built and run by local governments, and although foreign investments or exports were not always included, it has nonetheless succeeded in transforming itself into a growing market economy (Chen and Jameson, 2012). SEZs were regarded as important strategic tools to expedite the growth of trade which were measured by the increase of exports (products and services) (Singala, Atmavilas and Singh, 2011). Moreover, the objectives of the SEZ Act 2005, in India, was to generate employment opportunities, encourage investment (private and foreign) apart from increasing India's exports in the global arena.

#### **2.1.5. The success of SEZs**

SEZs maintained a policy and an infrastructure rationale in developing countries and has proved to be a useful tool for the overall economic growth strategy aimed at enhancing industry competitiveness and in attracting foreign direct investment (FIAS, 2008). China's economic growth is directly linked to SEZs and has transformed Shenzhen, which was a small fishing village in the 1970s, into a city consisting of 9 million people due to the effectiveness of the Chinese SEZ model (Farole, 2011). The South African Government also attempted to develop and diversify exports via SEZs while maintaining protective barriers, to create jobs, and to pilot new policies and approaches in customs, legal, labour, and public- private partnership (FIAS, 2008).

According to Zeng, (2012), SEZs operate under more liberal economic laws and boasts two main types of benefits: 'direct' and 'indirect' economic benefits as summarised in Table 2.1 below:



**Table 2.1. Potential benefits derived from SEZs**

Potential Benefits	Direct benefits	Indirect benefits
Foreign Exchange earnings	▪	
Foreign Direct Investment	▪	
Employment generation	▪	
Government revenue	▪	
Export growth	▪	
Skills upgrading		▪
Testing field for wider economic reform		▪
Technology transfer		▪
Demonstration effect		▪
Export diversification		▪
Enhancing trade efficiency of domestic firms		▪

Source: Zeng, 2012

SEZs were perceived as development tools that have assisted several countries in stimulating economic development by attracting local and foreign direct investment, thus enhancing competitiveness, and facilitating export-led growth (Brautigam, and Xiaoyang, 2011). According to Zeng (2013), SEZs and Industrial clusters are the two most important engines that have contributed positively towards China's economic success and SEZs have contributed significantly towards gross domestic product, employment, exports, attracting foreign investment and have been instrumental in bringing in new technologies and adopting modern management practices.

Moreover, Aggarwal (2014) argues that SEZs are vehicles that stimulated direct investment and employment hence played an important role in economic transformation and seen to have the potential of "(a) shifting the resources from low productivity agriculture to more productive activities; (b) promoting new knowledge intensive industries; (c) augmenting existing industrial clusters/industrial states; (d) diversifying the local industrial base; (e) localizing global value chain; (f) converting vicious circles into virtuous circles; and (g) encouraging shift of economic activity from unorganized to organized sector".

SEZs are normally constructed through a "top-down" approach by government policies, but due to the formation of clusters, which will be discussed later in detail, a "bottom-up" process has emerged from or within industrial parks or export- processing zones but this is not evident in developing countries. Eleven African clusters across several countries were formed spontaneously, except for the Mauritian textile cluster which evolved from an export-processing zone (Zeng, 2011). South Africa is regarded as the window into Africa and investors are geared to establish operations within South Africa, more importantly SEZs need



to provide an excellent environment, a clear and transparent policy framework to attract FDI, and create certainty and security amongst investors (Scheepers, 2012).

Anne Bernstein (CDE, 2012) states that SEZs played a critical role in transforming economies around the world and argues that China and the world in general would look different today if Deng Xiaoping did not create SEZs on China's east coast. Antony Altbeker, CDE research and programme director, states that South Africa's SEZs need to be presidential priority and the DTI must be supported by all departments of government (CDE, 2012).

The SMME sector includes a wide range of enterprises and there is vast difference between medium sized, and very small or micro-enterprises and the focus of this research is on small and medium-enterprises, henceforth the acronym 'SME' will be used throughout the paper.

#### **2.1.6. Definition of SMEs**

The 'official' definition of SMEs in South Africa according to National Credit Regulator (2011), 'SME includes registered businesses with less than 250 employees.' In South Africa, a 'small business' is defined in Section 1 of the National Small Business Act of 1996 as amended by the National Small Business Amendment Acts of 2003 and 2004 (NSB Act) as: '... a separate and distinct business entity, including co-operative enterprises and nongovernmental organisations, managed by one owner or more which, including its branches and subsidiaries, if any, is predominantly carried on in any sector or sub sector of the economy mentioned in Column 1 of the Schedule...'

There seems to be no universal definition of SMEs, in some countries it is classified according to certain objectives, whilst in others it is based on company turnover and the issue of size is a relative phenomenon where a large company in a small country could become a small company in a large country (Lokhande, 2011). Small businesses in South Africa are further categorised by the NSB Act into the following groups: survivalist, micro, very small, small and medium, creating the term 'SMME' for small, medium and micro-enterprises, the terms 'SMME' and 'SME' are used interchangeably in South Africa (NCR, 2011).

According to the Dalberg, SME briefing paper steered by Bouri, Breij, Diop, Kempner, Klinger and Stevenson (2011), 'SMEs include a wide range of businesses, which differ in their dynamism, technical advancement and risk attitude.' SMEs and SEZs are a world-wide phenomenon and studies reflect that SMEs are faced with challenges in their home markets, not only by local competitors but also by globalisation and more especially by subsidiaries of large multi-national enterprises (MNE's) (Kannieb and Kaumann, 2010). SMEs need to maintain their position as a dynamic part of the total economy by attaining competitive advantages or edge over firms of all sizes, including publicly owned enterprises (Petty, Palich,



Hoy, Longenecker, 2012). The authors allude that SMEs must be well managed, develop strategies for exploiting the potential opportunities, they would then be able to hold their own and gain an edge over successful and more powerful businesses. Notably, SMEs have contributed significantly to economic growth, employment generation and poverty alleviation in both developed and developing economies (Smith and Deslandes, 2014).

Empirical evidence reflect that SEZs are an ideal vehicle to harness the full potential of SMEs through cluster operations based on its synergistic effects. SEZs are designed to attract large businesses with world-class infrastructure geared for exports and although attracting SMEs into the zones may not seem like a realistic objective, effective linkages between local SMEs and the globally competitive firms located in the zones can be achieved through cluster-based policies (Farole, 2011). This in turn could result in the transformation that the South African economy is in dire need of, which can come to fruition through cluster formation.

## **2.2. SMEs and Macroeconomics**

The term 'macroeconomics' originated in the 1930s due to the progress realised in the study of aggregated questions, and although analytical beginnings date back to the sixteenth century, identifying a single founder of macroeconomics was difficult (Blanchard and Johnson, 2013). The authors asserted that the dominant school of economic thought in Europe was mercantilism and the concept of bullion-ism, which was based on the belief that the accumulation of precious metals (gold and silver), was the wealth and power of a nation. This concept was refuted by David Hume which led to the transition from mercantilism to classical economics (Blanchard and Johnson, 2013).

According to Mohr and Fourie (2011), macroeconomics focuses on the 'big picture' with emphasis placed on total production, income and expenditure, economic growth, aggregate unemployment, the general price level, inflation and the balance of payments. The authors added that the macroeconomic objectives are as follows: -

### **a) Economic growth**

This is regarded as the most important criterion since in a growing economy, the production of goods and services will increase from one period to the next. If the economy is growing and there is no economic growth, average living standards cannot increase, and it will be impossible to create jobs for the growing population. Hence the need for SMEs to start up and run sustainable business which will increase the factors of production and ultimately create employment.



b) Full employment

In an ideal world, all the country's factors of production, especially labour, should be fully employed but since this is impossible both unemployed people and society are affected in terms of a serious threat to social and political stability.

c) Price stability

Prices need to be as constant as possible but since the Second World War this has become an impossibility and prices have increased yearly, a process known as inflation which economists throughout the world strive towards keeping as low as possible using consumer price index (CPI) as the yardstick to measure.

d) Balance of payments stability (or external stability)

There is a high degree of interdependence between different countries and South Africa is no exception with its need to export its metals and minerals and to also import machinery, equipment and other goods from abroad. In order to pay for these South Africa must earn the necessary foreign currency (dollars, pounds, euros, yen etc.) by exporting goods and services. This is referred to as balance of payments and exchange rates should be stable.

e) Equitable distribution of income

This is a subjective issue since whilst most people will agree with the above-mentioned objectives, not everyone will approve of meddling with the distribution of income. Some believe that the unequal distribution of income may encourage the poor to save and invest but it may also create social and political conflict.

For SMEs to thrive especially in a global context, price stability is critical since inflation causes currency depreciation and interest rate rises which leads to increased input and borrowing costs. This results in product price uncertainties which ultimately results in profit and market share risks which has a negative impact on balance of payment, wage settlements and can potentially destabilize the entire economy. Thus, the synergies between SEZs and SMEs can best be harvested in a stable macroeconomic environment that the authorities must continuously strive to achieve. According to CDE (2012), the key ingredients for SEZ success include macroeconomic reform, steady improvements of business environments (both within the SEZs and outside them), and access to both reliable infrastructure and semi-skilled labour.

Evidence shows that successful zones in which large numbers of unskilled jobs have been created had a positive impact on the labour force, including expanded formal employment opportunities, better working conditions, and greater job security compared to workers' actual alternatives (CDE, 2012).

The macro-environment consists of the broader economic, global, technological, demographic, social and political forces in which companies and industries are embedded and



changes within this environment can have a direct impact on any or all the forces and the attractiveness of an industry (Jones and Hill, 2013). The authors reflected that the four most important macroeconomic forces are the growth rate of the economy, interest rates, currency exchange rates and inflation (or deflation) rates.

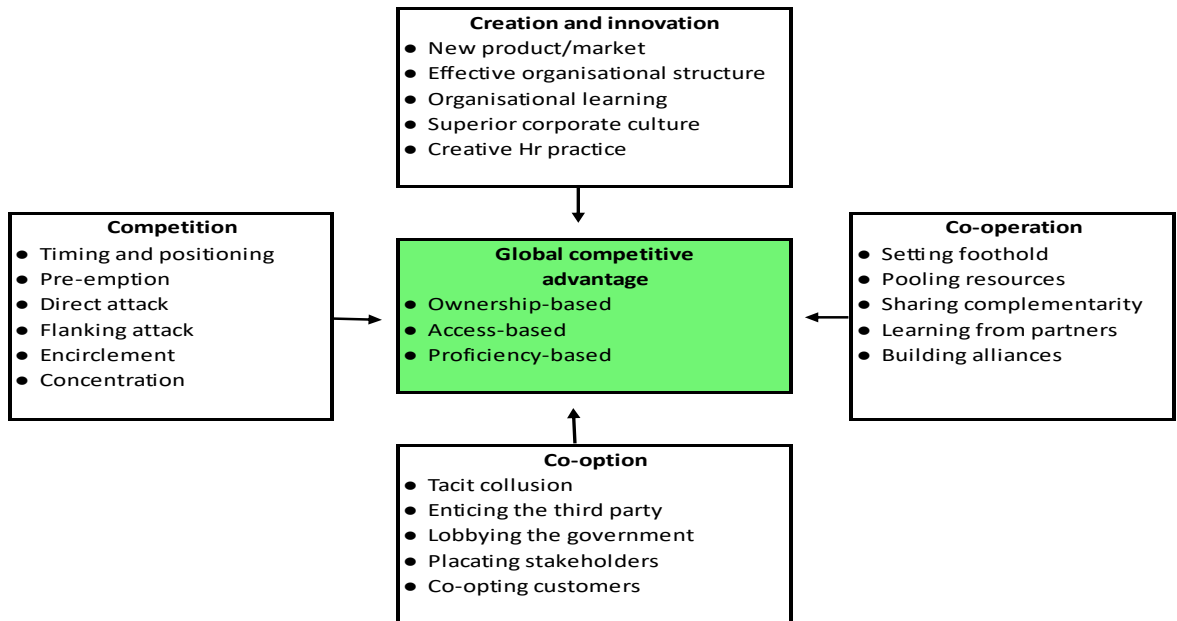
### **2.2.1. Global Forces**

Five decades ago, the global arena was inaccessible to most national economies due to significant barriers to trade and investment, language and cultural differences, business practices, and various government practices (Jones and Hill, 2013; Petty, Palich, Hoy, and Longenecker, 2012). Since the removal of barriers to international trade and investment, countries and national companies are entering each other's home markets on an exceptional scale thus increasing the intensity of competition (Jones and Hill, 2013). Rivalry is no longer only within the confines of a nation, managers need to take into cognisance of the impact of globalisation in the environment they are competing in and explore strategies to exploit the opportunities and counteract competitive threats (Jones and Hill, 2013). The lifting of sanctions in South Africa also allowed South Africa to enter the global arena overwhelmed with a barrage of opportunities and threats (Shah, Javed and Syed, 2013). Most businesses in South Africa are faced with the challenge of coping with international competitors subsequent to the substantial increase in the demand for goods and services together with the uplifting of sanctions on South Africa's trade (Shah, et al.,2013).

### **2.2.2. SMEs and Global Competitive Advantage**

Most medium and large South African businesses operate in an open economy faced with increased competition from multinational players (Venter and Rensburg, 2009). Furthermore, there is little knowledge regarding what a global competitive advantage entails or whether there are differences between competitive advantages obtained domestically or internationally.





**Figure 2.1. Model for global competitive advantage**

Source: Venter and Rensburg (2009)

The above model explicitly illustrates the requirements for SMEs and SEZs to embrace in preparation to venture into the global market. Internationalisation has become a topic of interest since the emergence of globalisation and empirical evidence reflect that government support, research and innovation, development of export industry and entrepreneurial relationships are the key driving factors (Shah, Javed, and Syed, 2013). For decades authors have attempted to define internationalisation, some perceive it as a process in which firms increase their involvement in foreign markets, while others see it as the adaptation of the firm's operations to international environments (Mejri and Umemoto, 2010).

From the year 2000 the strategies involving the SME sector has evolved to assist SMEs in becoming globally competitive and progress from micro to small, small to medium and medium to large and SMEs had to reorient itself to face the challenges posed by increased competition. SMEs have played a prominent role in ensuring that growth is inclusive and regionally balanced and has integrated itself with global trends in a phased manner in line with the overall strategies adopted for industry and trade at national level (Nagayya and Rao, 2011). Holburn and Zelner (2010), argue that the development capabilities of the home-country environment may be influenced largely on market-related or technological capabilities from abroad. According to Norman (2013), countries can strategically play off their comparative advantages by establishing zones near their borders and the SEZ strategic team at Limpopo has indeed chosen wisely with establishing SEZs in Musina and Tubatse which borders Zimbabwe (gateway to Africa) and Mozambique respectively.



India introduced the policy of reservation in 1967 to protect the interest of the SME sector whereby many items were exclusively reserved for manufacture by SMEs, the main objective was to provide technological advancement, promotion of exports, economies of scale, and to increase the competitiveness of SMEs since the liberalisation and globalisation of the economy (Nagayya and Rao, 2011). SMEs need to build capacity and sell their products beyond national territories to retain local market share from foreign investors and to attain competitive edge locally and internationally through innovation, marketing and exploiting the 'right opportunity at the right time' (Shah, *et al.*, 2013).

Various policy reforms in India has resulted in a turnaround in manufacturing and other sectors and its economy is expected to grow over eight (8) percent per annum until 2020 and possibly become the second largest in the world overtaking the United States by 2050 and the third largest after China and the United States by 2032 (Venkataramanah and Parashar, 2007). Globalisation of businesses has progressively drawn SMEs into global value chains and many SMEs are trained to establish collaborative linkages with global suppliers via the support of the government in promoting the network (Nagayya and Rao, 2011). China's economy has also benefited from globalisation and has established a niche as the world's manufacturing centre and is instrumental in a growing number of global supply chains (Zhang and Figliozzi, 2010). The dissimilarities of the global forces are beginning to fade due to the convergence of market preferences, eradication of trade barriers, and national economies have since integrated to form a global economic system and this is the essence of globalisation (Petty, *et al.*, 2012).

The South African government may want to consider similar policies to ensure that the country, more especially the concept of SEZs, has a chance to survive and thrive in South Africa. Being part of the global village, SMEs can expand their markets, find new niche markets for their products and become renown in the global arena with 'Proudly South African' brands.

### **2.2.3. Technological Innovation**

Technology is sometimes referred to as the fifth factor of production and is based on society's knowledge about the way goods can be produced (Mohr, Fourie, and associates, 2008). The authors alluded that when new knowledge is discovered and practiced then more goods and services can be produced with the limited natural resources, labour, capital and entrepreneurship. Technological improvement can increase labour productivity and this is prevalent in the law of diminishing marginal returns whereby inventions and other improvements in technology may result in the entire total product curve to shift upwards so that more output can be produced with the same inputs (Pindyck and Rubinfeld, 2009). This phenomenon, that is, the discovery of new knowledge is referred to as an invention or an



improvement in technology, its incorporation into actual production techniques and products is known as an innovation (Mohr, *et al.*, 2008).

The law of diminishing marginal returns was central to political economist Thomas Malthus who believed that the world's limited amount of land would not be able to supply enough food as the population grew (Pindyck and Rubinfeld, 2009). Fortunately, with technological improvements such as high-yielding, disease-resistant strains of seeds, better fertilizers, and better harvesting equipment, food production in most countries were dramatically increased (Pindyck and Rubinfeld, 2009).

SEZs are a catalyst for attracting foreign multinational enterprises which is achieved through leveraging incentives for the use of foreign technology and management skills to acquire an increased export base (Singala, Atmavilas and Singh, 2011). The authors state that EPZs in Mauritius played an important role in the country's development by attracting new ideas and knowledge. When the life cycle of an organisation's competitive advantages are shortened due to intense competition, it is innovations that keep them abreast from competitors, particularly technological development which accelerated the process of gaining information from the global arena (Obeidat, 2012). Similarly, SMEs need to adopt innovations that would assist in lowering input costs and maximising outputs, resulting in more profits and sustainability within their businesses.

According to van Zyl (2011), "research turns money into knowledge, whereas innovation turns knowledge into money". The author notes that the 'Ten-Year Innovation Plan of South Africa' was conceived by the Department of Science and Technology in 2008 to 'help drive South Africa's transformation towards a knowledge-based economy, in which the production and dissemination of knowledge leads to economic benefits and enriches all fields of human endeavour'.

#### **2.2.4. Innovation**

Innovation is the 'introduction of something new' or 'a new idea, method or device' and is also regarded as the cornerstone of growth which equips, sustains and counteract marketplace fluctuations, thereby enhancing long term growth of organisations (Kumar, 2014). Innovation is a complex process and consists of two parts, one specialises on the know-how and the other on the application of the process (Rojas, Cerda, Graci'a, and Barcenat, 2013).

According to Farole and Akinci (2011), SEZs are seen as an instrument for innovation and in developing countries SEZs are used to build on the comparative advantage of cheap labor in order to expand the export base since it is invariably associated with low wages and low-skill production capabilities. Moreover, the authors allude that SEZs whilst attracting "content-rich"



FDI and stimulating trade it also acquires international knowledge and know-how which enhances the development of innovation capabilities.

Robinson (2009) sees innovation as 'an idea, behaviour, or object that is perceived as new by its audience and diffusion of innovation attempts to explain how innovations are embraced in a population via the following three insights of social change (a) what qualities make an innovation spread? (b) the importance of peer-peer conversations and peer networks; and (c) understanding the needs of different user segments.'

"The advancement in internet-based ICT technology is evolving SME business models to facilitate interactivity, flexibility, cheaper business transactions and interconnection with business partners and its customers" (Gareeb and Naicker, 2015). The authors allude that internet-based ICT is an accelerant to the advancement in business software and content delivery and internet based, Information and Communications Technologies (ICT), is a critical resource toward SME growth and survival.

#### **2.2.4.1. Diffusion of Innovation**

Diffusion of innovation was the most radical of all theories of change whereby instead of persuading individuals to change, products and behaviours were 'reinvented' to better fit the needs of individuals and groups. Five qualities that determine the success of an innovation are; relative advantage, compatibility with existing values and practices, trialability, and observable results (Robinson, 2009). Obeidat (2012), corroborates that to maintain competitiveness and economic success, organisation needs to strive for more innovations by continuously searching for new opportunities, manage them and believed that innovations are a mandatory survival strategy.

Innovation provides companies with competitive advantages by assisting in building stronger brands, develop successful products and enhances organisational value since it also focuses on people, leadership, creativity and culture. Organisations that strive for excellence continuously invest in research and development and the top ten companies have allocated 6.1% of their total revenues in R and D. This concept can also be imitated by SMEs on a smaller scale to create competitiveness and sustainability of their businesses (Kumar, 2014).

According to K4Health, communication channels can influence how quickly an idea is shared in a community and added that effective communication can help an innovation become more popular. Brothers for Life (BFL), launched by K4Health in 2009, is South African health communication program that promotes HIV testing, voluntary medical male circumcision (VMMC), male involvement in the prevention of mother-to-child transmission of HIV (PMTCT)



and prevention of gender-based violence. BFL uses a variety of innovative approaches to diffuse the principles of positive behavior among South African males.

### **2.2.5. Risks**

Risk is inherent in all business functions and activities, however, according to Verbaio and Venturini (2013), 'knowing how to identify risks, attributing a value and priority scale, designing actions and mechanism to minimize risks, and continuously monitoring them, are essential to guarantee companies' survival and create sustainable value.' Multinational enterprises (MNEs) invest less in countries which demonstrates great policy risks, that is, government display opportunistic behaviour by altering policies to directly or indirectly confiscate a company's profits or assets for its personal gain (Holburn and Zelner, 2010).

According to Rambo (2012), a risk is an unanticipated negative variation between set targets and actual achievements and Das and Teng (1998) identified two broad categories of risks within the context of strategic alliances, that is, relational and performance. 'Relational risk is concerned with poor or non-adherence of alliance partners to document regulations governing their behaviours and relations' and include opportunistic tendencies such as dishonesty, shirking, distortion of information, and poaching partners' skills, clients or personnel which will be discussed later under challenges faced by SMEs. Moreover, relational risks are inevitable in strategic alliances, but 'trust' and 'control' are important for strategic alliances to survive and SMEs and SEZs need to imbibe these elements to achieve their objectives (Rambo, 2012). According to the Institute of Risk Management South Africa (2015), the South African government failed to meet the expectations of the population in terms of the fight against unemployment, poverty and corruption, potentially giving rise to increased social instability. The report stated that "the International Monetary Fund (IMF) reduced its economic growth forecast for South Africa by 0,3 percentage points to only 1,4% for 2014 and by 0,4 percentage points to 2,3% for 2015, suggesting that the sustainability of the country's economy is under severe pressure". This indicates that South Africa is in no position to deal with further unforeseen shocks in the near term, and this also indicates these events have the potential to affect the entire country.

#### **2.2.5.1. Political Risks**

Political risks are when a country's political forces have the potential to adversely affect the performance of businesses operating within its borders and this is often related to the instability of a nation's government which can create difficulties for outside companies (Petty, Palich, Hoy, and Longenecker, 2012). According to Lim Sung-Hoon (2011), political decisions or events in a country that affect the business climate in a negative way could result in



investors losing money and their assets or the profits they had in sight may not materialise, resulting in companies minimising their initial investments.

South Africa currently has one of the largest public protests in the world that is partly due to the municipalities' failure in providing essential services (April, 2012). There are various reasons for the service delivery protests which include allegations of corruption and nepotism within local government structures, political opportunism, inadequate community engagement, dysfunctional ward committees, and poor performance by the municipalities (April, 2012). SMEs are at huge risk if they are faced with a wide range of political factors from governmental risk such as bribery and corruption and societal risk such as violence, revolutions, terrorism, strikes, and national boycotts of firms (Lim Sung-Hoon, 2011). There is a negative relationship between the various sources of policy risk such as government instability, political violence, corruption and the flow of FDI within the country, but there are exceptions to the rule and case in point is the global electrical power generation industry, whereby MNEs still invest in risky host countries (Holburn and Zelner 2010). To create an enabling and successful environment for SMEs and SEZs, the South African Government's involvement and support is mandatory to address these factors and allow for FDI to flow into the country.

Patronage networks sustained by corrupt politicians, dishonest government officials and dubious private enterprises are typically funded through resource extraction. Hagedorn (2017), asserts that massive patronage is being funded through exporting commodities, government borrowings, taxes, regulations, and looting. It is crucial for SME's operating within SEZs to sustainably compete globally, add value, create employment, unleash horizontal and vertical business opportunities must be untainted by such corrupt practices and networks.

Hagedorn (2017) reflects that South African government's ascendancy to power was achieved through maintaining an unassailable majority through aligning with the country's militant trade unions and the South African Communist party which might explain its perpetual hostility toward the business sector which is largely white dominated, but which is responsible for 70% of the economy's investment and it generates jobs and taxes. The experienced business sector must be strategically incorporated into the SEZ framework if it is to play a vital role in promoting black owned SMEs, investing, technology and know-how transfers and creating employment.

Hausmann (2014) notes that while BEE is a correction for past sins, but growth comes from start-ups and from new firms. Start-ups the world over face typically high attrition rates. By diverting attention away from creating new firms and imposing costs on existing firms, BEE is probably having the deleterious effect of causing fewer of these firms to be created, and more



of the firms that do get off the ground to die. This is a very serious problem that perhaps explains the low rate of SME development.

#### **2.2.5.1.1. Government Capacity Risks**

The Department of Planning Evaluation and Monitoring (2014) within the Ministers in the Presidency Department a division of the South African government launched Operation Phakisa, an initiative designed to fast track the implementation of solutions on critical development issues as a response to the National Development Plan (NDP) which aims to address underdevelopment, poverty, unemployment and inequality.

Operation Phakisa ("hurry up in Sesotho) reflects government's urgency to deliver an innovative and pioneering approach focusing on development priorities translated into detailed plans which in turn must follow through into concrete results through dedicated delivery and collaboration.

Operation Phakisa is governed by a methodology which is a results-driven, involving setting clear plans and targets, on-going monitoring of progress and making these results public.

The methodology consists of eight sequential steps. It focuses on bringing key stakeholders from the public and private sectors, academia as well as civil society organisations together, to collaborate in detailed problem analysis; priority setting; intervention planning; and delivery. Implementation of the plans is supposed to be rigorously monitored and reported on. Moreover, implementation challenges are supposed to be actively managed for effective and efficient resolution.

One of the first projects of Operation Pakisa is the focus on the ocean economy and in particular the Cape Town's harbour capacity to repair ships and oil rigs. However, Hausmann (2014), notes that the South African government suffers from serious coordination challenges. He explains that although initially this project appeared to be extremely promising, it required some co-ordination and involvement of the state-owned company, Transnet. It required: a commitment to supply trained workers, as well as, solving problems associated with having lots of small suppliers working together on big bulky contracts. Many of the co-ordination challenges could have been addressed by allowing a major global firm to become involved, unfortunately this never materialised instead the sector is presently miniscule relative to initial expectations. The barriers preventing the expansion of this industry do not include high wages or labour market regulations. Instead, the problem is co-ordination failures at the level of government. This was a project of the Western Cape, so it required a degree of co-ordination between the national government, provincial government, and state-owned enterprises. Despite the best efforts of some of those involved, this co-ordination never emerged.



#### **2.2.5.1.2. Economic Risks**

This risk is prevalent when a country's government mismanages its economy which adversely affect the business environment and results in poor performance of firms operating there (Petty, *et al.*, 2012). The authors state that economic and political risks are therefore related and two factors that result from economic mismanagement is inflation and fluctuation in exchange rates. Inflation reduces the value of a country's currency on the foreign exchange market, which results in a decrease in the value of cash flows received from firms' operations abroad and exchange rates represents the value of one's own country's currency relative to that of another country (Petty, *et al.*, 2012). The economic and political risks in South Africa must be duly managed by government in order to improve inflation and the exchange rate to attract SMEs and the much needed FDI to the zones.

### **2.3. SMES and Creating Competitive Advantage**

Competitor monitoring is the starting point and is defined as the process where companies studies the actions of its major competitors to determine what strategies they are following and the impact it has on its own strategies (Hult, *et al.*, 2014). Dibb and Simkin (2013), state that marketers use competitor monitoring to develop competitive advantages, adjust current marketing strategies and plan new ones, and companies who lack knowledge of competitors fail in adequately assessing known players, their strategies and activities.

To compete effectively, organisations seek to develop a differential advantage or uniqueness in its products that is perceive by its target audience as being significant and superior to the competition (McDaniel, *et al.*, 2013). Michael Porter identifies three generic strategies to competitive advantage as discussed below:

#### **2.3.1. Cost Competitive Advantage**

'Having a cost competitive advantage means that the firm is a low-cost competitor in an industry while still maintaining satisfactory profit margins' (Dibb and Simkin, 2013; McDaniel, *et al.*, 2013). According to Cvetkovic, Radicevic, and Mitrovic, (2012) small businesses with a high degree of market flexibility and low operating costs are significant features for gaining competitive advantages. Costs can be reduced in a variety of ways, over time SME's can learn to adopt some cost reducing ways that would be appropriate and beneficial to their business (McDaniel *et al.*, 2013). To attain low cost and/or differentiation competitive advantages, companies need to strive towards establishing these building blocks: superior quality, superior customer responsiveness, superior innovation, and super efficiency (Jones and Hill, 2013).



### **2.3.2. Product/Service Differentiation Competitive Advantage**

This strategy provides a longer lasting competitive advantage and its durability makes it more attractive to top managers. When a firm provides something unique that is valuable to consumers beyond simply offering a low price, such as creative and innovative product or brand designs, then it is said to have a product/service differentiation competitive advantage (McDaniel *et al.*, 2013, Dibb and Simkin, 2013).

### **2.3.3. Niche Competitive Advantage**

Small companies with limited resources (SMEs) that compete against giant competitors, niche targeting may be the only viable option. According to Kotler and Armstrong (2014), specialisation is the key to niching and this can be along any of several markets, product or marketing-mix lines.

### **2.3.4. Building Sustainable Competitive Advantage**

‘The sources of tomorrow’s competitive advantages are the skills and assets of the organisation’ (McDaniel *et al.*, 2013). It is pertinent for SMEs to identify the assets and skills required to assist them in developing a competitive advantage and to be in a position where they can promptly imitate a leading company’s strategy and plans.

‘Gaining competitive advantage is one of the most important strengths of a business but can also become a liability when the core and distinct competencies are discovered through competitive intelligence (Shah, *et al.*, 2013). The authors add that for this reason firms use legal protection to safeguard itself against information leaks by investing in patents and copyrights.

Knowledge management is the new buzz word, Bencsik, and Juhasz, (2012) state that in this new knowledge-based economy, the economic actors have a chance to adapt or increase their competitiveness by accumulating suitable resources such as knowledge in a proactive way. Organisations need to be equipped to survive change and every change offers the possibility of a competitive advantage (Bencsik and Juhasz, 2012). Knowledge management plays an important role in creating and maintaining a sustainable competitive advantage of an organisation since it acts as organisational memory which is necessary to maintain high level of organisational performance (Obeidat, 2012).

A firm’s competitive advantage also depends on its ability to make sense of market information, rather than its access to market information which may be facilitated by information technologies such as customer relationship management (CRM) software to integrate information from personal selling, internet and customer contact centres (Biemans, 2010). Enterprises need to be flexible and innovative and strive to constantly improve their



business (Renko, Sustic, and Butigan, 2011). Tough competition can sometimes shorten life cycle of an organisation's competitive advantage, hence companies have therefore started to care about their innovative processes to enhance their economic situation and stay abreast of other competitors (Obeidat, 2012). Human resource managers who developed the innovative behaviour of employees could align that behaviour with the organisation's goals and achieve a competitive advantage in the business arena and improve the overall efficiency and effectiveness of the organization. Innovative behaviour within the context of SMEs is almost non-existent and this gap needs to be addressed within the South African context as well (Xerri and Brunetto, 2011).

According to Kotler, and Armstrong (2014), competition is intensifying yearly and many US, European and Japanese firms are bringing cheaper goods to global markets by setting up production facilities in lower-cost countries, such as China, Malaysia and in South Africa the Volkswagen's assembly plant in Uitenhage is an example. Markets have become so competitive that understanding customers only is not enough, firms must also pay attention to their competitors.

According to Dhingra, Singh and Sinha (2009), competitiveness of a nation can be achieved through its trade in the form of export competitiveness, infrastructure development, and by providing special economic privileges such as lower taxes and rebates for a liberalised economy. SEZs are closely linked to domestic enterprises and industrial clusters through supply or value chains, which will be addressed later, and this connection assists in achieving economies of scale and business efficiency and it stimulates synergistic learning and enhances industrial competitiveness (Zeng, 2012).

In 2006, India formed the Micro, Small and Medium Enterprises Development (MSMED) Act which was a complete legislation for the promotion, development and enhancement of competitiveness of the SME sector (Nagayya and Rao, 2011). Under the Act, several measures were provided to enhance the competitiveness of SMEs and to enable the enterprises to take advantage of the benefits provided by the global markets. Similarly, the competitiveness of SMEs in South Africa can be enhanced should the South African government adopt a similar Act.

According to Business Report Online by Stuurman, (2017) South Africa's overall ranking in terms of global competitiveness declined from 47 to 61, this was derived from the World Economic Forum's Competitiveness Report for 2017-2018. The report states that investor confidence was negatively impacted based on the declining ratings.



### 2.3.5. Porter's Five Forces

Strategists such as Michael Porter argues that organisations should look to emerging threats from substitute technologies and solutions to a customer's need, the appearance of new players, and recognise that not all suppliers or customers will be impacted in the same way by market conditions and the activities of an individual competitor or market issue (Dibb and Simkin, 2013). Michael Porter provides a framework that models an industry as being influenced by five forces that were used by the strategic business managers to better understand the industry context in which the firm operates and develop an edge over rival firms (Renko, *et al.*, 2011; Dibb and Simkin 2013; McDaniel *et al.*, 2013; Kotler and Armstrong 2014). Michael Porter portrays how competitive advantage lies not only in activities themselves but in the way that activities relate to each other, and to customer activities (Dibb and Simkin, 2013).

Porter's model emphasizes the dependence of long-term profitability on the five competitive forces and these are as follows: threat of new entrants, bargaining power of buyers, bargaining power of suppliers, threat of substitute products and rivalry among existing firms (Renko *et al.* 2011; Kotler and Armstrong, 2014; Dibb and Simkin 2013; Grundy, 2006). According to Hastings, (2010), "the nature of the competition is not influenced by what other companies do, but by fundamental forces in the marketplace".

SMEs are regarded as successful if they can outperform their competitors in terms of research and technology innovation, information and communication, entrepreneurship, competition, and education and training (Rojas, *et al.*, 2013). According to Lo and Han (2014), Porter believed that a nation's competitiveness depended on the industry's capacity to innovate and upgrade. Porter's five forces model helps determine the profitability of an industry or country since it identifies the factors to rival and strategic innovations to optimise its position (Rojas, *et al.*, 2013).

Porter's model is a valuable and workable concept, but it also portrayed significant limitations that should be developed further. Moreover, the five competitive forces are interdependent with other strategic analysis tools which deal with the external environment and with each other, and should it be developed into a comprehensive and coherent 'system' (Grundy, 2006).

According to Martin (2014), when supplier power is very strong in the market, companies will find ways to reduce this power, similarly when demand for the product is high alternative ways to produce or sell a product may be developed to reduce the supplier power by means of redesigning the product or product line diversification. The diamond industry worldwide was controlled by De Beers, a world famous and cartel like company. Moreover, the bargaining



power has shifted from De Beers to a more shared competitive marketplace with a few major competitors and some second-tier ones.

### **2.3.6. The Value Chain**

Another important model is the Value Chain Analysis by Porter which also highlights the concept of creating competitive advantages. Companies' core competencies are limited, and most firms relies on contribution from partners to create superior value for customers, hence value-creating network are created (Biemans, 2010). A value chain is a set of activities that an organisation creates to offer value for its customers, moreover Porter proposed that companies create value chains to allow them to examine all their activities and see how they are connected (Kotler and Armstrong, 2010).

SEZs were used to attract upstream and downstream links in the global value chain within a SEZ and an industrial chain was forged by creating all the necessary backward and forward linkages of the firm. This enhanced industrial efficiency by reducing transport and inventory costs and by drawing on both local production systems and global resources, these synergies will enhance regional competitiveness (Aggarwal, 2011). Zeng (2012), also supports this argument and states that SEZs linked closely to domestic enterprises and industrial clusters through supply or value chains can achieve economies of scale, business efficiency, and it also stimulates synergistic learning and enhances industrial competitiveness. The SEZ Act, 2005, of India supported the development of linkages infrastructure and developed world-class infrastructure to increase the economic activity within the SEZs which were already near major transportation networks and had strong linkages to domestic and international economies, (Singala, Atmavillas, and Singh, 2011).

According to the World Investment Report (2013), the global economy is characterized by global value chains (GVCs), and in developing countries, value added trade contributes nearly 30 per cent to countries' GDP and can have a direct economic impact on value added, jobs and income. The Report states that GVC can be an important avenue for developing countries to build productive capacity, through the diffusion of technology and skill building, thus creating opportunities for longer-term industrial upgrading. GVCs also involves risks since developing countries face the risk of becoming locked into relatively low value-added activities thereby impacting on the environment and society, working conditions, occupational safety and health, and job security, in a negative manner.

Value chain analysis together with business-to-business marketing is encapsulated in the concept of supplier parks and clustering. This network of partners will assist the SEZ project team in identifying vendors, suppliers, channel partners and vendors of complementary products and services to create superior value for customers. Creating a network of value



chains could assist the SEZ project team in their endeavor in attracting core businesses into zones. Moreover, reciprocal businesses can be recognized, and this could lead to a value network being built within the zones, similarly to the Automotive Supplier Park based at the Port of Coega. Having developed a value proposition, the SEZ's and SME's need to decide how to create this value for customers which will assist them in achieving their goal of promoting trade and FDI the regions via the forward and backward linkages.

## **2.4. Microenvironment**

"Marketing management's task is to build relationships with customers by creating customer value and satisfaction" (Armstrong, Adam, Denize and Kotler, 2015). The authors state that this success entails building relationships with other company departments, suppliers, marketing intermediaries, competitors, various publics and customers that collectively make up the company's value delivery network.

## **2.5. Strategic Management**

The formulation of strategies starts with analysing the forces that influence competition within the industry in which a company is based in (Jones and Hill, 2013). The authors allude that the goal of the company is to recognize its opportunities and threats and to be able to identify strategies that would assist to outperform its competitors.

Opportunities are conditions in the internal environment that companies can take advantage of and formulate and implement strategies that would make them more profitable and threats are conditions that exist in a company's external environment that can endanger the integrity and profitability of the company (Jones and Hill, 2013). According to Rensburg (2014), market opportunities can be identified by (a) conducting a customer analysis; (b) market demand analysis, and (c) analysis of the competitive landscape. Moreover, opportunities in the environment should guide the segmentation, targeting, and positioning processes which are pivotal in the strategic marketing process (Rensburg, 2014).

### **2.5.1. Strategic Business Units**

For SME's to be successful within or outside the zones, they need to have a clear understanding of some of the following marketing principles. According to McDaniel, *et al.*, (2013), large companies may manage a variety of different businesses referred to as Strategic Business Units (SBUs) which operates like a business on its own and has its own management team, marketing objectives, competitors, rate of return on investment, growth potential and associated risks (Lamb, *et al.*, (2013), Boshoff, Terblanche, Elliot, and Klopper (2010). Some SBUs generate large amounts of income while some require cash to foster growth and corporate management is responsible for achieving a balance between desired growth and profits at an acceptable level of risk (Lamb, *et al.*, 2013). According to Kotler and



Armstrong, (2014); Lamb *et al.*, (2010), portfolio analysis is a strategic tool that is used extensively for resource allocation between SBUs listed below are some of the methods most commonly used:

- a) The Boston Consulting Group (BCG matrix) focuses on market share and market growth;
- b) General Electric (GE) Business screen, which places SBUs in the nine cells matrix using attractiveness of the industry and the position of the business;
- c) The Shell directional matrix, uses two dimensions: prospects for section profitability and the firm's competitive capabilities; and
- d) Abell and Hammond's model, which is an expansion of GE model and Shell directional matrix and evaluates using two dimensions: business position and market attractiveness.

According to Lamb, *et al.*, (2010), the key component of marketing planning is the development of a marketing plan, which is the foundation for all marketing strategies and decisions, the product lines, distribution channels, marketing communications and pricing are all defined in this plan. The writing of a marketing plan will allow SMEs to examine the marketing environment in line with the internal environment of the business and prepare a strategic direction for the organisation and will equip marketing managers to enter the marketplace with an awareness of possibilities and problems (McDaniel, *et al.*, 2013). It is therefore imperative that all SMEs strive to create sustainable business entities via the support and backing of a well-documented Marketing Plan.

### **2.5.2. The Marketing Plan**

The marketing plan consists of the Business Mission Statement, Situation/SWOT analysis, Objectives, Marketing Strategies within which lies the Marketing Mix or 4Ps and culminates with the Implementation, Evaluation and Control (McDaniel, *et al.*, (2013). The marketing strategy however 'articulates the best uses of the organisation's resources and tactics to achieve its marketing objectives' and represents the opportunities to be pursued, specific markets to be targeted and identifies the type of competitive advantages to be developed and exploited (Rensburg, 2014).

### **2.5.3. SWOT Analysis**

The situational analysis is sometimes referred to as the SWOT analysis, whereby a firm needs to identify its internal strengths (S) and weaknesses (W) and to examine external opportunities (O) and threats (T) (Kotler and Armstrong, 2014; Lamb, *et al.*, 2010; Hult, Pride, and Ferrell, 2014; Dibb and Simkin, 2013; McDaniel, *et al.*, 2013). When examining internal strengths and weaknesses, focus is placed on organisational resources such as production costs, marketing



skills, financial resources, company or brand image, employee capabilities, and available technology (McDaniel, *et al.*, 2013; Lamb, *et al.*, 2010). According to Shah, *et al.*, (2013), “SMEs need to build on its strengths, vaccinate against its weakness and turn every possible threat into an opportunity”. To have an effective SWOT analysis, marketers follow a process known as environmental scanning whereby, information regarding the marketing environment is collated to assist them in identifying opportunities, followed by planning and preparing against potential threats (Dibb and Simkin, 2013; McDaniel *et al.*, 2013).

A marketing plan will allow an organisation to achieve its marketing objective, its business-unit and corporate goals but more importantly it is only as good as the information it contains followed by the effort and creativity that went into its development (Hult, *et al.*, 2014). During the implementation phase, organisations must be prepared to adapt and improvise their plans should unpredicted events arise, and controls and evaluation are essential to ensure that the plan is kept on track (Dibb and Simkin, 2013).

## **2.6. Marketing Strategies**

Strategies are vital in all companies since it communicates the best use of the company's resources and tactics to achieve its marketing objectives (Hult, Pride, and Ferrell, 2013). 'Marketing strategy involves the activity of selecting and describing one or more target markets and in developing and maintaining a marketing mix that will produce mutually satisfying exchanges with target markets' (McDaniel *et al.*, 2013). At this level, a firm is at a position to establish how it will achieve a competitive advantage, that is, offering something better than its competitor by offering products of higher quality, price consistent with the quality, cost effective and efficient distribution channels, and best possible promotion (Hult, *et al.*, 2014; McDaniel, *et al.*, 2013).

### **2.6.1. Product Strategy**

The product includes the package, warranty, after-sale service, brand name, company image, value, inter alia because consumers buy products not only for their benefits but also for what it represents in terms of status, quality, or reputation (McDaniel *et al.*, 2013). According to Lin and Piercy (2012) new product development (NPD) requires a high level of strategic integration and the utilisation of the organisation's competencies for its success and is ultimately the primary driver of competitive advantage. Having the correct product is paramount to survive in any industry and more especially to be successful with the zone.

### **2.6.2. Place (Distribution) Strategy**

This strategy is concerned with the physical distribution and involves all business activities that are concerned with storing and transporting raw materials and the finished products in a good condition to designated places when required (Lamb, *et al.*, 2010, McDaniel, *et al.*,



2013). The product must be available in their correct size and packaging to suit the needs of its customers.

### **2.6.3. Promotional Strategy**

Promotion includes advertising, public relations, sales promotions, and personal selling and its role within the marketing mix is to inform, educate, persuade and remind the target market of the benefits of an organisation or a product (McDaniel, *et al.*, (2013). The elements can be coordinated to create an integrated marketing communication (IMC) which according to Shimp (2012), “is a communication process that entails creating diverse forms of marcom such as advertising, sales promotions, publicity releases, and events that are delivered over time to a brand’s targeted customers and prospects”. The customers must be made aware of the products by means of the correct advertising channels.

### **2.6.4. Pricing Strategies**

Pricing is the most flexible and quickest element to change of the four Ps and marketers can easily increase or reduce prices of their products in accordance with competition (Lamb, *et al.*, 2010). All products must be correctly priced to be competitive and successful in the market.

## **2.7. Communication**

The above-mentioned models, theories, and strategies can only be of significance through one important component and that is communication. The definition of communication differs according to the theorist’s view and is grouped into two basic views: a technical view and a meaning-centered view (Steinberg, 2011). According to Shimp, (2012), ‘IMC is a communication process that entails the planning, creation, integration, and implementation of diverse forms of marcom (advertisements, sales promotions, publicity releases, and events) that are delivered over time to a brand’s targeted customers and prospects.’

To better understand its complexity, communication is referred to as a process since it is not fixed, but rather dynamic, never-ending and an ever-changing concept (Steinberg, 2011, Wood, 2014). Communication plays a vital role within an organisation in enabling seamless interaction with its agents, customers and the broader public (Barker and Angelopulo, 2013). Obeidat, (2012), sees communication as necessary to deliver information within an organisation and it should be integrated with other functions to achieve the overall goals and objectives that relate to the vision and strategy of the organisation.

According to Shah, *et al.*, (2013), the new and novel models of communication has enabled small business investors in gaining appropriate knowledge and experience to enter the market. The South African government has formed a forum known as Government Communication and Information System (GCIS) with a vision to have communication that would empower and



encourage all citizens to participate in democracy and to improve the lives of all (South African Government Information). Awareness of these strategies will empower SEZs and SMEs in knowing that the South Africa has already kick-started the process of indirectly campaigning for foreign direct investment and in making internationalisation a reality in their midst. Having discussed the above, it is imperative that Government, SEZs and SMEs have an integrated communication strategy (IMC) to realise the objectives of the newly identified special economic zones in South Africa.

## **2.8. Challenges Faced by SEZS and SMEs**

SEZs were regarded as estate scams, developers in India have been holding onto parcels of land with the intention of benefiting from its alternative usage and land price escalation (Sebastian, 2012). The author notes that there is no clarity on India's land acquisition policy and until government can remedy this, it will be a stumbling block for SEZs, and land acquisition will remain a contentious issue. In 2007 there were protests in West Bengal regarding the SEZ policy and the land acquisition practices ensuing from the acquisition of agricultural land by the government for the establishing SEZs whereby several farmers lost their lives (Singala, *et al.*, (2011). Furthermore, the acquisition of private land for the establishment of SEZs, especially farmland, has become an important public policy issue in India.

According to Kitanov (2012), the main issues experienced in China were information asymmetry, lack of credit culture and the lack of capital convertibility. Lokhande, (2011) states that India is on its way to becoming a developed country and SMEs has always been given the necessary support, however there is a substantial gap between the needs and resources available. Moreover, micro credit has become the new poverty reduction tool and asymmetric information associated with lending to SMEs have further restricted the flow of finance to these enterprises which is duly needed for the running, diversification and expansion of their businesses (Lokhande, 2011).

## **2.9. Challenges Faced by SMEs**

The challenges faced by SMEs in Jamaica and world-wide are un-competitiveness, lack of access to credit, high costs of production, poor quality products, inconsistency in the supply of products, low levels of technology and technical skills, weak business and management skills (Smith and Deslandes, 2014). According to Vaitkevicius (2014), various scholars believed that the lack of access to finance was the biggest challenge faced by the SME sector's growth, which supported job creation and the overall global economy. The author proclaims that limited access to external funding, led to information asymmetry and moral hazard problems.



SMEs are the fundamental instruments of economic growth in developing countries, they play a crucial role in growth, innovation and prosperity but are unfortunately restricted in accessing the capital that they require to grow and expand. International Financial Institutions (IFIs) is a catalyst in the SME lending market since they are in a better position to support SMEs than local government whose support schemes are less cost-efficient and more prone to political gain (Bouri, *et al.*, 2011).

In South Africa, however, the challenges faced goes beyond the granting of finance and include factors such as development of horizontal relationships (for industrial clusters), improving the market environment for small enterprises, development of vertical linkages with larger domestic enterprises, and the development of new interfirm networks that would increase the small-scale sector for engagement in the macro-level policy such as export rebates and tax concessions (Falkena, Abedian, von Blottnitz, Coovadia, Davel, Madungandaba, Masilela, and Rees, 2015).

The South African Government and the SEZ Project Team need to take cognisance of the above-mentioned challenges and draft policies and incentives to firstly attract SMEs within the zones and secondly to provide the support to guide and sustain them.

### **2.9.1. Asymmetric Information**

According to Ross (2015), the theory of asymmetric information was developed in the 1970s and 1980s as a credible explanation for common phenomena that mainstream general equilibrium economics could not explain. In basic terms, the theory proposes that an imbalance of information between buyers and- sellers- can lead to inefficient outcomes in certain markets.

This type of asymmetric information can lead to market failure since households and firms must have full information on the quality, availability and prices of goods, services and inputs to make informed decisions (Mohr, Fourie and associates, 2011).

In China, SMEs have gradually become a great force for promoting economic development, moreover research show that SME's financing comes mainly from external financing namely banks (Huang, When, Liu, 2014). However, due to the information about SME's business status and credit status is not totally known to banks, they tend to consciously cut down loans lending to SMEs and this will result in many small and medium enterprises closing due to lack of funds (Huang, *et al.*, 2014). The authors allude that the most pertinent problem to be solved is the removal of financing barriers facing SME to promote the growth and development of SMEs and to make full use of its role played in economic development (Huang, *et al.*, 2014).



To capture the essence of asymmetry of information it is assumed that the two parties do not know each other's true qualities but observe noisy signals of them thus the nature and degree of information asymmetry varies from market to market (De Liu and Viswanathan, 2014). Former workers at the South African asbestos mines successfully claimed hundreds of millions of Rand from mining companies as compensation for asbestos-related diseases contracted while working at or living in the vicinity of the mines. They claim that they were insufficiently informed of the health hazards associated with being employed at or residing near the mines (Mohr, *et al.*, 2011).

Asymmetric information can also cause principal-agent problem whereby management has more information about a firm than the owners (shareholders) (Mohr, *et al.*, 2011). According to Deng, Hofman and Newman, (2012), opportunistic behaviour arise when the legal and regulatory institutions are underdeveloped and thus results in agency costs due to lack of trust, Agency problem 1 arises from conflicts between principal and agent and Agency problem 11 is between principal and principal. The authors state that high levels of trust between in-group members are required to reduce agency costs thereby promoting the exchange of information and resources between family members and close associates with the organisation thus enhancing their innovative capabilities internally.

Similarly, doctors have more information than their patients, and lawyers have more information than their clients and in the real world there is a great deal of ignorance and uncertainty and is therefore impossible for consumers and firms to equate marginal benefit with marginal cost (Mohr, *et al.*, 2011). According to Yao (2014), 'home-bias' can be better explained by information asymmetry between local and foreign investors since domestic investors are better informed due to their linguistic and cultural advantage over foreign investors regarding their local market. SMEs in China, especially the single-owned firms are faced with great challenges in cooperating with external partners and the hiring of professional managers due to asymmetric information, lack of transparency and unwillingness to trust outside of the family network (Deng, *et al.*, 2014). The authors allude that high levels of asymmetric information have resulted in exorbitant costs incurred in establishing and maintaining relationships with external parties.

Government can remedy the situation by requiring the disclosure of information to shareholders, customers and other invested parties with collaboration between governmental departments, and information need to be transparent and accessible to all parties involved. SEZs have a crucial role to play in this regard and can be the anchor or link that is missing between government and SMEs.



### **2.9.2. Adverse Selection – Pre-Contractual Opportunism**

Adverse selection is a form of market failure as a consequence of asymmetric information whereby products of different quality levels are sold at the same price resulting in too many of the low-quality product and too little of the high-quality product being sold, for example used-car market (Pindyck and Rubinfeld, 2009, Mohr, *et al.*, 2011). This can also take the form of strategic misrepresentation of the true beneficiaries of BEE benefits in the contract whereby the party enters the contract with private information that leads them to gain at the expense of the government (Khatleli and Root 2008). As discussed above, the access to finance experienced by SMEs is a worldwide phenomenon, moreover, adverse selection and moral hazard are caused by asymmetric information which is prominent in formal financial institutions since SMEs are not able to provide complete financial information and effective mortgages (Han, 2013). SEZs can play a pivotal role in mitigating such challenges by creating 'financial hubs' within the zones and to mitigate the risks by enforcing the transparency of information with the support and endorsement government.

### **2.9.3. Moral Hazard – Post Contractual Opportunism**

In this situation, the principal is unaware of the extent of work he has delegated, and the agent takes advantage after the contract has been entered into, that is moral hazard alters the ability of markets to allocate resources efficiently (Pindyck and Rubinfeld, 2009; Khatleli and Root, 2008). This takes place post-contractually which allows the agent to hold the principal at ransom since he now has monopoly, being the only agent dealing with the principal on the contract, the principal cannot change the agent even if he is unhappy with the performance due to switching costs he has to incur (Khatleli and Root 2008).

Moral hazard is also linked to principal-agent problem based on the fact that if any practitioner be it an attorney, doctor or lawyer is asked whether their service is required in any given situation, would encourage the use of their service due to their financial interest (Mohr, *et al.*, 2011; Pindyck and Rubinfeld, 2009). Underdeveloped legal and regulatory institutions in developing economies crafts the scope for opportunistic behaviours and creates distrust between unfamiliar parties in society (Deng, *et al.*, 2013).

The above mentioned opportunistic behaviour is prevalent in the South African Industry but there are ways in which opportunism can be mitigated by government intervention in requiring the disclosure of information and trust between entrusted parties. According to Deng, *et al.*, (2013), high levels of trust between the relevant parties will reduce agency costs, promote the exchange of information and enhance the innovative capabilities within an organisation.

The South African Government should assist SMEs by establishing better financial environment, credit guarantee system and policy-based financial institutions to support the



development of SMEs and mitigate the above-mentioned challenges. Perhaps such forms of credit support can be better coordinated and monitored in an SEZ environment.

## **2.10. The Concept of Clustering and SEZs**

Clusters are geographic concentrations of similar or related firms that together create competitive advantages for associate firms and regional and national economies (Aggarwal, 2011). According to Lo and Han (2014), Markusen classified clusters into four categories: Marshallian, hub and spoke, satellite platform, and state anchored whilst most studies classify them by industrial life cycle, namely, agglomeration, emerging, potential, and mature. It is also seen as a formal entity led by a group of beneficiaries whereby many SMEs can connect and enjoy the following benefits under this umbrella: “(a) Networking among enterprises; (b) Strengthening of the human capital; (c) Technology and skill upgrading; (d) Lowered costs; (e) Improved bargaining power; (f) Global visibility; (g) Easier access to finance; (h) Greater government support; and (i) External players within the value chain” (Nagayya and Rao, 2011).

Eco-Industrial clusters (EICs), are defined as: “A community of business; geographic concentration of interconnected companies in a specialized field that cooperate with each other and with the local community to efficiently share resources (information, materials, energy, water, infrastructure, and finance), leading to improved environmental quality, economic gains, and equitable enhancement of human resources for both the business and local community” (Sarkar, 2014). Clusters play an important role in interlocking companies, suppliers, service providers, businesses in related industries and associated institutions (e.g., universities, standards agencies, trade associations) that compete and cooperate with each other (Lo and Han, 2014, Sarkar, 2014). The three types of transport costs such as cost of moving goods, people, and ideas are reduce by industrial agglomeration or clustering (Lo and Han, 2014).

The concept of clustering has become a worldwide phenomenon, the forerunners being China and India, and has proven to be a successful and sustainable model to follow, the term was popularised by Porter, whereby firms gained advantages due to their close proximity to each other and have been recognised in the economic literature since the time of Marshall in 1890 (Aggarwal, 2011). Enterprises were equipped with efficient infrastructure, quality services, a favourable business environment, few regulatory restrictions, and minimum red tape (Aggarwal, 2011).

The economic liberation in the 1990's had a huge negative impact on SMEs (due to their size and lack of technological advantage), and were hit hard by the exposure to competitive forces nationally and worldwide, hence they formed clusters to enhance their competitiveness, the first being the automotive cluster and has since improved their performance and presence



through industrial cluster approaches (Venkatarmanaiyah and Parashar, 2007). The automotive cluster in East London industrial development zone (ELIDZ) and Coega IDZ showcases South Africa's automotive production and development programme which is a huge success (Allix, 2015).

Clustering results in significant savings to the firm due to a greater availability of: 'specialized input suppliers and business services; a large pool of trained, specialized workers; public infrastructure investment geared to the need of a particular industry; financial markets familiar with the industry; and an enhanced likelihood of inter-firm technology and information transfers' (Sarkar, 2014). There is a strong case for the creation of SEZs in the framework of the cluster-based approach due to its ability to increase not only the competitiveness in international markets but to also ensure larger gains from effective trade (Aggarwal, 2011). The author notes that SEZs with such an approach can generate a process of development that is: "(a) accelerated; (b) circular in that it feeds off another; (c) cumulative in its effects; (d) self-reinforcing; (e) capable of generation systemic gains through 'increasing returns' for clusters; (f) is driven by innovations and knowledge spillovers; and (g) is efficient and competitive".

In the past decade, cluster approach has been adopted for achieving the overall development of clusters or groups of SMEs, including artisans and micro enterprises and is considered as the pivotal strategy for enhancing productivity, competitiveness and capacity building of SMEs in India, the main characteristic was in nurturing the value chain via a range of carefully crafted demand-side and supply-side policy interventions (Nagayya and Rao, 2011)..

Industries that are capital and scale-intensive can benefit immensely by the externalities associated with clustering such as lower costs of inputs and services, access to skilled labour and knowledge spillovers (Aggarwal 2011). The Chinese government set up geographic clusters around SEZs to benefit from foreign direct investment and companies within the zones benefited from knowledge spillovers, government development agencies, and higher education and research institutes (Deng, *et al.*, 2013).

Business-to-business (B2B) marketing is another model that were adopted by SMEs world-wide, and evolved by borrowing concepts and techniques from consumer marketing but in the last twenty years academics and business people developed concepts, methods and techniques that are tailor made for B2B markets (Biemans, 2010). Business-to-business marketing fits snugly within the concept of clustering and according to Shah, *et al.*, (2013), sound relationships with suppliers, customers and employees are important factors for the success of SMEs. Clustering encourages a strong network link which can help reduce the transaction costs thus enabling SMEs within the zones to gain economies of scale and the



lowered costs can assist in gaining competitive advantages (Lo and Han, 2014). SMEs and SEZs need to embrace the concept of clustering since it has proved to be the most successful model within SEZs globally and the Automotive Supplier Park in South Africa has successfully adopted the concept.

### **2.11. Foreign Direct Investment**

China, under the leadership of Deng Xiaoping encourages foreign direct investments by creating special economic zones near coastal cities and offered several tax breaks and other incentives for foreign companies to invest in those regions (Adrian, 2011). Special economic zones are seen as a catalyst to attracting multinational enterprises and their foreign capital by means of leveraging incentives, moreover the foreign technology and management skills are used to increase their export base (Singala, *et al.*, 2011).

The Chinese Government's policy of 'going out' encouraged companies in China to invest in the new markets, like Latin America, and in especially Africa which promoted the establishment of numerous Chinese trade and industrial zones overseas (Zhang, and Ilheu, 2014). The authors allude that the strategic locations and the infrastructures of the SEZs assisted in attracting FDI, together with the Chinese Diaspora which also attracted capital investment, technologies, and management skills through its network of foreign entrepreneurs.

### **2.12. Conclusion**

This chapter covered the relevant theoretical framework in conjunction with IDZs, SEZs, and SMEs within the international, Sub-Saharan Africa and South African context. Additionally, this chapter gave an account of the conceptual literature of IDZs, SEZs, and SMEs, their challenges and shortcomings internationally, Sub-Saharan Africa, and in Africa. This chapter also highlights the macroeconomic variables, marketing strategies and concepts pertaining to competitiveness and economic viability in relation to the zones. Porter's five force model represents the core theoretical background for this dissertation and from it, appropriate management strategies were considered and discussed.

The next chapter encompasses SEZs and SMEs internationally, Sub-Saharan Africa and in Africa, whilst highlighting the proponents and opponents of SEZs and the global experiences of these two entities.



## CHAPTER 3

### LITERATURE REVIEW

#### 3.0. Overview

In this chapter, the researcher will provide a brief overview of the concepts of Special Economic Zones (SEZs), the SEZ experiences in International markets, Sub Saharan Africa and in South Africa, followed by lessons learnt and success factors adopted by countries worldwide to create successful SEZs. It will be highlighted in the literature review that Public Private Partnerships (PPPs) were harnessed by other economies within the SEZ framework to boost job creation, promote rapid industrialization, attract FDI, secure export markets and take advantage of globalization.

#### 3.1. Introduction

Special economic zones (SEZs) are geographically demarcated areas controlled by a single body, offering incentives such as duty-free importing and simplified customs procedures. These zones offer regulations that are different to other areas within the same country which are conducive to attracting FDI, moreover companies operating within the zones will receive tax incentives and concessions on tariffs (Adrian, 2011).

SEZ was established in 1937 in New York, the United States of America (USA) and was also referred to as 'Foreign Trade Zone' (FTZ), in 1942 USA establish a SEZ in Puerto Rico and other countries also adopted this policy but termed it differently (Pakdeenurit, Suthikarnnarunai, and Rattanawong, 2014). The first modern special economic zones were established more than 50 years ago and was recognized with underpinning the dramatic export-oriented growth of China and other East Asian countries (Farole, 2011; Nyakabawo, 2014). According to Zeng (2015), SEZs or industrial parks can be effective instruments to promote industrialization, if it is implemented in the correct context as evident in developing countries in East Asia.

Various forms of free zones grew to become primary development policies worldwide and SEZs mushroomed across Central Eastern Europe since the 1990s (Capik, 2013). The author notes that since the renaissance of Free Trade Zones (FTZs) in 1934, the United States currently boasts more than 260 (FTZs), in 2011 a new edition of Enterprise Zones programme was announced by the British government, and the German government encouraged the development of SEZs in countries affected by the Eurozone crisis. Studies reflect that in 2008 a total of 2511 SEZs were in six regions: 23 countries in the Americas, 19 countries in Asia and Pacific, 12 countries in the Middle East and North Africa, 15 countries in Western Europe,



10 countries in Central and Eastern Europe and Central Asia, and 14 countries in Sub Saharan Africa (Pakdeenurit, *et al.*, 2014).

The first modern industrial zone was established in Shannon, in Ireland in 1959 and in the 1970s East Asia and Latin America started SEZs in the form of export processing zones (EPZs) solely to attract FDI in the labour-intensive manufacturing sectors to encourage exports (Zeng, 2015; Farole, 2011). Moreover, EPZs had their limitations since they had no linkage with the local economy and relied heavily on fiscal incentives, they became enclaves, hence countries moved towards the modern concept of SEZs which included more linkages with the local economy, multifunctional and less reliant on incentives. China tested this phenomenon by declaring a city as a SEZ to measure the market-oriented economic reforms with the area and this was the catalyst for the rapid economic growth and transformation in China and other Asian countries (Zeng, 2015).

International experience with the use of SEZs has been mixed, countries such as Korea, China, Mauritius and many central American nations, displayed great export-led growth whilst using SEZs in the specific form of export processing zones (Woolfrey, 2012). The SEZ record in Africa however is more mixed with Mauritius being a success story, Lesotho, Kenya and Madagascar displayed some modest achievement but the clear majority of SEZs in Sub-Saharan Africa (SSA) has shown no transformation (Zeng, 2015; Woolfrey, 2012).

### **3.1.1. Definitions**

The term 'SEZ' includes a broad range of zones such as free trade zones, export-processing zones, industrial parks, economic and technology development zones, high-tech zones, science and innovation parks, free ports, enterprise zones, single factories, amongst others (Zeng, 2015; Pakdeenurit, *et al.*, 2014).

### **3.1.2. Objectives of SEZs**

"The general objective of SEZs is to support and accelerate industrial development in the targeted regions by the provision of special measures needed to develop targeted industrial capabilities and attract targeted foreign and domestic direct investment" (Government Gazette, 2014). Empirical evidence reflects that SEZs' objectives is to enhance the prosperity of the country and to adopt a form in conjunction with the founding objectives and infrastructure of the country (Pakdeenurit, *et al.*, 2014).

According to Zeng (2015), Farole and Akinici (2011), and Farole (2011), SEZs were established with the aim of achieving one or more of the following four policy objectives: "(a) Attracting foreign direct investment (FDI); (b) Serving as "pressure valves" to alleviate large-



scale unemployment; (c) Supporting a wider economic reform strategy; and (d) Acting as experimental laboratories for the application of new policies and approaches”.

In the 1970s, the zones in East Asia and Latin America, were designed to attract investment in labour-intensive manufacturing from multinational corporations and SEZs became the foundation of trade and investment policy in countries that criticised import-substitution policies with the intention to participate in global markets through export-led growth policies (Farole, 2011).

### **3.2. Special Economic Zones Internationally**

More and more countries have used SEZs as instruments to promote industrialization, especially to attract foreign direct investment especially in the manufacturing sector, job creation, and in generating exports and foreign exchange (Zeng, 2015). According to Walsh (2013), the state of Greater Mekong Sub region (GMS) created and maintained SEZs, which was the principal means by which rapid economic development was managed, to encourage domestic and international investment in specific areas and to promote mainly export-oriented manufacturing. Although various countries adopted the concept of SEZs, the results are however quite mixed with some countries very successful such as China, Singapore, Malaysia, the Republic of Korea, Jordan, and Mauritius, whilst others are still struggling, especially those in Sub-Saharan Africa (Zeng, 2015).

The first export processing zone (EPZ) in Asia was set up in India at Kandla (Gujarat) in 1965 which were duty-free areas that operated within the framework of export-import policies whereby a host of fiscal and other concessions were available to produce and export goods and services (Singala, *et al.*, 2011; Pillai, 2008). Jain (2011), alludes that SEZs are areas where economic incentives are offered to investors with the sole objective of attracting investment. China under the rule of the communist leader Deng Xiaoping, felt that the Chinese economic model needed to be revamped, in 1978 a handful of regions were experimented with, targeting their fiscal policies, labour legislation, and bureaucracy amongst other measures, similar to those in the capitalist western economies, were actioned into the so called ‘special economic zones’ (Adrian, 2011).

India was plagued with protests against SEZs, first social barriers such as threats with regards to land seizure and hence their livelihoods, coupled with the protests weakened the economic benefits that SEZ legislation and regulation provided. The political pressure procreated by the protests led to legislative and regulatory uncertainty that undermined legal predictability and economic stability within the SEZs, hence India’s SEZs were unable to deliver economic potential to its fullest (Jain, 2011). In April 2000 India announced its SEZ Policy in order to overcome the multiplicity of controls and clearances, lack of world-class infrastructure and an



unstable fiscal regime, and to attract the much-needed foreign investments (Singala, *et al.*, 2011).

The emergence and integration of China into the global economy is one of the most important events in recent world history and over the past three decades has transformed itself into a growing market economy, economists, Chinese scholars and politicians believe that SEZs are responsible for this transition (Chen and Jameson, 2012). The authors note that China's economic reform policies which began in 1978 promoted market practices and encouraged entrepreneurs to engage in economic activities and supported decentralisation and economic development in line with local comparative advantage. It is conceivable that SEZs are a major reason for China's emergence since within the zones capitalist-oriented policies and practices were able to flourish relative to the rest of the country. In recent years South Africa's tripartite alliance leftist influenced policies have dominated the economic landscape resulting in the alienation of the business sector, low investment, high unemployment and low economic growth; SEZs might be the ideal praxis to experiment with alternative strategies to promote SMEs and catapult the economy onto a high growth and employment trajectory (Chen and Jameson, 2012).

SEZs have attracted many proponents and opponents or critics views as summarized in Table 3.1 below, however since SEZs are a critical praxis for economic development it has been gaining dominance in both developed and developing economies including South Africa. Moreover, with appropriate policy adjustments, monitoring, screening and stakeholder involvement, this study contends that most of the deficiencies of the system can be effectively managed.

**Table 3.1: Critics and Proponents of the 'Zones'**

Issue	Proponents' views	Critics' views
Industrial activity	Zones promote industrial upgrading and skill development	Zones perpetuate low-skill, assembly operations
FDI	Zones are an effective tool in FDI attraction, and most industries are not footloose	Zones attract the 'wrong' FDI in low-tech, low-skill footloose industries
Foreign earnings	Countries can increase value-added through 'equal footing' policies	Zones attract import-dependent activities with low value-add
Labour rights	Most zones comply with the standard set by the International Labour Organisation	Zones suppress basic labour rights
Working conditions	Well-run zones offer much better working conditions than elsewhere	Zones allow companies to disregard health and safety issues and provide poor working conditions
Female employment	Zones are an important source for female employment and higher wages	Zone industries segregate women and pay them lower wages
Environment	Well-run zones have better environmental control and practices	Zones have lax environmental standards and controls to attract polluting industries

Source: Capik (2013)



### **3.3. Chinese Special Economic Zones**

China's meteoric economic rise over the past three decades is an unprecedented "growth miracle" in human history and since the Open-Door policy and reforms that began in 1978, China's gross domestic product (GDP) has been growing at an average annual rate of more than 9 percent, with its global share increasing from 1 percent in 1980 to almost 6.5 percent in 2008 (Chen, Jameson, 2012). The authors assert that China has more than ten thousand economic zones, in most developing countries central administration is responsible for the zones which are designed to promote exports or foreign investment, but in China the zones are run by local governments and don't necessarily involve exports or foreign investments.

In 1978, the Chinese Government adopted the Open-Door policy and a year later decided that Guangdong and Fujian provinces would take the lead in opening to the outside world and implement 'special policies and flexible measures' (Zeng, 2015). In 1980, four SEZs were created under the ruling of Deng Xiaoping to experiment on the effect of new legislation, labour conditions and a lower bureaucracy on the economy (Adrian, 2011). According to Chen and Jameson (2012), China has more than ten thousand economic zones which were built and run by local governments without the involvement of foreign investment or exports and offered the following characteristics,

- a) "Greater transparency of administration with reduced regulatory and tax burdens as well as streamlined operations for taxes and regulation as compared with the rest of the economy;
- b) Uniform rules that are endorsed (mandated) by the central government;
- c) In comparison with other countries, Chinese Zones are built at the initiative of local cadres and operated by them, and
- d) Are geographically widespread and widely inclusive with respect to permitted activities, that is, activities within the zones are not primarily limited to direct foreign investment, importation of new technology or exporting".

In 2010, China outperformed Japan and became the world's second-largest economy, a leader in international trade and investment, and an important growth engine of the global economy having single-handedly lifted more than 400 million people out of poverty. The two important engines for driving the country's growth were the numerous special economic zones (SEZs) and industrial clusters which have erupted since the reforms (Zeng, 2011). China is the most successful country in terms of exploiting SEZs in order to achieve the overarching economic transformations (Zeng, 2015). China initially started with four zones to experiment with market-oriented economic reforms associated with laws, regulations, taxation, land, labour, finance, customs, immigration, amongst others and following its success, the zone program and the necessary reforms were gradually rolled out nationally (Zeng, 2015).



The Chinese government had a 'going out' policy which encouraged Chinese companies to invest in new markets such as Latin America and especially in Africa and this promoted numerous Chinese overseas industrial and trade zones (Zhang and Ilheu, 2014). The authors indicate that this initiative increased the demand for Chinese-made machinery and equipment, reduced investment entry and operating costs, moreover it assisted China's efforts to boost industrial restructuring at home; helped to nurture companies to move up the value chain and provided a platform for less experienced SMEs in the global market. According to Zeng (2015), China's success with SEZs include the following factors: strong and long-term commitment from the government; a conducive business environment in the zones; strategic locations; technology upgrades and skill transfers; and strong linkages with the local economy.

According to Lonarkar, (2014), the success of China's SEZs was based on its correct location of choice, well planned policy with regards to infrastructure, incentives, labour supply and overall decentralization. Furthermore, SEZs contributed approximately 15-23 percent to the country's exports, employs more than two million people directly and approximately 16 million collectively and 20 percent of all foreign direct investment received, made its way into SEZs.

### **3.3.1. SEZs Contribution to Chinese Economic Development**

The emergence of China is known to be one of the most important events in current world history, due to its transformation into a growing market economy over the past three decades (Chen and Jameson, 2012). The authors allude that economists, contemporary Chinese scholars and politicians are of the view that the SEZs are the reason for this remarkable transition. In 1980, four SEZs were created Shenzhen, Zhuhai, Shantou and Xiamen to reflect on the impact of new legislation, labour conditions and a lower bureaucracy on the total economy (Adrian, 2011). The author adds that FDI started pouring in, reaching almost \$4 billion in 2008 for Shenzhen, \$1 billion for Zhuhai and Hainan and this made China more appealing to foreign investors. The increase in FDI, and the surge in exports spontaneously influenced the living conditions in the zones and these zones made it possible to present the multiplier effect of Keynes upon the local economy which was achieved through the following process: the tax breaks received for the next 30 years afforded the businesses the ability to build production facilities, this required the hiring of local workers, and encouraged suppliers to follow together with some competitors (Adrian, 2011).

The Chinese were attracted into the area for better salaries and living conditions, this ultimately increased the GDP and the income of the region, local administration earned more from local taxes which were invested in the infrastructure (roads, highways, electricity, airports, bridges, optical fibre, railways, hospitals, schools, and universities (Adrian, 2011). The author alludes that everyone wins from this chain of events since the area will be developed and its



competitiveness enhanced, companies will also receive tax breaks and will be able to search for better educated workforce.

More and more countries have begun to use SEZs as the instrument to attract foreign direct investment (FDI), especially in the manufacturing sector, job creation, generating exports and foreign exchange (Zeng, 2015).

### **3.4. Definition of Foreign Direct Investment (FDI)**

Over the past four decades, Special Economic Zones have developed as a prevalent strategy for attracting foreign direct investment and promoting economic growth and development (Jackson, 2015). According to Bose (2012), foreign direct investment “is the category of international investment that reflects the objective of a resident entity in one obtaining a ‘lasting interest’ and control in an enterprise resident in another county”.

#### **3.4.1. The Benefits of Foreign Direct Investment**

In the analysis of economic growth, the roles played by domestic investment, exports and their relationships to foreign direct investment is pertinent, moreover foreign direct investment inflows can stimulate domestic investment through spill over or linkage effects in the production chain when the multinationals (MNCs) enter the host economy (Sooreea-Bheemul and Sooreea, 2012). According to Kurtishi-Kastrati (2013), FDI is essential for an open and successful international economic system and a great instrument for development. FDI can contribute to Gross Domestic Product, Gross Fixed Capital Formation and balance of payments, moreover empirical studies indicate a positive correlation between higher GDP and FDI inflows and is increasingly recognized as a key factor in the economic development of countries (Bose, 2012).

Countries world-wide provide many incentives for attracting foreign direct investment which is determined by the saving and investment rate in any country, furthermore FDI acts as a bridge to fill the gap between investment and saving (Malhotra, 2014). Apart from playing an important role in economic growth, FDI also drives the growth of international production which is driven by economic, technological and liberalization of foreign direct investment and trade policies (Louzi and Abadi, 2011, Malhotra, 2014). According to Kurtishi-Kastrati, (2013), developing countries, emerging economies and countries in transition have relaxed their FDI regime and followed best practices to attract investment due to the benefits and transfer effects of the following resources:

**Capital.** Multinational enterprises (MNEs) invest in long-term projects, assuming risks and only repatriating profits when the projects yield returns.



**Technology.** Technology can stimulate economic growth and industrialization and can assume two forms; can be adopted in the production process or in the product.

**Management.** FDI generally increase the existing stock of knowledge in the host country through labour training, transfer of skills and new managerial and organizational practices.

Foreign investors benefited from the efficient use of their resources whilst the FDI recipients benefited through acquiring technologies and from being involved in international production and trade networks (Louzi and Abadi, 2011). The creation of employment is one of the most prominent impacts of FDI especially in countries where capital is scarce, and labour is abundant and although FDI on employment globally is modest, it is however higher in host developing than host developed countries. Employment, balance of payments, and International trade are all positively affected by FDI (Kurtishi-Kastrati, 2013).

According to Xiaolun (2002), FDI transmits best practices in two ways: by means of transferring technology and skills internally to foreign associates in the host country, and by technological diffusion to a large spectrum of companies and institutions within the host country. The impact of foreign direct investment on domestic economic growth depends ultimately on the diffusion of best practice through the local economy at large (Xiaolun, 2002). Host countries are not the only benefactors of foreign direct investment, the investors also gain since foreign direct investment enhances their domestic competitiveness, exposed to significant advantages of international trade technology, sales and profits are increased, sales potential of existing products are increased, maintains cost competitiveness in the domestic markets, increases the possibility of business expansion, assists in obtaining global market share, reduces the dependency on existing markets, and helps to stabilize seasonal market fluctuations (Bose, 2012).

The Mauritian government created a host of institutions such as the Mauritius Industrial Development Authority (MIDA), the Export Processing Zone Development Authority (EPZDA) and the Small and Medium Industry Development Organisation (SMIDO) which recognized Mauritius as a foreign direct investment destination, encouraged domestic firms and foreign investors to mutually benefit from one another (Sooreea-Bheemul and Sooreea, 2012). The authors allude that MIDA, established in 1985, was responsible for promoting the exports of goods and services, played an advisory role to government on export development policies, served as a link to exporters, conducted market development activities and assisted in capacity building to exporters.

Since the reform of its economy, China understood the importance of foreign direct investment and has urged for foreign capital participation and became the second largest recipient of foreign direct investment after the United States (Bose, 2012). The author notes that foreign



direct investment in China started in 1979 and it received \$306 billion over the next 20 years which was the result of a few major incidents including the establishment of special economic zones. Leadership under Deng Xiaoping encouraged foreign direct investments by the creation of special economic zones near coastal cities whereby foreign companies received several tax breaks and other incentives to invest in the zones (Adrian, 2011). The slowdown in China's economy has affected development of SEZs since the prospect of cheap labour that once enabled the country to attract foreign investors no longer exists (Kim, 2015).

Another concern is that right after the establishment of the Shanghai free trade zone 12 cities and provinces expressed interest in having the same arrangement. In the original plan, the focus was on Shanghai alone, but it seems that competition between provinces and other free zones has intensified.

In the past 40 years, special economic zones have emerged as a widespread strategy for attracting foreign direct investment and fostering economic growth and development and India offers a wide area of investment opportunities for investors and is considered as the most suitable place for foreign investors despite the problems of bureaucratic hassle (Bose, 2012). India was a latecomer to foreign direct investment in comparison to other East Asian countries, however, to its market potential and liberalised policy regime has become a favourable destination for foreign investors and foreign direct investment has played a significant role in the development of the Indian economy (Malhotra, 2014). Although India has not been able to attract foreign direct investment at the same pace as China, investors can no longer ignore this power house since it has the potential to become the third largest economy in a short span of time (Bose, 2012; Fulton, 2007). According to Malhotra (2014), foreign direct investment strengthens the connection to world trade networks and finance the development path of the host country, however substantial one-sided foreign direct investment into a country can lead to dependency on the external pressure that foreign investors may exert on it. India requires US\$1 trillion for the period (2012-17) to fund infrastructure in sectors such as roads, airports and ports, moreover, the government is busy liberalizing foreign direct investment norms in construction actions and railways to encourage foreign investments and meet this target (Malhotra, 2014; Bose, 2012). India is one of the few markets in the world with great prospects for growth and earning potential in almost all areas of business, hence will keep attracting foreign investors (Bose, 2012).

### **3.5. India's Special Economic Zones**

Export Processing Zones (EPZs) were an international phenomenon which was popularized by India and Puerto Rico as an alternative instrument of trade, in the Asian continent India



pioneered the EPZ concept during a rigid inward-looking trade regime and through the setting up of the first Free Trade Zone (FTZ) in 1964 (Tantri, 2011; Acharya, 2015). India launched the first export processing zone (EPZ) in 1965 in Kandla, Gandhidam, Gujarat, for the promotion of exports, and experienced both successes and failures in establishing the various types of SEZs (Singala *et al.*, 2011, Pillai, 2008; Dhingra *et al.*, 2009; Pakdeenurit, *et al.*, 2014; Singh and Sinha, 2009).

In 2000, the old EPZ regime was replaced by the government with a new scheme of "special economic zones" which provided several beneficial incentives that were not available in the EPZs (Acharya, 2015). Three public sector EPZs namely Kandla (Gujrat), Santa Cruz (Maharashtra), Cochin (Kerala) and one private sector EPZ were converted into SEZs in 2000 under India's EXIM policy (Lonarkar, 2014).

EPZs were duty-free areas which operated within the framework of export-import policies whereby a host of fiscal and other concessions were available to produce and export goods and services (Singala *et al.*, 2011). EPZs had a list of deficits hence they displayed an uneven growth rate due to the following obstacles: limited power of the zonal authorities, absence of single window facility, rigid custom procedures, restrictive foreign direct investment and poor infrastructural facilities (Pillai, 2008).

The Special Economic Zone Act, 2005, provided simple and flexible procedures and a single window clearance for matters relating to Central and State governments (Pillai, 2008). The objectives of the Scheme are as follows:

- a) "The scheme aims at the development of integrated world class infrastructure for exports for carrying out manufacture of goods, rendering of services, including industrial, commercial, and social economic zones, roads, airports, ports, residential/ industrial/commercial complexes, water supply, sanitation and sewerage system and other facilities required for the development of the zone;
- b) SEZs may be developed and managed in the private sector or jointly by state governments and private participation, or exclusively by state governments or their agencies, and
- c) New infrastructural development works such as construction of standard design factory buildings, etc., and the maintenance of infrastructure in the zones may also be undertaken through private/joint/state sector in the EPZs converted into SEZs".

The Indian government converted existing EPZs located at Kandla and Surat (Gujarat), Cochin (Kerala), Santa Cruz (Mumbai-Maharashtra), Falta (West Bengal), Chennai (Tamil Nadu), Visakhapatnam (Andhra Pradesh), and Noida (Uttar Pradesh) into SEZs and many have been



approved in various parts of the country in the private/joint sectors or by the state governments and the process is ongoing at a rapid pace (Pillai, 2008).

The growth of an economy is dependent on well-maintained and efficient basic infrastructure such as power, telecommunications, transportation, and water (Pillai, 2008). Substandard infrastructural facilities have been the key factor in the poor performance of developing countries and India is no exception. Moreover, the Indian government was over ambitious in setting up specific regions with liberalised economic regulations and a world class infrastructural facility with the intention of export promotion and increasing FDI in India (Pillai, 2008). Special economic zones had the potential to be invaluable instruments of economic growth and development in India, but due to the resistance encountered, SEZs in India have not delivered economic benefits to its full potential (Jain, 2011).

### **3.5.1. Proponents of SEZs in India**

According to Jain (2011), the proponents of India's SEZ policy based their support on the following three economic predictions that were witnessed in SEZs internationally:

- a) "SEZs efficiently attracted FDI by offering attract incentives to Developers that would elicit investment from foreign sources;
- b) SEZs promoted Infrastructure Development by offering fiscal incentives in SEZs which encouraged private Developers in building infrastructure, and
- c) SEZs created employment opportunities and in a country with surplus labour, thus employment creation is a policy priority".

South Africa might learn a few critical points from the Indian strategy especially in regard to attraction of private investment in infrastructure development and the absorption of surplus labour.

### **3.5.2. Opponents of SEZs in India**

According to Jain (2011), the opponents of India's SEZ policy base their arguments on the following three unfavourable consequences of the policy:

- a) "SEZ development leads to unjust and discriminatory seizure of agricultural land, agrarian communities objected to SEZs due to the fear of displacements. Firstly, these communities were losing their land to Developers at 'well below' market rates and secondly, apart from losing their land, their livelihood was also threatened or lost, and
- b) Finally, the opponents also believed that the Indian government incurs a net financial loss on the SEZ plan due to sustaining greater losses to tax revenue than gains to FDI".



### 3.6. Special Economic Zones – Sub Saharan Africa (SSA)

According to Brautigam, and Xiaoyang, (2011), there are 114 economic zones in Sub Sahara Africa (SSA) which represents approximately 3.0 - 4.5 percent of the total number of zones globally. The authors assert that the economic zones programs were launched in the early 1970s and established in around 30 countries in SSA but only implemented in the 1990s or 2000s, as indicated in table 3.2 below, and is still in the early stages of development. Sub Saharan Africa launched a new wave of 'SEZs' with more countries planning to set up SEZs or industrial parks, however, most zones failed to deliver due to not being entirely 'special' in terms of business environment and infrastructure, and previous zones in Africa lacked basics such as power, water and one-stop services, and were not aligned with the national developmental strategy (Fruman and Zeng, 2015).

Zones within Africa have operated in an area of poor national competitiveness, moreover, linking of the zones and global markets was a major challenge coupled with infrastructure challenges with regards to road, rail and road (Farole, 2011).

**Table 3.2. Overview of African zone programs by decade of launch**

1970s	Liberia, Senegal, Mauritius
1980s	Djibouti, Togo
1990s	Burundi, Cameroon, Cape Verde, Equatorial Guinea, Ghana, Kenya, Madagascar, Malawi, Mozambique, Namibia, Nigeria, Rwanda, Seychelles, Sudan, Uganda, Zimbabwe
2000s	Gabon, Gambia, Mali, South Africa, Botswana, Zambia, Eritrea, Mauritania, DRC Congo, Tanzania, Ethiopia

Source: FIAS, 2008; Zeng, 2015

A study by Brautigam, and Xiaoyang, (2011) of six African Zone programs (Ghana, Kenya, Lesotho, Nigeria, Senegal, and Tanzania) in comparison with four non-African countries (the Dominican Republic, Honduras, Vietnam, and Bangladesh) reflect that success in African zones were limited except for Mauritius, Kenya, Madagascar, and possibly Ghana (Farole, 2011; Zeng 2015). According to Woolfrey, (2012), "East Asia's capture of the global manufacturing market, increased international competition for FDI, the expiration of the Multifibre Arrangement for global apparel trade, the consolidation of global value chains and the weaker demand in traditional export markets all posed challenges for African (and non-African) countries wishing to use SEZs to promote export-led growth". Moreover, the rising costs in China and other early adopters of SEZs provided the opportunity for African countries



to become viable locations for global manufacturing activity, provided that these countries can market themselves as attractive investment destinations (Woolfrey, 2012).

### **3.6.1. Mauritius**

The Mauritius Export Processing Zone (MEPZ) is one of Africa's most famous and successful examples of the free enterprise type of EPZ, where companies were granted status on an individual basis and were free to locate anywhere on the island (Farole, 2011). A group of visionaries studied the success stories of EPZs and believed that the country's small economic size and distance from large developed markets presented the ideal opportunity to develop an export-oriented textile industry (Zafar, 2011). The island managed to sustain a high and stable economic growth rate averaging 5 percent annually between 1970 and 2000 albeit the gloomy prognosis of James Meade who predicted that the Mauritian economy would have poor development prospects due to its heavy dependence on its sugar-based agricultural sector, high vulnerability to trade shocks, rapid population growth and the rising ethnic tensions (Sooreea-Bheemul and Sooreea, 2012; Zafar, 2011).

In 1970 Mauritius passed the Export Processing Zone Act, which provided influential incentives to manufacturers catering to foreign markets, moreover the new legislation included protective import duties and quotas for infant industries, suspension of import duties on materials and equipment for industrial use and not locally available, rebates of import duties on other raw materials and components for specified industries, duty drawback schemes, and favorable long-term loans. The granting of duty-free inputs for manufactured exports played a crucial role in expanding Mauritius' export competitiveness on world markets, and the tax incentives received by the export firms helped subsidize exports (Zafar, 2011).

Foreign direct investment during the 1970s was very modest despite the establishment of the EPZ and numerous policy incentives given to foreign investors (Sooreea-Bheemul and Sooreea, 2012). The authors argue that this was probably due to the time taken to make policy decisions and the uncertainty of the Mauritian economic growth, however during the period 1983 and 1990 FDI surged into the Island due to the new policy incentives provided to compensate for the phasing out of the 10-year tax holiday.

Although the EPZ program in Mauritius was regarded as a success, Kenya and Madagascar also managed to attract relatively large investments and generate employment predominantly in the textiles and garments industry (Brautigam, and Xiaoyang, 2011). Most efforts in Malawi, Mali, Namibia, Nigeria and Senegal struggled, except for Mauritius, no African zone program was successful in facilitating structural economic change via SEZs (Brautigam, and Xiaoyang, 2011). The following issues were known to have held back the African economic zones: "(a) poor site location and inadequate infrastructure; (b) ineffective policy, regulatory and



institutional frameworks, weak governance and PPPs; (c) ineffective management and inefficient procedures and controls; notably land customs administration; (d) poor business environment; (e) lack of strategic planning and demand-driven approach; (f) lack of political leadership and buy-in; and (g) lack of committed key anchor investors” (Brautigam, and Xiaoyang, 2011). EPZDA established in 1990, assisted manufacturers in supply chain management by creating backward linkages and facilitating cluster formation and finally SMIDO, established in 1993, assisted small enterprises with setting up, provided them with the necessary training and mentorship and helped to develop their products and exports possibilities (Sooreea-Bheemul and Sooreea, 2012).

### **3.7. Global Experiences with SMEs and SEZs**

Globalisation in the 21<sup>st</sup> century has resulted in the ‘global village’ phenomenon whereby people all over the world have become closer, moreover, with the advancement in technologies investors are searching for business opportunities in unconventional ways hence the most popular term in modern business ‘FDI’ is evolving at a rapid pace (Bose, 2012). Globalization offers unmatched opportunities for developing countries and in 1970s international trade grew more rapidly than FDI and became the most important international economic activity (Louzi and Abadi, 2011).

Due to the accelerated pace of globalization, cooperation has become an imperative component of business operations, embodied by the notion of ‘cooperate to compete’ (Xu, Lin, and Lin, 2008). The authors note that joint ventures, strategic alliances and supply chain partnerships have been increasingly adopted by organisations and SMEs to achieve strategic objectives. Globalisation in developing countries, especially in Asia, have resulted in an immense surge of FDI over the past two decades (Malhotra, 2014). According to Vadlamannati (2015), countries that engaged in the economic side of globalisation such as in foreign direct invest and trade benefited from high economic growth, technology transfer and growing employment opportunities. The author suggests that developing countries like India and China have their own set of Free Association and Collective Bargaining (FACB) laws that make EPZs more attractive for multinational firms.

SMEs has a long-term role to play in ensuring that growth is inclusive and regionally balanced and has since 1991 embraced globalisation and has integrated the overall strategies that has been adopted by trade and industry at the national level in India (Nagayya and Rao, 2011). The authors allude that SMEs participated in the global value chain for the sole purpose of entering larger avenues, expanding their markets, and in finding new niche markets for their products to become a prominent global player with made in India brands. SMEs play an important role as change agents in global value chains and is therefore important that they



can perform governance functions related to sustainable production in global value chains (Gunasekaran, Rai and Griffin, 2011). The authors assert that to remain competitive and compete in the global market, SMEs need to increase their individual competitiveness and build on the synergy effects gained by engaging in cooperative relations with other SMEs and related partner institutions.

### **3.8. Clustering**

Clusters are geographic concentrations of similar or related firms, which can create competitive advantages for associate firms and regional and national economies, this model can also be adopted by SEZs, SMEs and local government (Aggarwal, 2011). Although the term was popularised by Porter, the advantages gained by firms located near each other have been recognised in the economic literature since the time of Marshall in 1890 (Aggarwal, 2011; Huang and Rice, 2013; Jackson, 2015). However, it was Porter who emphasised the role of these benefits by enhancing productivity and competitiveness of firms, regions and nations in his theory of industrial clusters (Aggarwal, 2011; Kim, 2011; Kim 2015; Jackson, 2015).

According to Hsu, Lai and Lin (2013), clusters are mostly formed based on geographic proximity which enabled manufacturers to create economies of scale and economies of scope, resulting in the saving of tangible and intangible transaction costs and allowing the sharing of key information of the area. The enterprises within a cluster were equipped with efficient infrastructure, quality services, a favourable business environment, few regulatory restrictions, and minimum red tape. These externalities were termed 'agglomeration (or localisation) economies' that arose from labour pooling, knowledge interactions, specialisation, and the sharing of inputs and outputs and were also associated with economic benefits for member firms' due to access to specialised human resources and skills, lower input and service costs, knowledge spill overs, and pressure for higher performance (Aggarwal, 2011). The role of SEZs in creating agglomeration economies and their benefits were however ignored based on the assumption that they were trade enclaves which used cheap labour in low-skilled production and had little domestic linkages, but the zones have changed and evolved over time (FIAS, 2008).

The Micro and Small Enterprises Cluster Development Program (MSE-CDP) in India was reviewed in 2006-07 to fast track the development of clusters which became a major initiative that enhanced the collective efficiency of firms and promoted collaborative efforts amongst the firms in a set location (Nagayya and Rao, 2011). The authors state that over decades, various ministries in India have been adopting the cluster approach as a key strategy to enhance productivity and competitiveness and capacity building of SMEs in the country and this sector



is supported at different levels by cluster-specific and firm-specific programs that are pursued by organisations with a wide network of institutions.

According to Nagayya and Rao (2011), Cluster based approach assists in strengthening SMEs as follows: “(a) Networking among enterprises; (b) Strengthening of the human capital; (c) Upgrading of technology and skills; (d) Lowering of costs; (e) Improving bargaining power; (f) Global visibility; (g) Easier access to finance; (h) Greater government support, and (i) External players within the value chain”.

According to Dhingra and Singh (2009), “competitiveness of a nation can be achieved through its trade, export competitiveness, infrastructure development, and by providing special economic privileges, such as, lower taxes and rebates for a liberalised economy”. The authors state that empirical research and literature suggested that location can be a contributing factor to the competitiveness of the firm, moreover, SEZs located in developed areas where the chances of agglomeration is great are more successful than those in semi or underdeveloped areas.

According to Zeng (2011), the key experiences of China’s SEZs, and industrial clusters was based on a gradual and experimental approach with strong commitment supported by the active and realistic facilitation of the state. According to Zeng, (2011), lessons to be learnt include:

- (a) “The importance of strong commitment and pragmatism from top leadership;
- (b) Preferential policies and broad institutional autonomy;
- (c) Strong support and proactive participation of governments, especially in the areas of public goods and externalities;
- (d) Public-private partnerships;
- (e) Foreign direct investment and investment from the Chinese diaspora;
- (f) Business value chains and social networks, and
- (g) Continuous technology learning and upgrading”.

The industrial parks (planned sites that were developed and managed to provide industrial location), that were built in the Republic of Korea were based on the cluster concept. Moreover, the term “cluster” was not explicitly mentioned until the late 1990s when the government paid more attention to promoting regional industries (Kim, 2015). Industrial development was a major engine of growth in Korea due to government’s intervention in designing policies that assisted the Republic of Korea in becoming a high-income industrialized country. Furthermore, these policies also focused on re-establishing balanced development by promoting SMEs and regional economic activities. The economic liberation



in the 1990's had a huge negative impact on SMEs since they were hard hit by the exposure to competitive forces both nationally and worldwide and based on their size and the lack of technological advantage, they were unequipped to withstand the pressure from competition (Kim, 2015). However, SMEs formed clusters to enhance their competitiveness thereby promoting economic growth, the first cluster that was formed was the automotive cluster (Venkatarmanaiah and Parashar, 2007).

Many scholars claim without a doubt that one of the many reasons for China's remarkable industrial dynamics in the past decades is the agglomeration of specialized enterprises that sprang up since the reforms in extremely varied forms which fast tracked the development of certain regions (Zeng, 2010). Furthermore, these agglomerations are an important driver of China's rapid export-led growth and given the large magnitude of industrial clusters in China, it is virtually impossible to examine all of them, hence discussed below is a brief overview of some clusters.

The industrial clusters in China have emerged spontaneously, with full support from local government, they operated mainly in the labour-intensive manufacturing sectors, that is, at the lower end of the global value chain. Moreover, in recent years, some high-end clusters have also grown out of SEZs, such as those in Beijing, Shanghai, and Shenzhen with most of the industrial clusters concentrated in the coastal region, especially in Zhejiang, Guangdong, Fujian, and Jiangsu provinces (Zeng, 2010).

The above approaches have been well assimilated into the motor industry Coega IDZ, which augers well for South Africa to replicate it in other industries provided that the appropriate local private sector and/or foreign partnerships are formed.

### **3.8.1. Benefits of Cluster Formation**

The advantages that emerge from co-location in geographical clusters and its spatial proximity improves the flow of information upon which innovators depend on, thereby creating knowledge spill overs, opportunities for innovation and entrepreneurial activities, the acceleration of innovation diffusion, promotes business competitiveness, advances local economic growth and the enhancement of regional prosperity (Huang and Rice, 2013; Jackson, 2015). Clusters facilitate the competitive advantage of locality from a mixture of competition and cooperation between local enterprises and from the partnership of public and private organizations aimed at supporting local enterprises (Jackson, 2015; Zeng, 2010).

Industrial clusters development has been very successful in transforming the economy of many countries as well as in the spread of multi-national companies (MCNs) in several parts of the world based on their shared resources such as (information, materials, energy, water,



infrastructure, and finance), thereby leading to improved environmental quality, economic gains, and equitable enhancement of human resources for both the business and local community (Sarkar, 2014). The author adds that clusters are a good example of corporate and collaborate action as well as social networking that could assist its members in improving their business competitiveness and in gaining financial benefits across eco-industrial enterprises. The agglomeration effect occurs when complementary commercial activities take place in a small geographical area, whereby SEZs are not just places of production, as they grow, they become places of consumption, because the people and companies located within them increasingly require goods and services to keep them in operation (Walsh, 2013).

According to trading economics.com, “manufacturing production in South Africa decreased 1.6% year-on-year in September of 2017, following an upwardly revised 1.8% rise in August and well below expectations of a 0.6% gain. Output fell for motor vehicles and transport equipment (-4% compared to 0.7% in August) and glass and non-metallic mineral products (-5.4% compared to 1.9%). In addition, production went down faster for petroleum, chemical products, rubber and plastic products (-2.5% compared to -1.0%); wood and wood products, paper, publishing and printing (-7% compared to -1.3%); clothing and footwear (-6.6% compared to -3.2%) and electrical machinery (-9.8% compared to -1.2%)”. Furthermore, thousands have lost their jobs and this added to the unemployment rate, hence clustering with international partners is essential in order to integrate into global value chains, ensure technology transfer to SMEs, skills development, strengthening and expansion of local value chains thus synergies for new and existing businesses to grow.

### **3.9. Success Factors and Lessons Learned**

Many factors were key to the success of SEZs in China, although the situations and factors varied the following are however the success points to some common lessons (Zeng, 2015; Zeng, 2010; Brautigam, and Xiaoyang, 2011).

**Strong commitment and support of the government to pilot market-oriented economic reforms.** The top leaders were determined to bring about change and amidst an uncertain beginning they managed to ensure a stable and supportive macro-environment. Central government decentralized its power for the benefit of an open and conducive legal and policy environment for the SEZs, and local governments simultaneously created a conducive regulatory environment for reforms, an efficient administrative system such as a ‘one-stop-shops’, and good infrastructure for the zones (Zeng, 2015).

**Land Reforms.** Before 1981, all land in urban and rural areas belonged to the State but the land reforms that started in Shenzhen played an important role in the success of the SEZs which culminated in government allowing SEZs to lease land to investors with an initial term



of 20-50 years with the possibility of renewal. Moreover, in 2002 a land auction system was established for all commercial land and in 2007 for industrial land to efficiently use land resources and this transformed China into a modern land market (Shen and Xu, 2011).

**Investment incentives and institutional autonomy.** To attract firms (especially foreign direct investments) to invest in the zones, the special economic zones offered various fiscal and non-fiscal incentives and preferential policies, on top of the list were simplified administrative policies, sound infrastructure, efficient customs clearance, concessionary tax rates, and the flexibility of hiring and firing workers. Policies were also in place to attract skilled labour, research funding, education subsidies and for the provision of housing. Moreover, the initial SEZs were allowed greater political and economic sovereignty and could develop municipal laws and regulations to govern the zones that allowed them freedom to pursue new policies and development measures to revitalize the economy (Zeng, 2015).

**Foreign direct investment and the Chinese diaspora.** FDI and the Chinese diaspora were key factors in the success of the SEZs by contributing to the capital investment, technologies and management skills; created learning and spill overs; and ultimately assisted in the building of local manufacturing capacity (Brautigam, and Xiaoyang, 2011). During the surge of SEZs in the 1980s, Hong Kong (China), Macao (China), and Taiwan (China) simultaneously upgraded their industrial structure and eliminated their labour-intensive manufacturing sectors. The Open-Door policies coupled with various incentives, the cheap labour and good infrastructure in the SEZs, provided the platform for FDI to flow into China from the diaspora.

**Technology learning, innovation, upgrading, and strong links with the domestic economy.** Research shows that the key strength of SEZs is the high concentration of skilled people and have become the centres of knowledge and technology generation, adaptation, diffusion, and innovation. The overflow of FDI offers good opportunity for technology learning backed by government support on technology learning and innovation and technology-intensive industries. SEZs connection to domestic enterprises and industrial clusters through supply or value chains helps to achieve economies of scale and business efficiency and stimulates synergistic learning and enhances industrial competitiveness.

**Innovative cultures.** SEZs were generally built in new areas or suburbs of cities therefore it managed to attract immigrants from across the country who hoped for better jobs and opportunities, hence this motivated community are inclined to generate an innovative and entrepreneurial culture.

**Clear objectives, benchmarks, and competitions.** SEZs were set up in batches in China and then flared up in numbers. The zones were governed by clear goals and targets in GDP growth, exports, employment, revenues, and FDI generation (Brautigam, and Xiaoyang,



2011). This created stress but also tasked the zone management with responsibilities to deliver on. The hundreds of zones were highly competitive, each striving to differentiate itself in service, quality of infrastructure, and appearance to attract new businesses and reach their targeted developmental goals. The competition created a more efficient and competitive environment (Zeng, 2010).

**Location advantages.** SEZs in China are generally situated in the coastal regions or near major cities with a history of foreign trading, hence they are better linked to the international market and have good access to major infrastructure, such as ports, airports and railways. The SEZs in the Pearl River Delta region is strategically situated (close to Hong Kong SAR, China) and the Min Delta region (close to Taiwan, China). The SEZs in this region gained access to capital and world markets, logistical support, management know-how, technology and management skills from Hong Kong SAR, China whilst the Pearl Delta region provided labour, land and natural resources, this interaction allowed the Greater Pearl Delta region to develop into the world's major manufacturing bases.

The South African SEZ endeavours to address all the above 8 points in majority of the instances, however, in regard to location advantages, the authorities have also included land-locked areas that might have other strategic advantages like access to primary inputs as in the Mpumalanga case.

### **3.10. Public Private Partnerships**

A public-private partnership is defined as 'an agreement between the government and one or more private partners (which may include the operators and the financiers) according to which the private partners deliver the service in such a manner that the service delivery objectives of the government are aligned with the profit objectives of the private partners and where the effectiveness of the alignment depends on a sufficient transfer of risk to the private partners' (Kristensen, McQuaid, and Scherrer, 2012). According to Grossman (2012), "PPPs stress upon the contractual relationship between government and the private sector which is intended to further 'cooperation not competition' and may range between management and political reform, problem-solving, risk-reduction, and innovations in public service". Moreover, Kristensen, *et al.*, (2012), stated that public-private partnerships cover all arrangements that fall within the framework of cooperation and involvement of partners for the purpose of mapping out a strategy for the accomplishment of a common goal as defined by public and private agents.

Public-private partnerships inclusive of international partners are especially critical for SEZs and local SMEs operating within them to thrive with regards to dealing with governments



administrative requirements, monitoring and evaluation, technology, skills transfer, BBEE, and the to compete globally optimally.

### **3.10.1. The Impact of Private Sector Involvement**

Studies reveal that private sector development zones are better than public sector development since the private sector is more dynamic in zone implementation and is a critical source of expertise and risk management (Farole, 2011). According to Sooreea-Bheemul and Sooreea (2012), Mauritius emerged as a success story due to the healthy private-public partnerships it maintained. Empirical evidence suggests that the most successful SEZs are public-private partnerships which are essential due to the limited skills within the public sector, private companies are lured into the zones via incentives which aims to ensure that the SEZs attract FDI, increase international competitiveness, create jobs, and generate revenue (Nyakabawo, 2014).

### **3.11. Special Economic Zones – South Africa**

The Centre for Economic Development (CDE) convened to discuss international experience with SEZs, to review South Africa's recent experience with industrial development zones (IDZs) and to analyse the proposed changes in South Africa's legislation regarding economic zones. Moreover, the analysis is timely based on the increased focus on the use of SEZs in Africa, the changing global trends in the design and implementation of SEZs and the recent changes by the South African Government to revitalise its largely unsuccessful IDZ programme (Woolfrey, 2012).

#### **3.11.1. Background: The Transformation from IDZs to SEZs**

The Industrial Development Zone (IDZ) was established by the Department of Trade and Industry (DTI) under the Manufacturing Development Act (MDA) in 2000, to purposefully attract foreign direct investment, increase exports of value-added manufacturing products and to create linkages between domestic and zone-based industries (Nyakabawo, 2014; Centre for Development and Enterprise (CDE), 2012). The following six IDZs were designated: Coega; East London, Richards Bay, OR Tambo, Saldanha Bay and the most recent Dube Trade Port designated in 2014 (Nyakabawo, 2014).

The Department of Trade and Industry reviewed the progress and reported that for the period 2002 to 2010, a total of 40 investors were attracted into the three operational IDZs, Coega, East London and Richards Bay and have spent R11, 8 billion, the DTI spent R5, 3 billion on the programme, a total of 33000 jobs were created and no one believed that this performance represented success (CDE, 2012). According to the CDE, (2012) report, and Farole, (2011), the problems experienced with IDZs were its policy and management practice in terms of strategy, design and management, and support. The following were highlighted as the



challenges: “(a) the linkages with national, regional and local economic industrial strategies were weak and the targeted industrial capabilities were unclear; (b) the governance, ownership and management of the IDZs; (c) institutional arrangements were not aligned to long term strategic architecture; (d) key stakeholders were inadequately coordinated and it proved to be an ineffective business model; (e) financial support was ad hoc which was inappropriate for long term planning, and (f) there was an over emphasis on hard infrastructure at the expense of the soft infrastructure”. According to Walsh (2013), hard infrastructure refers to physical items such as road and rail links, electricity and water supply pipelines, and logistics hubs and soft infrastructure refers to the legal and commercial codes necessary for business organizations to manage their operations effectively in the territory concerned.

The shortcoming in the IDZ design was that the policy focused solely on one type of SEZ, which were biased towards regions which had access to sea or airports, and this limitation hindered the programme from harnessing the long-term development potential of all regions, resulting in economic marginalisation and spatial inequalities (Nyakabawo, 2014). The IDZ programme needed to be redesigned and expanded into the special economic zones programme to accommodate the diverse types of SEZs based on the changing national and regional economic development priorities, needs and contexts (the Government Gazette (2012). Having reviewed the performance of the IDZs, government recognised that due to several critical design weaknesses, the IDZs failed in achieving the desired outcome of promoting investment and job creation (Woolfrey, 2012). There needed to be a new paradigm shift and the IDZ policy needed to be reviewed whilst a bill needed to be developed for SEZs (MILE, 2011). The Department of Trade and Industry released for public comment a draft Special Economic Zones Policy and Special Economic Zones Bill in early 2012 (Woolfrey, 2012). South African studies by Chinguno (2009, 2011,) and (CDE, 2012), have documented a number of challenges faced by South Africa’s experiments with IDZs which prevented them from being the panacea for the huge unemployment and development constraints that the country faces. The authors state that although the SEZ initiatives, as dictated by the 2014 SEZ Act and a few DTI policy documents, are bold and exciting responses to the government’s development objectives and limitations of the IDZs, there still remains unaddressed concerns which could potentially stymie the advancement of this initiative. The authors added that if SEZs were the chosen instrument to transform South Africa’s economic prospects, then the approach to their development must be radical unlike that of the ineffective IDZ strategy. The authors allude that successful SEZs must offer more than an investment proposition that is only slightly better than what is available outside the zone, furthermore, SEZs must be globally competitive. If South Africa is to deliver on the promise of SEZs, the country’s new approach will need to embrace some key lessons from international experience.



The following are some of the concerns that were highlighted by these authors:

The SEZs policy in South Africa has been, received with mixed ideologies from within government and the public at large. Some favoured the interventionist industrial policies, whilst others felt that the state could not 'pick winners'. Some viewed SEZs as a good intervention whilst others saw them as potentially undermining labour and other rights. These beliefs also manifested in the industrial development zones programme from its conception to delivery (Chinguno, 2011).

Special economic zones must offer investors something significantly different from what is available in the rest of the country. The goals of the country's SEZ programme will dictate precisely what an SEZ will offer and how it will differ from conditions elsewhere in that country. International evidence indicates that SEZs are most successful when they are targeted toward industries and offer concrete solutions to the challenges faced by those industries. The SEZs in Tabatse and Musina attempts to address this and the master plan in this regard may bode well for the SEZ.

### **3.11.2. SEZ Bill – Nature of Intervention**

The draft SEZ Bill that was tabled in Parliament in 2012 highlight government's desire to redesign and expand its IDZ programme "by moving away from a narrow focus on IDZs – a particular category of SEZs which in a South African context have amounted to a little more than glorified industrial parks – and towards the development of diverse types of SEZs in accordance with the changing national economic development priorities as well as regional development needs and contexts" (Woolfrey, 2012). According to IPAP, (2012/13-2014/5), "The Bill seeks to provide for the designation, development, promotion, operation and management of SEZs".

### **3.11.3. Objectives of the Act**

According to the Government Gazette, (2014), the objectives of the Act are to provide for:

- a) "The determination of Special Economic Zones policy and strategy;
- b) The establishment of the Advisory Board;
- c) The establishment of the Special Economic Zones Fund to support the development of Special Economic Zones;
- d) The designation, promotion, development, operation and management of Special Economic Zones;
- e) Regulatory measures and incentives for Special Economic Zones in order to attract domestic and foreign direct investment, and



- f) The establishment of a single point of contact or one stop shop that delivers the required government services to businesses operating in Special Economic Zones to lodge applications to various government authorities and agencies and to receive information on regulatory requirements from such authorities and agencies”.

### **3.12. SEZ Policy and Programme: Intervention in South Africa**

According to Industrial Policy Action Plan (IPAP) (2012/13-2014/5), the SEZ policy and programme aims to provide a clear framework for the development, operations and management of SEZs. “The policy will cover diverse regional developmental needs and improve on the design deficiencies of the IDZ programme; provide a clear, predictable and systematic planning framework for the development of a wider range of SEZs to support implementation of IPAP, regional industrial development strategies and the New Growth Path (NGP); clarify and strengthen governance arrangements for the management of SEZs; expand the range and quality support measures beyond the provision of infrastructure, including both in-zone and out-of-zone support measures; develop and implement a predictable financing framework to enable long-term planning; and develop and implement a comprehensive programme to support the development of SEZs” (IPAP, 2012/13-2014/15).

#### **3.12.1. Economic Rationale**

The economic rationale is “to provide for the establishment of the SEZ Board; to regulate the application and issuing of SEZ operator permits; and to provide for the establishment of the SEZ Fund. The Bill will further support the acceleration of industrial development and the creation of a regionally diverse industrial economy through the establishment of new industrial hubs in underdeveloped regions of the country” (IPAP) (2012/13-2014/5).

#### **3.12.2. Economic Analysis**

According to Cook (2013), South Africa is a multi-racial, predominantly black country that is highly diversified with the most industrialised economy in Africa. “It is also significantly influential regionally due to its investment and political engagement in many African countries, moreover it plays an active role and leadership within the inter-governmental African Union (AU)”. “South Africa displays huge regional, rural-urban, and interracial disparities and most black South Africans live in poverty. Blacks are also disproportionately unemployed, at a rate of 36% in 2011, in comparison to 5.9% for whites, and they have limited access to education, but these figures are steadily increasing”. South Africa faces several challenges, such as poverty, public service provision, labour unrests, public corruption, high rates of violent crimes, periodic vigilante and mob violence, and high but stable rates of HIV/AIDS (Cook, 2013).



### **3.12.3. Implementation of Special Economic Zones as a Development tool in South Africa**

According to IPAP (2012-15), special economic zones are important instruments to support long-term industrial and economic development, is one of the pillars needed to create a conducive environment for foreign direct and domestic investment and to develop strategic industrial capabilities. SEZs were identified as instruments for developing South Africa into a higher industrialisation path based on the success achieved in other economies and the potential gains that can be achieved due to its prime positioning in the African context (Nyakabawo, 2014). The new SEZ programme's key function is to create new industrial hubs in underdeveloped regions of the country and ultimately create a regionally diverse industrial economy (IPAP, 2012-15). According to Baissac (2012), the industrial development zones failed in attracting investment, moreover, foreign direct investment has attracted capital-intensive rather than labour-intensive firms. The author adds that there is no balance between public and private investment with the former investing too much resulting in a negative contribution of IDZs to the country's economy.

In 1997, a policy for the adoption of SEZs was endorsed by the South African government to shift the country's industrial strategy from an inward looking to an export driven strategy. The intention of the export driven strategy was aimed at promoting investment in underdeveloped areas, job creation, improving the manufacturing sector and ultimately in participating in the global economy (Chinguno, 2009). According to Gauthier (2012), SEZs failed due to the lack of strategic focus, incorrect locations, weak regulatory authorities, lack of harmony between stakeholders and lastly an over-reliance on tax incentives.

SEZs are central to Government's strategic objectives of industrialisation, regional development and employment creation, furthermore, SEZs will be used by government to underpin a broad-band of industrial parks and infrastructure for the effective clustering of value-adding and employment-enhancing manufacturers (IPAP, 2012-15).

According to Nyakabawo (2014), South Africa's mineral and natural resources, astute economic policies, good regulatory environment and being the gateway to Africa provides the perfect backdrop against which SEZs can be the growth engines to support of industrialisation, regional development, export promotion and job creation. Moreover, it would improve the attractiveness of South Africa for foreign direct investment, if it is properly planned, funded, developed, managed and marketed.



### **3.13. Incentives Offered Globally vs Incentives Offered in South Africa**

SEZs generally offer incentives that are duty-free importing with streamlined customs procedures and special economic regulations that are zone specific to attract foreign direct investment. Companies operating within the zones receive tax incentives and the privilege to pay lower tariffs (Adrian, 2011). The DTI suggest that SEZs should include labour flexibility as an incentive to attract investors which will be set out in the proposed bill and will also consider other factors such as infrastructure, development, stability, and support measures. Moreover, the bill will also allow private companies involved in public-private partnerships to apply to be operators within the zones and will be entitled to support apart from tax incentives (Ensor, 2013).

In China, SEZs provided substantial incentives such as preferential policies, preferential fees for the use of land and facility, reduction on import tariffs, duty-free imports of raw materials and intermediate goods, efficient customs clearance, repatriation of profits and capital investments, and flexibility in hiring and firing workers (Zhang, and Ilheu, 2014). The authors also stated that the SEZ government revised relevant policies and regulations in keeping with business needs and market conditions. However, in South Africa incentives offered are: “preferential 15% corporate tax; building allowance; employment incentives; customs-controlled area; and 121 tax allowance” (Nyakabawo 2014).

### **3.14. Small and Medium-Sized Enterprises: General Characteristics**

The terms ‘micro, small, and medium-sized enterprises’ hold different meanings world-wide and are commonly based on the number of employees, total net assets, sales and investment levels (Vaitkevicius, 2014). Smith and Deslandes, (2014) state that SMEs play an integral role in fostering economic development globally and the sector ensures regional economic growth, competitiveness within the market economy and job creation. In 1950s Jamaica established the Industrial Development Corporation to provide new industries with technical and financial support and has since introduced numerous policies in lieu of the SMEs’ needs. The authors also state that SMEs contributed significantly to developed and developing economies with respect to economic growth, job creation, innovation and poverty alleviation.

According to Lin, Seidel, Shahbazzpour and Howell (2013), SMEs are perceived as innovative due to their involvement in new products and services, moreover it is assumed that SMEs’ innovativeness includes advanced management practices such as knowledge management (KM), however to the contrary, SMEs do not implement KM since they are unaware of the solutions available.

In developed countries such as Germany, the SMEs are strong which is reflected in their economy and approximately two-thirds of the workers are employed by these enterprises. In



South Korea, SMEs account for 99 percent of all enterprises and 88 percent of all employees, and Korean companies such as Samsung and LG were at one stage small enterprises (Kim, 2011). According to Lo and Han (2014), SMEs located in SEZs or Science Parks gain access to better infrastructure, services and laws, and market friendly regulations specially to attract FDI to the zones as was prevalent in China. Infrastructure investments such as roads, power, railways and water supply assisted the performance of SMEs significantly and attracted them to the zones (Lokhande, 2011). A leading private sector firm in India, Reliance Industries, said that it was impossible to grow without the support of small businesses, and offered to create flexible policies for SMEs who could not afford the upfront costs of setting up a unit within the zones. SEZ developers urged the government to adopt SME-friendly policies to assist in protecting and nurturing the SMEs, furthermore, companies set up SME lending counters within the zones to provide an 'end-to-end' solution whilst SMEs focused on its core competencies (Jha, 2007).

### **3.15. SMEs in Sub Saharan Africa (SSA) and South Africa**

SMEs in Africa have played a significant role in most economies particularly in developing countries with huge employment and income distribution challenges, such as in South Africa (Sardana and Thatchenkery, 2013). The economic prosperity of a country is at risk if it fails to create and sustain new SMEs. SMEs has contributed between 51-and 57 percent to the GDP and 60 percent of all jobs in South Africa (Kim, 2011; Sardana and Thatchenkery, 2013). SMEs in other African countries, which relied on oil or other natural resources, exhibited skewed development whilst South Africa and Mauritius displayed vibrant SMEs. The civil war in the Democratic Republic of Congo resulted in most local SMEs going bankrupt, moreover, the lack of infrastructure and environmental conditions such as unattractive tax regimes and legal systems, small local market, and corruption further complicated and hindered the development of SMEs (Kim, 2011).

The Small Enterprise Development Agency (SEDA) was established in 2004 by the Small Business Act to support these enterprises, moreover it is suggested that SEDA learn to adopt the following from its Brazilian counterpart, Sebrae: "(a) to use innovative methods to widen the agency's reach, such as television, radio, print media competitions and blogs to reach business owners; (b) to engage the services of private sector consultants; (c) to target more sophisticated clients, and (d) to have systems in place to monitor the impact of these interventions" (NCR, 2011).

#### **3.15.1. Challenges Faced by African SMEs**

Studies reflect that many African countries lack the governmental capacity required to support the development of local SMEs and they impose harsh regulations on local SMEs. The local



SMEs in Ethiopia complained about the tight regulations, difficulties experienced in obtaining licenses, and heavy taxation, whilst SMEs in Ghana found it impossible to enter the gas refinery market due to the legal system that were more favourable to international companies (Kim, 2011).

According to Lin *et al.*, (2013), SMEs are often challenged with limited resources, particularly funding, staff time and low levels of staff skill and versatility, furthermore SMEs tend to have relatively small cash reserves which makes them more vulnerable to short-term fluctuations due to market change or delayed customer payments. The authors note that SMEs also lack human resources and therefore focused on short-term tasks rather than long-term strategic initiatives. The influx of Asian investors as in the case of Chinese businesses also brought about several negative consequences, it was assumed that the Chinese companies operating in Africa were related to oil or other natural resources sectors, but 80 percent of the Chinese companies are SMEs (Kim, 2011). The Chinese further exacerbated the situation by bringing their own workers and sent profits back to China since they did not trust the local systems, furthermore this prevented local job creation and reinvesting in the host country which defeats the aims of special economic zones.

According to National Credit Regulator (NCR), (2011), South Africa has funds available in both the public and private sector to support SMEs, however the awareness and utilization of the programmes available has been disappointingly low. Subsequently a 'one stop shop' has been suggested as a 'single source of information' to provide all available support programmes and how to access them (NCR, 2011).

### **3.16. Conclusion**

This chapter provided a historical background of special economic zones together with an International, Sub-Sahara Africa and South African overview of special economic zones and small to medium enterprises. It also highlighted the concerns and criticisms of various scholars who have documented several challenges faced by South Africa's experiments with IDZs which prevented them from being the panacea for the huge unemployment and development constraints that the country faces. The authors noted that the SEZ initiatives as captured by the 2014 SEZ Act and a few DTI policy documents were brave and could be a stimulating response to the government's development objectives and limitations of the IDZs, but there still remained unaddressed concerns which could potentially cause the initiative to standstill. The authors alluded that should South Africa elect SEZs to transform the country's economic prospects, then the approach to their development must be quite different from the ineffective IDZ strategy. Successful SEZs must do more than offer an investment proposition that is marginally better than what is available outside the zone, success requires that SEZs



be globally competitive. If South Africa is to deliver on the promise of SEZs, the country's new approach will need to embrace some key lessons from international experience.

Export processing zones (EPZs), as they were initially known, were adopted in Asia in the nineteenth century by developed and developing economies such as India, China and Africa. China adopted this policy about three decades ago in its drive towards economic liberalization and has achieved much success together with a few African countries such as Mauritius and Kenya.

Unemployment in South Africa is extremely high therefore industrial development is vital to economic prosperity and success. The country needs to create and sustain economic opportunities within all regions, more especially in underdeveloped regions as selected in the Limpopo province. SEZs are equipped to be the vehicle of change and can be instrumental in supporting national and regional industrial development policy objectives. However, they require robust coordination and support from all levels of government, adequate financial and technical resources and clearly targeted industrial capabilities and investments to attract potential SMEs within the zones.

China has successfully implemented the SEZ programs and offers many useful lessons which can be carefully tailored into the local context of the Limpopo Province by the SEZ Strategy Team. It is critical for policy makers, particularly in emerging countries, to learn from past experiences and adopt a flexible approach, and SEZs should be used as an instrument to effectively leverage the country's comparative advantage. The mindset of key players also needs to change from relying on fiscal incentives and wage control to becoming more focused on facilitating an effective business environment which nurtures competitiveness, local economic integration, innovation, and social and environmental sustainability. Although SEZs were successful in stimulating activity in the short run, they are not stand-alone policies, therefore policymakers must plan to ensure long term competitiveness and sustainability of these initiatives before launching them. Foreign direct investment provided the much-needed resources to developing countries such as capital, technology, managerial skills, entrepreneurial abilities, and access to markets, South Africa needs to adopt relevant strategies to attract the much needed FDI.

Cluster formation and public-private partnerships also featured as important for the success of SEZs and SMEs and should be considered for the success of the SEZs. It is also important to note that most African countries are newcomers to implementing modern zone programs and rebalancing of the global value chain and industrial structure can afford good opportunities for these zones. The concept of SEZs and its impact on economic growth is gaining more acceptance globally and the instrument is being widely applied. Moreover, the mixed results



in terms of successes and failures of SEZs worldwide confirms that it is not a panacea, hence SEZs should be properly implemented and carefully tailored to suit the needs of the various countries.

The next chapter provides a presentation of the research methodology and design.



## **CHAPTER 4**

### **RESEARCH METHODOLOGY**

#### **4.0. Introduction**

This study is focused on the stakeholder perceptions of whether the special economic zone earmarked for the Limpopo Province will serve as a viable business model for small-medium enterprises and help realize the public-sector growth and development objectives.

The South African Government adopted the concepts of industrial development zones in the early 2000s but unfortunately the zones did not deliver on its prescribed targets of improving the country's economic status by means of creating jobs or attracting foreign direct investment into the zones. South Africa has been experiencing an incremental rate of unemployment and after much deliberation, the government decided to transform all industrial development zones into special economic zones. The sole purpose is to use the SEZ as an instrument to create jobs, alleviate poverty, and create clusters with backward and forward linkages into the domestic market, and most importantly to attract foreign direct investment into the designated zones. The government is also investing billions of Rand to support and develop small to medium enterprises to alleviate unemployment and poverty in the country.

The aim of this study is to capture the perceptions of key players regarding the establishment, roll out and effectiveness of special economic zones in supporting SMEs in the Limpopo Province. Empirical evidence illustrates that third world countries such China and India have improved their economic status by adopting and re-designing SEZs to meet their individual needs.

The study adopted both qualitative and quantitative methods to undertake the investigation. The qualitative methods involved undertaking content analysis of three strategic planning documents that were compiled by the Limpopo SEZ task team, as well as, conducting semi-structured interviews of key informants. The quantitative analysis involved administering a survey questionnaire targeting the Department of Trade and Industry, the officials from the provincial and local government, and private sector entrepreneurs that would potentially be affected by the newly designated zones in the Limpopo Province to address the research objectives discussed below (see section 4.2). Sections 4.3 and 4.4 of this chapter focus on the research methodology and design respectively that was used in the study. Thereafter sections 4.5 to 4.10 provide a succinct account of the target population, the sampling method and sample selection, the interview guide (research instrument) and the data analysis



technique involving the thematic content analyses of the strategic documents and the respondents' responses.

#### **4.1. Research Design**

According Burns and Bush (2010), a research design “is a detailed outline of the procedures that were followed in a research effort to achieve the set aims and objectives. It relates to specified research methods that were followed in the collection and analysis of data”. According to Malhotra (2010), “a research design refers to a framework for implementing a research project and it provides the procedures that must be followed in obtaining the necessary information for achieving the research objectives. It is a blueprint to be used by the researcher in executing a research project and it reflects the way of gathering the data. Its main purpose is to propose a study that will provide information for decision making as well as answering the research questions”. Research designs can be exploratory, descriptive or causal.

This study was primarily based on a qualitative research approach but supplemented with some descriptive statistics for the purposes of quantifying perceptions. Welman, Kauger and Mitchell (2009), defines a qualitative research as “an approach rather than a particular design or set of techniques and is an “umbrella phrase” covering an array of interpretive techniques which seek to describe, decode, translate and otherwise come to terms with the meaning of naturally occurring phenomena in the social world”. The authors state that the qualitative approach is fundamentally a descriptive form of research. According to Lacobucci and Churchill (2010), “descriptive research identifies the relationship between variables or the frequency within which something occurs, which supports the objectives of the study”.

Qualitative research is an inquiry process of understanding a human or social problem, based on building a holistic and complex picture, composed of words, recording the detailed views of the respondents, and conducted in a natural setting. In a somewhat simplistic manner, Sogunro (2002) states that “quantitative research is an empirical research where the data is in the numerical form, and qualitative research is an empirical research where the data is not in numerical form. These two research approaches are equally recognised and used in conducting research. The major differences mainly lie in the areas of data collection and data analysis. While quantitative research relies heavily on numerical data and statistical analysis, qualitative research makes little use of statistics and numbers and relies mainly on subjective analysis and verbal data”. The researcher presents a summary of the differing characteristics of quantitative and qualitative research approaches as garnered from the literature and her experience during conducting her evaluation study. This study will employ both approaches in a mixed method design but will be more heavily weighted in the qualitative analysis.



**Table 4.1: Differing Characteristics of Quantitative and Qualitative Research Approaches**

Factor	Qualitative	Quantitative
Data collected	Soft data	Hard data
Data collection techniques	Active interaction with sample population (observation by active participation)	Passive interaction through questionnaire and/or experimental design
Sample population	Small population	Large population
Research variables	Large number	Small number
Data collection	On-going observation and interview	Before and after training or experiment
Relationship	Intense and long term with subjects	Distant and short term
Research context	Uncontrolled	Controlled
Data analysis	Content/interpretive analyses through themes, patterns and narrative synthesis, using coding and descriptive statistics, including ranking, frequency, percentages, etc.	Statistical analyses (e.g., descriptive, inferential statistics) using specified procedures, such as the Statistical Package for the Social Sciences (SPSS)
Research findings	Inductive through creativity and critical reflection	Deductive through inferences from data
Research Instruments/Tools	Researcher as instrument, interview guide, tape recorder, transcriber, computer, type writer, etc.	Questionnaires, computer, calculator, etc.
Interpretation of Information/Results	Subjective nature of Inquiry	Objective, Interpretivism, Positivism
Research Tradition	Ethnography, hermeneutics, phenomenography, case studies, etc.	Descriptive correlational, experimental, casual-comparative, etc.

Source: Educational Research Quarterly, Sogunro (2002)5

According to Sogunro, (2002), these differing characteristics presented in Table 4.1 are similar to the ones identified by Creswel (1994). The author cautions that the differences between these two approaches to research should not obscure the similarities in logic, which makes these methods compatibles. Sekeran and Bougie (2013), highlight that a quantitative research approach is followed when there is a need to generalise the findings of the study to a larger population. It involves methods of data collection which emphasize the use of structured and formalised standard questioning practices in which the researcher predetermines the response options. Sogunro (2002), states that “while trying to avoid strongly supporting one approach over the other, the key rule is to understand the nature, and appropriateness of each of the two approaches, and enter the evaluation or research arena with an open mind. As noted in the previous subsection, this research study is firmly ensconced in the qualitative framework with its critical elements described in the middle column of Table 4.1, above.



## 4.2. Research Objectives

The research method selected for this study follows from the research objectives. For this reason, the objectives that were presented in chapter one of this study are listed hereunder:

1. To Identify the key concerns, challenges, and risk factors that affect the success and sustainability of SMEs located within SEZ's
2. To highlight communication barriers that hinder the success of SME's and SEZ's
3. To investigate the possibility of SMEs, especially light manufacturing industries, involving themselves in SEZ projects.
4. To identify the incentives provided to attract local and foreign investors
5. To investigate whether the incentives are adequate to satisfy the needs of SMEs
6. To ascertain whether the SEZ ACT and South Africa's governance is adequate to provide basic services and to promote economic and political interests.
7. To establish whether government and entrepreneurs are working towards identifying cluster strategies in the identified zones.
8. To establish whether clustering is a priority amongst SEZs and SMEs in Limpopo province.

In chapter 3 it was demonstrated that compared to China and India, IDZs in South Africa have been less successful, hence an 'insiders' (key informant's) view of the challenges faced by SMEs and by government in getting the SMEs on board will be most beneficial to all concerned. Hence the above objectives will be addressed in the research methodology, design together with keeping sight of the following pertinent points:

- Past projects involving IDZs in South Africa have taken a long time to take root in the economy, a key informant's perspectives on why this is the case will be most useful to understanding the complexities of the issues which include (operational challenges, bureaucratic hurdles and other administrative constraints) experienced by government (at all levels) and the SME entrepreneurs.
- Apart from the motor manufacturing cluster established at the Coega SEZ, no other successful cluster has emerged in recent times, an insider's perspective concerning the challenges faced by cluster type formations will be most useful research from a policy, planning and SME entrepreneurial perspective.
- SEZs can potentially play a critical role in the transformation of the South African economy so that it mirrors the demographic profile of the country, however for various



reasons (historical, political and other) the transition to an equitable economy is fraught with challenges which spills over into the SEZ. Stakeholders' perspectives of these challenges are a major focus of this research.

- In the past, low electricity costs and tax incentives have attracted private sector investments into IDZs in South Africa. However, South Africa has lost its comparative advantage in low cost electricity, insights from key informants will inform whether the current combination of incentives are enough to attract scarce foreign investments.

The above motivations points to the uniqueness of the South African circumstances (context) from both the government and entrepreneur perspective hence an approach which enables the researcher to engage with the participants (key informants) for the purpose of extracting the different perspectives, meaning and interpretations regarding the issues surrounding the Limpopo SEZ and SMEs, becomes critical.

#### **4.3. Research Methodology**

To address the above research objectives, the study employed a mixed methods approach. Section 4.3.1 will provide a brief outline of the mixed method approach thereafter, the quantitative and the qualitative approaches will be discussed in section 4.3.2.

##### **4.3.1. Mixed Methods Approach**

The study has adopted the mixed methods approach which combines elements of qualitative and quantitative approaches for the purpose of acquiring an in-depth insight into the perceptions of stakeholders on a wide range of issues pertaining to SEZs as bulleted above. Regarding the time-line of the investigation a multiphase approach was conducted whereby the researcher does both concurrent and sequential data collection and analysis over a longer period of time. The first set of interviews were conducted in July 2014 with SALGA and the SEZ team followed by more interviews conducted in November 2014, both the semi-interviews and the survey questionnaire was administered to select individuals as appointed by SALGA and the SEZ team. Thereafter on a yearly basis the perspectives of the reachable stakeholders were evaluated through follow-up telephonic interviews and engagements via email communications.

Mixed methods research is both a method and methodology for conducting research that involves collecting, analyzing, and integrating quantitative and qualitative research in a single study or a longitudinal program of inquiry. The purpose of this form of research is that both qualitative and quantitative research, in combination, provide a much better understanding of the research problem or issue than either research approach alone.



#### **4.3.2. Qualitative and Quantitative Methodologies**

In this study the qualitative research design, which is embedded in an interpretivist paradigm, was employed as part of the mixed method approach. The interpretivists argue that human beings differ from the material world and thus the methods used to investigate human thoughts and feelings must be in accordance with this paradigm. The positivist view on the other hand is based on a belief in an objective material world governed by universal laws, hence the world can be viewed objectively and with neutrality which then leads to a quantitative research approach being more appropriate.

The rationale behind the qualitative approach is that it embraces the ontological (the nature of the world and reality) assumption of multiple truths or multiple realities, i.e., persons understand reality in different ways that reflect individual perspectives as opposed to the quantitative approach which ignores differences and focuses on common objective reality (Erlingsson and Brysiewicz, 2013). The qualitative research approach is based on the subjective and considers human realities instead of just the facts and typically only a small sample is required, hence it is appropriate to this study since predominantly officials from the three tiers of government and a few entrepreneurs will be interviewed.

Qualitative research is characterised by its aims, which relate to understanding some aspect of social life, and its methods which (in general) generate words, rather than numbers, as data for analysis. However, since 19 purposively selected key informants were interviewed it is considered a reasonably large sample to assess the views of informants on their perceptions via the use of a 5-point Likert scale on a number of relevant issues to assess whether there are similar patterns in the respondents' beliefs on a wide range of issues that might not be covered via interviews (Refer Appendix B).

In the interests of arriving at trustworthy findings this study also administered a questionnaire to the key informants plus 4 stakeholders who never participated in the semi structured and structured interviews. These four stakeholders participated via telephonic interviews only.

#### **4.4. Target Population**

A population refers to the whole group of topics, people, or events of interest to the researcher from which the researcher wishes to investigate (Kotler and Armstrong 2013). Zikmund and Babin (2013), similarly define a population as a collection of units aimed to be investigated by the research effort. For this study, the population consisted of National, Provincial and Local Government officials, and Small to Medium Enterprises (SMEs) entrepreneurs based in the Limpopo Province.



#### **4.5. Sampling Method**

Sekaran and Bougie (2013) define a sample as a subset of the research population, moreover, a greater sample size implies more reliability of the findings from the study. This study used a purposive sampling method which according to Babbie (2012) is “any technique in which samples are selected in some way that is not suggested in probability theory. The sample size and representatives comprised of the SEZ Team, Government officials from LEDA, the Municipality and SMEs from the designated zones.

The researcher then used the snowball sampling method whereby a few individuals, as identified above, from the relevant population was approached and other acquaintances and experts were identified for the inclusion in the sample.

According to Welman, *et al.*, (2009), researchers that use the purposive sampling method rely on their experience, ingenuity and/or previous research findings to deliberately obtain units of analysis so that the sample represents the relevant population. The researcher decided what needed to be known and embarked on finding the relevant people who were able and willing to provide the information. Ideally the key informants are knowledgeable, observant, reflective members who are appropriately located in the community of interest and are willing to share their insights. Considering this background into the nature of key informants and given the central issues this study identified the key informants as depicted in tabled 4.2 below.

Some of the pre-specified characteristics were age, positions held within National, Provincial and Local government, work experience, expertise in the subject matter, Stakeholders and SMEs involved in the economic development of Limpopo Province. Respondents were all above the age of 30, held positions in the various ambits of National, Provincial and Local government, had years of experience and were involved in the economic development of the Limpopo Province.

#### **4.6. Sample Selection and Size**

“Sample size refers to the number of units that will be selected into the research study. Factors such as precision of data collection instruments and heterogeneity of the population affect the sample size” (Burns and Bush, 2010). Sekaran and Bougie (2013) state that an appropriate sample size must range between 30 and 500 respondents, however since this study is based on qualitative research a small sample size can be used. Nineteen key informants, who held leadership, and managerial roles within the National, Provincial, Local Government, and SME sector in Limpopo Province were contacted to participate in individual and semi-structured interviews.



To achieve the research objectives both qualitative and quantitative approaches will be used within the context of a purposive sampling research design which is also referred to as judgment, selective or subjective sampling is also a non-probability sampling method. This sampling method was used because the researcher attempted to secure key informants (or stakeholders) who were involved at all levels of government in the establishment and, operationalization of SEZs in the Limpopo Province as well as the entrepreneurs of SMEs that were identified as suitable candidates to be assimilated into the SEZ. Hence the key informants comprised the government officials at Local, Provincial and National Government levels as well as SME entrepreneurs identified to participate by officials within the municipalities as is evident in table 4.2 below.



**Table 4.2: List of Key Informants**

Organization	Role/Status	Key Informants	No
National Government The Department of Trade and Industry (DTI)	The DTI is involved with economic empowerment, SME development, Industrial Development, Trade, Export and Investment, Financial assistance and Legislation and business regulation. The DTI is the overall custodian of the SEZ program liaising with the SEZ Project Team. The DTI refused to be interviewed regarding the proposed SEZ based on the confidential nature of the project.	The project executive of the SEZ is the key informant that represented the DTI	1
Provincial Government South African Local Government Association (SALGA) Limpopo Economic development, Environmental and Tourism (LEDET) Cooperative Governance and Traditional Affairs (COGTA)  SEZ Project Team	When the SEZ program is rolled out and in the operational phase, the provincial managers will be involved in the policy and implementation of the SEZ. They are currently involved in all strategic meetings. Cooperative departments within the municipalities are assisting SMEs with starting up their businesses and have successfully started up a bakery and have provided 5 members with employment. They are also working with other SMEs and guiding them through the process, amongst them are mechanics' workshops, cooperative farms which hosts approximately 50 farmers within a plot of land.  The SEZ Project team is currently running with all the total implementation of the SEZs and have travelled abroad and visited the Chinese and Indian SEZs to encapsulate the essence of internationally successful SEZs. Members of the team liaise with consultants appointed by the DTI, work closely with the town planners, municipalities, co-operatives.	A representative from the South African Local Government Association (SALGA) A representative from Limpopo Economic Development, Environmental and Tourism (LEDET) A representative from Cooperative Governance and Traditional Affairs (COGTA) The SEZ Project Team consisted of the Project leader, an Engineer, and a consultant. Representatives from Co-operatives	1 1 1 3 2
	The manager works with key players within the municipalities to encourage local economic development and works closely with COGTA and encourages the development of cooperatives. The town planners are integral in locating the ideal plot of land for the designated SEZs.	Representatives from Local Economic Development (LED) Town Planners from Musina and Tubatse Municipalities	2 2
Limpopo Economic Development Agency (LIEDA)	The manager that is involved with developing the region. The manager works closely with the SMEs that will eventually be selected for relocation within the zones.	LIEDA Manager	1
SME Entrepreneurs	SMEs are desperately searching new ventures in the province of Limpopo but are still oblivious to the proposed SEZ, the opportunities that it would provide to the region and to them as SMEs.	SMEs based in Limpopo Province.	5
		<b>Total informants</b>	<b>19</b>

#### 4.7. Research Instruments

According to Saunders *et al.*, (2007) the research instruments that can be used for primary data collection are interviews, observations, questionnaires, standardised tests, archival records, and documentations. For this study, the research instruments used to obtain primary



data were semi-structured in-depth interviews, focus groups and telephonic interviews, as well as, a questionnaire.

#### **4.7.1. Interview Guide**

The semi-structured interview guide was developed to incorporate the key objectives of the study. The questions are outlined hereunder:

- *What is your understanding of SEZs?*  
Prompts: SME development, job creation and poverty alleviation.
- *In your opinion, do you think that the SEZ ACT will address all the challenges faced by SMEs?*  
Prompts: skills shortage, under-developed infrastructure, access to foreign markets, red tape, corruption, technical expertise.
- *What do you think are the major challenges facing SEZs and SMEs in the context of entrepreneurs buying into the idea and or setting up businesses within the programme?*  
Prompts: red tape, infrastructure, support (from government and other stakeholders), societal changes (high rate of unemployment).
- *Do you think that the incentives are adequate to attract foreign and local investors into the zones?*  
Prompts: tax free zones, duty free customs area, knowledge spillovers, technology, innovation.
- *What potential models might improve the success of SEZs?*  
Prompts: challenges (support, training and skills development, cluster formation) public-private partnerships.
- *Are you aware of the term clustering? What are your views on the concept?*  
Prompts: geographic concentration of similar or related firms.
- *To what extent are you involved in its formation within the Limpopo SEZ?*  
Prompts: identification of clusters by authorities, SMEs participating in a specific cluster, seeking perceptions concerning its viability.

Note that the above questions are similar to the ones contained in the questionnaire (refer Appendix B,) which were also administered to the informants, however, the main difference being a five-point Likert scale as an attempt to quantify their perceptions in respect of the relative importance of the various challenges faced by SMEs within the SEZs.



#### **4.7.2. Quantitative Methodology**

This study also adopts the quantitative methodology to a limited extent. To identify a variety of other factors that were not discussed at the interview sessions as well as to acquire weighted opinions of respondents, the researcher administered questionnaires to all key informants and a select few small to medium entrepreneurs.

#### **4.8. Data Collection**

Data collection is the systematic approach to gathering and measuring information from a variety of sources to get a complete and accurate picture of an area of interest. Data collection enables a person or organization to answer relevant questions, evaluate outcomes and make predictions about future probabilities and trends.

The researcher attempted to conduct a quantitative research method (refer Appendix B) but had to change to qualitative research methodology since respondents were afraid to answer most of the questions posed to them in the questionnaires, hence they left large parts of the questionnaire blank since they were afraid to divulge confidential information. However, one question in the questionnaire pertaining to the possible challenges SEZs may face received a 100% response rate and is reported in chapter 5. Fortuitously this question focuses on a central theme of this study, namely, that the SEZs could fail if they do not address problems that IDZs could not previously remedy.

Due to the low response rate to of majority of the questions the researcher decided to incorporate the relevant questions in the semi structured and focus group interviews and to rely solely on the qualitative approach in those respects. The first focus group meeting consisted of six members, three from the SEZ team and three from SALGA. The second focus group meeting consisted of fifteen members who were farmers based at a co-operative and the final group consisted of eight members from the various levels of Local, Provincial and National Government.

##### **4.8.1. Data Collection Instrument**

According to Saunders *et al.*, (2007) the research instruments that can be used for primary data collection are interviews, observations, questionnaires, standardised tests, archival records, and documentations. For this study, the research instruments used to obtain primary data were semi-structured in-depth interviews, focus groups and telephonic interviews, as well as, a questionnaire. Moreover, the researcher made further contacts both telephonic and via emails with some of the key informants for the purposes of clarifying issues and gaining insights on other matters that were not adequately discussed at the initial interviews. The participants were key informants who held leadership and or managerial roles within their respective organisations and were recruited to provide insights from a governance perspective



before data collection within the organisations. An interview guide, informed by the literature, assisted the flow of interviews, topics, such as key issues, existing and proposed initiatives and overall perceptions of the proposed SEZs in Limpopo Province were explored. Furthermore, in the interests of comprehensiveness and for verification (triangulation) purposes a questionnaire was also administered to key informants. Additionally, the content analyses of three strategic documents compiled by the Limpopo SEZ Task were analyzed for the purposes of verifying the structured and semi-structured interviews.

The interview schedule was deliberately ordered in that manner for the purposes of transcending from the general to specific thereby building momentum into acquiring information about the informants' perceptions concerning the key areas of focus. The open-ended nature of questions as well as the prompts enables one to probe deeply into the directives/mandates, experiences and perceptions of the key informants.

To ensure that the study was inclusive as possible, the interview questions were guided by an established theoretical framework, empirical studies on special economic zones and all constructs that were discussed in chapters 2 and 3.

Structured and semi-structured interviews involved both individuals, focus groups, telephonic interviews and email-based questions, were undertaken between July and November 2014. The interviews were conducted by the researcher in Polokwane in July 2014, followed by interviews in Tubatse and Musina in November 2014. Each individual and focus group interview lasted approximately one hour. Informed consents were obtained from key informants before the interviews were conducted. Informants were made aware of the purpose of the research, the persons involved in the project, their anonymity were assured under all circumstances inclusive of written reports and other forms of information dissemination. Further, they were made aware that they could opt out of the interview at any time and they could desist from answering any question(s) they were not comfortable with. Additionally, they were also made aware that there were no direct benefits accruing to them from participating in the research, save for the findings having benefits to society at large. Lastly, they were explained, where the data will be stored and the person, they may contact should they have complaints or queries. In instances where permission was granted, interviews were recorded and transcribed. However, in the cases of interviews involving some government officials, the researcher made copious notes since electronic recordings were impermissible since government officials were very sensitive to information leakages. The focus group with the SEZ Team and key stakeholders from the municipality was a four-hour session since the researcher was invited to view the proposed SEZ site.



Follow up questions, interviews and email correspondence were carried out in November to December 2015, and again in September 2016 mainly for the purpose of updating the information and perceptions gathered a year ago. Furthermore, to find out to what extent further developments had occurred in the expansion and roll out of succeeding phases of the Limpopo SEZs. Consistent with the interpretivist paradigm, the focus group method was chosen as it has characteristics that are similar to spontaneous and informal discussions which allowed the researcher to ascertain where the different key players were in their understanding and involvement of the proposed SEZ. Moreover, some of the key informants were contacted via emails with structured follow up questions.

#### **4.9. Data Analysis**

According to Cohen, Manion, and Keith (2018), “data analysis involves the organizing, accounting for and explaining the data, in short, making sense of the data in terms of participants’ definitions of the situation, noting patterns, themes, categories and regularities”. The authors assert that in qualitative research, data analysis begins during the data-collection process. Wilson (2010) supplements that “data analysis is the organisation of the research data in a systematic way and the use of that data to test the research hypotheses”. The researcher employed the thematic analysis, “which is a type of qualitative analysis that is used to analyse classifications and present themes (patterns) that relate to the data” (Ibrahim, 2012). The study quantified the questionnaires and converted the responses into percentages and presented them in a table format for comparative purposes.

##### **4.9.1. Thematic Analysis**

“Thematic Analysis is considered the most appropriate for any study that seeks to discover using interpretations. It provides a systematic element to data analysis. It allows the researcher to associate an analysis of the frequency of a theme with one of the whole contents. This will confer accuracy and intricacy and enhance the research’s whole meaning. Qualitative research requires understanding and collecting diverse aspects and data (Ibrahim, 2012).

Thematic content analysis was carried out on the responses elicited from the interview process. A process of coding was used to connect the data and to show how one concept influenced another. The method outlined by Sarantakos (1998) was used to analyse the data: “data reduction - the stage where the data are coded, summarised and categorised in order to identify important issues of the aspects being researched; data organisation - the process of assembling the information around certain themes and presenting the results and interpretation; identification of patterns, trends and explanations which leads to conclusions which can be tested through more data collection, reduction, organisation and interpretation”. The responses were categorised to generate major and minor categories. This process



allowed for the elimination of irrelevant data. Once the categories were determined, it was possible to identify major themes that developed from the study. In some instances, follow-up interviews and verification related contacts had to be made with the key informants for the purposes of confirming certain themes and subthemes which will be discussed in detail in chapter 5.

#### **4.10. Credibility, Transferability Dependability and Confirmability**

“Credibility, transferability dependability and confirmability are four evaluative criteria used to judge the trustworthiness and academic accuracy of qualitative studies” (Erlingsson and Brysiewicz, 2013:97). According to (Moon, Brewer, Januchowski-Hartley, Adams, and Blackman, 2016), “credibility refers to the degree to which the research represents the actual meanings of the research participants, or the “truth value”, transferability refers to the degree to which the phenomenon or findings described in one study are applicable or useful to theory, practice, and future research”. The authors state that “dependability refers to the consistency and reliability of the research findings and the degree to which research procedures are documented, allowing someone outside the research to follow, audit, and critique the research process”. Finally, “to achieve confirmability, researchers must demonstrate that the results are clearly linked to the conclusions in a way that can be followed and, as a process, replicated. Its relevance to application is similar to credibility, where confirmability has particular implications for studies that provide policy recommendations” (Moon, *et al.*, 2016).

The researcher has developed relationships with pertinent stakeholders and the SEZ project leader who is also available for cross referencing. The researcher will also use direct quotes from the field notes to show rigorousness and trustworthiness.

According to Erlingsson and Brysiewicz, (2012:97), the academic rigor of the research that is its “validity” and “reliability” is extremely important to the researcher and demands lots of attention. The trustworthiness of the study will be supported by providing examples of raw data in the form interview quotes recorded in the transcripts and the process of analysis that exemplifies the results will be discussed in detail. The researcher consulted with the SEZ project leader and requested that he, the “expert” confirm and authenticity of the conclusions.

##### **4.10.1. Validity**

According to Bearden, Netemeyer, and Haws (2011:60) “validity determines the truthfulness of the research findings or the extent to which the researcher truly measured what was intended to be measured”. Similarly, Sekaran and Bougie (2013:156) define validity “as a measure of how well a particular concept was measured with the research instrument”. All efforts were made to ensure that the probing questions, semi-structured individual and focus group interviews were conducted in line with the research objectives, research literature, and



conceptually sound results obtained by other scholars regarding special economic zones and small to medium enterprises. Validity was ensured by taking into consideration the constructs of the study as well as the objectives to ensure the study measured what it set out to measure.

#### **4.10.2. Reliability**

Reliability simply refers to whether a research study may be replicated. Bearden *et al.*, (2011:6) define “reliability as the ability of data collection methods to collect accurate and consistent results”. Malhotra (2010), states that reliability test is important for ensuring the collection of consistent data from diverse administrations of a measuring scale.

The following measures were used to improve both validity and reliability of the questionnaire. All questions included in the interview schedule and which formed the basis for all the telephonic, face-to-face and focus groups interviews were derived directly from the objectives of this study. Each question asked was essentially fulfilling a specific objective. Clarity was given on all questions to cater for different levels of intellectual capacities among the participants.

#### **4.11. Ethical Considerations**

As mentioned previously, the project obtained ethical clearance on 6 June 2014, refer to Appendix A, for copy of the certificate. This study required the participation of National, Provincial and Local Governments, Stakeholders and SMEs in Limpopo and a letter informing them of the reasons for carrying out this study was presented to them. As mentioned in significant detail in Section 4.8.1 above, that participants were informed about the aim of this research, their rights and duties, they were reassured that the information involving names of individuals will not be mentioned in the public domain and a full research report will be available to the SEZ project leader. Ethical standards were meticulously observed in this study.

##### **4.11.1. Anonymity and Confidentiality**

According to Crow and Wiles (2008), anonymity and confidentiality refers to “the ability of the researcher to safeguard sensitive information and the names of the respondents”. As mentioned in Section 4.8.1., anonymity and confidentiality were ensured in this study by keeping the questionnaires and all information shared, away from the general public and by not divulging the names of respondents in any reports that will be made available in the public domain. All participants were provided with coded names, K1 to K19 without adhering to the chronological order in Table 4.2 which contains the list of key informants. As noted earlier, the right to confidentiality was also ensured by not using any electronic devices as specified by the SEZ project team. Respondents were informed that they can withdraw from the study



at any time for whatever reason which they might have deemed necessary and that their responses were confidential as suggested by Creswell (2009:89).

#### **4.12. Limitations of the Study**

Initially, the study opted to do both qualitative and quantitative analyses for triangulation purposes. Hence when the various individual and focus group interviews were conducted, the researcher also disseminated a questionnaire (refer to Appendix B) which was supposed to be analyzed using quantitative techniques. The quantitative approach was meant to complement the qualitative interviews. However, the researcher managed to acquire completed questionnaires from 19 respondents from the identified SMEs, National, Provincial, and Local Government officials, this is hardly enough data to conduct rigorous statistical inferences however the limited quantitative information will be able to tell whether perceptions are similar or different on a number of issues.

Another setback faced by the researcher is that the Department of Trade and Industry (DTI) refused to be interviewed on the basis that all information regarding the proposed SEZs is highly confidential and not open to public discussions.

A further limitation experienced by the researcher was that some farmers based in a co-operative refused to be part of the study for fear of disclosing pertinent information that might result in them losing a plot of land that was allocated to them. Moreover, they were not comfortable in divulging any information to the researcher despite the ethical assurances given.

#### **4.13. Conclusion**

This chapter presented the qualitative research methodology involving purposive sampling of 19 key informants from the various government and SME forums that was followed in this study. The research design, target population, sample selection and size, instrument design, data collection and analysis methods, and validity and reliability were discussed. The study adopted the qualitative research approach, which was administered via open-ended questionnaires, telephonic and face-to-face interviews, and focus groups. Due to the rather small sample size and the poor manner in which the questionnaires were answered, this study focused solely on the qualitative research design supported by the quantitative data.

The next chapter provides a presentation of the research findings and the analysis of the results.



## CHAPTER 5

### RESULTS AND FINDINGS

#### 5.0. Introduction

As noted in the previous chapter the focus of this study is to investigate the perceptions of the various public and private sector stakeholders concerning the feasibility of SEZs serving as a viable platform for SMEs to engage in business activities both at individual or cluster level to promote regional economic development. The study adopted the mixed method research design to undertake the investigation and using purposive sampling technique had identified 19 key informants located within various public and private sector forums whom were actively involved in setting up the SEZs in the Limpopo province. This chapter reports the findings of the data gathered from face-to-face and focus group interviews which were analyzed using the thematic content approach. The primary data collected from key informants was supplemented by secondary data obtained from document reviews, while the dissemination of a questionnaire supplemented the qualitative aspect of the study. The rest of the chapter is structured as follows: firstly, in sections 5.1 and 5.2 a brief background is provided concerning the SEZ initiative in the Limpopo Province and the relevant stakeholders that were involved. Thereafter using the thematic content approach, the interviewers' data are categorized into themes and subthemes. This is followed by a descriptive statistical analysis of perceptions of key informants captured via a questionnaire and the content analysis of three official documents. Finally, the dominant themes are discussed, and the findings of the research are highlighted.

#### 5.1. Background

According to Local Economic Development (LED) in Limpopo, National Government has declared Musina Local Municipality and Tubatse Municipality as Special Economic Zone Municipalities ([www.gov.org.za](http://www.gov.org.za)). The declaration has led to the municipalities spearheading and announcing anchor projects to be implemented within the municipalities. A conference held in Musina referred to as "Musina Investor Week (MIWEC) Conference For Musina Local Municipality", (refer to Appendix E), stated that Local Economic Development Agency (LEDA) was mandated to coordinate the implementation of the SEZs and announced that the proposed SEZ will develop clusters which will be divided into three categories: Light industries (primarily logistics), Medium and heavy industries (Manufacturing/Beneficiation) and Energy. Suitable pockets of land have been identified and acquisition is underway. A feasibility study in Tubatse identified five properties for the possible SEZ, four in the Steelpoort node and one in the R555 between Burgersfort and Ohrigstad. According to Ratlabala (2015), the following industrial clusters will be promoted in the zones (refer to Appendix G).



**Table 5.1: Industrial Clusters**

Mining inputs (Short term)	Magnetite (Long term)	Platinum (Long term)	Chrome (Long term)	Other sectors (short to med term)
Yellow metal assembly	Iron	Jewelry	Ferrochrome	Green economy
Roof support	Steel	Hydrogen Fuel cells	Chrome chemicals	Agro-processing
Valves and pumps	Steel products	Auto catalyst	Chrome dyes	Others
Processing plants	Vanadium pentoxide	Turbine blades	Pharmaceutical	Hydro power
Pipes	Vanadium batteries	Platinum smelter/refinery		Solar plant
Refurbishment and maintenance	Titanium	Base metal refinery		
Engineering services				

Provincial development forum (Ratlabala, 2015)

According to Ramoyada, (2015), companies and investors were invited to attend the (MIWEC), the stakeholders included company executives, academics Vhavenda King and Chiefs, local businesses, local economic forums, Zimbabwe Business Forums and companies, Ministers of Small Business Development, Minister in the Office of the Presidency Responsible for Women, Limpopo Premier, Limpopo MECs and Zimbabwe Minister of Small Businesses and Cooperatives. The aim of MIWEC was to achieve the following:

- Stimulate local economic development as per the National Development Plan;
- Sensitise people of Musina that there is economic potential in Musina;
- Stimulate the economy of the Musina Municipality;
- Provoke an analysis of various components that constitute the economy of Musina;
- Identify stakeholders that can drive the economy of Musina, and
- Promote government policy in economic development as guided by the National Development Plan at Musina Municipality level.

## 5.2. Initiatives

Ramoyada (2015), states that the theme of the MIWEC is “Exploiting potential, versatile and unexploited natural wealth of the Musina Region with sub-themes:

Economic opportunities as the Municipality Local Economic Development (LED) Strategy;

Small Business Development Hub as an empowerment vehicle for local businesses;

- The economy of Musina today, and the economy of Musina in 15-years’ time – a journey to job creation;
- Planned Investment Opportunities in the planned Eco-Industrial Park in Musina, and
- Eco-Agri Park is key towards sustainable job creation in Musina.



According to a presentation by LEDA (2015), (refer Appendix F), the following information was highlighted: the emerging design principles of the SEZ will be styled as multi-cluster developments to optimize the utilization of available land with a long-term outlook whilst adopting a phased approach informed by investments per zone.

Proposed clusters as per LEDA:

- Light industries (primarily logistics)

Efforts will be placed on export preparation centres, dry port, container yard, and consolidated warehouses;

- Medium and heavy industries (manufacturing/beneficiation), coke plant, ferro-chrome plant, stainless steel plant, and chrome plant.

Petro chemical production (collaboration with Environment impact studies, (EIS)

Coke plant, water treatment, methanol plant, coal to liquid plant, and plasma waste gasification plant.

Completed knocked down (CKD) of mining and other implements, service parts.

- Energy

Coal fired plants to support the heavy industries. Excess power to the grids.

According to LEDA, the above submission of plans will be reviewed by DTI, thereafter recommendations will be made to the Advisory Board, and the Advisory Board will in turn make recommendations for the Minister to consider. LEDA required co-operation with the DTI and Advisory Board for the designation of the SEZ, skills assessment and skills development plans (which was in collaboration with relevant departments). Moreover, they had to finalise SEZ company registration, develop a SEZ marketing plan and draft an agreement between LEDA and Hoi Mor. This was a US \$4 billion agreement that has been signed between LEDA and the Chinese Hoi Mor group for the metallurgical cluster *inter alia* the agreement allows for South Africans being trained in China and Chinese expertise also coming to our shores.

There was a lot pending on this agreement which the Limpopo Economic Development Agency was aware of therefore worked tirelessly to set the above agreement in motion.

### **5.3. Results and Findings**

To maintain confidentiality in reporting the findings, the key informants are coded as K1 to K19, please refer to (Table 5.2) below for their affiliations. Some key informants revealed pertinent challenges faced, and the initiatives that they are engaged in to make the proposed SEZs a success.



The key informants are tabled below to indicate the tier of government/forum they belong to. They represent the Provincial, National and Local Government, and Small to Medium Enterprises.

**Table 5.2: Key informants**

Sectors /Forums	Key Informants
National government	K5
Provincial government	K5
Local government	K1, K2, K3, K4, K6, K7, K8, K9, K10, K11, K12, K13, K14
SMEs	K15, K16, K17, K18, K19

Recorded Semi-structured interviews, which offers greater flexibility than a structured interview, were conducted with the 19 key informants which were then converted into transcripts. An analysis of the transcripts revealed the following themes and sub-themes which are recorded in Table 5.3, below:

**Table 5.3: Themes and Subthemes**

Theme	Subtheme	Notes
The SEZs have a 10-15-year Strategic Plan and a roll-out strategy over the next 40 years.	Asymmetric information	<p>The Department of Trade and Industry (DTI) has developed guidelines for the application for the designation of Special Economic Zones. Although the Special Economic Zones (SEZ) Act 16 of 2014 outlines the high-level requirements for Application for Designation as a SEZ, there is lots of work involved in demonstrating the feasibility and sustainability of a proposed SEZ. This work needs to be unpacked during the SEZ conceptualization and planning process and the outcomes captured in a business strategy and plan which are required to be submitted as part of the documentation presented in the application for designation. This same documentation is required for successful operation of the SEZ, just as it is required for any other business entity.</p> <p>"Policies are in place, the Special Development Framework (SDF), is a LED strategy and informal trading policies to deal with the proposed SEZs" K1.</p> <p>"The SEZ has a 10-15 year roll out plan, hence all information is kept strictly confidential" K5.</p> <p>Currently all information is shared with high level management personnel within the municipalities, Limpopo Economic Development Agency (LEDA), Town Planners, the Mayors, DTI, companies and Chinese investors, , the stakeholders included company executives, academics Vhavenda King and Chiefs, local businesses, local economic forums, Zimbabwe Business Forums and companies, Ministers of Small Business Development, Minister in the Office of the Presidency Responsible for Women, Limpopo Premier, Limpopo MECs and Zimbabwe Minister of Small Businesses and Cooperatives. "We have started with the planning; feasibility and some strategies are in place" K1.</p>
	Communication	<p>"Due to the information regarding the SEZ being highly confidential, information is not cascaded to those not directly involved with the SEZ feasibility studies" K11</p> <p>"The SMEs are aware of the designated zones but are kept in the dark regarding the developments for fear of land invasion" K14.</p>
	Reticence	<p>The skewness of information or the withholding of same can lead to opportunistic behaviours that can ultimately lead to corruption and bribery. In official documents, it is stated that corruption is one of the elements that is being addressed. The issue of keeping all information confidential should be carefully reconsidered to avoid such pitfalls.</p>



Challenges highlighted by officials within the government sectors	Skills	<p>According to Limpopo Economic Development Agency (LEDA), Musina SEZ is classified as light, medium and heavy industry zone, the light and medium zone will be home to logistics, light and medium manufacturing companies, and value-added services, whilst the heavy industry zone will house the metallurgical cluster.</p> <p>The skills required in the light and medium industry zone requires unskilled and semi-skilled personnel whilst the heavy industry zone requires, semi-skilled, skilled and professionals.</p> <p>Musina is also challenged with low levels of education, current courses on offer in institutions of higher learning does not meet industry requirements.</p> <p>"...people continuously leave for better education but seldom return to the area" K1</p>
	Training	<p>According to Local Economic Development Agency (LEDA), there is currently high unemployment rate in Tubatse, with a low skilled labour force and more mining projects are being mechanized. The report also mentioned that employees are imported (high staff turnover), equipment are imported, and communities are demanding for jobs and halting mining operations in the process.</p> <p>"Jobs are available but there are no skills or a mismatch of skills available" K14.</p> <p>"Studies conducted reflect that the SEZ is expected to employ 20000 employees of which 19000 will be for the metallurgical cluster" K1</p> <p>Hoi Mor group is planning to take 200 artisans to China to give them industry specific training. These 200 artisans will receive technical as well as 'train the trainer' training. Upon return, the 200 artisans are expected to train the bulk of employees that are going to be employed in the metallurgical cluster zone (refer Appendix D).</p> <p><b>Phase 1 of training</b></p> <p>Two local FET colleges will be adopted, and a very strong partnership forged with the Hoi Mor and a select few Chinese institutions for a skills development collaborative partnership. These institutions will be upgraded to meet the needs of the investor. LEDA training facilities will also be used. The 200 artisans will use the facilities as identified above to train for the required skills.</p> <p><b>Phase 2 of training</b></p> <p>Hoi Mor, in consultation with the department of education and training, will establish a training centre within the metallurgical cluster zone for continuous training and assessments. It is envisioned that this facility would seek SITA accreditation, a South African State Information Technology Agency.</p>
Challenges faced by SMEs	Asymmetry of information	<p>Currently all information is kept strictly confidential. At this stage, all key players are busy with feasibility study and no decision has been taken in terms of SMEs to be relocated within the zones, moreover all relevant SMEs will be given first preference in line with cluster and zone development.</p> <p>The following institutions have expressed tenant interest during the feasibility studies.</p> <ul style="list-style-type: none"> <li>• Grinrod Logistics: <ul style="list-style-type: none"> <li>○ Container yard</li> <li>○ Inter-modal facilities</li> <li>○ Warehouse and Vehicle Distribution Centre</li> </ul> </li> <li>• UTI <ul style="list-style-type: none"> <li>○ Warehouses</li> </ul> </li> <li>• Helman Logistics <ul style="list-style-type: none"> <li>○ Cold room storage</li> <li>○ Warehouse</li> </ul> </li> <li>• Kuehne and Nagel <ul style="list-style-type: none"> <li>○ All logistics</li> </ul> </li> </ul> <p>"SMEs need to grow into big businesses to be considered for relocation within the zones" K11.</p>



Infrastructure provision	Inadequacies	<p>Currently the zones are offering the incentives that are offered internationally.</p> <p>This may not be the best for Limpopo province since it has its own unique shortcomings such as poorly educated labour force, basic infrastructural inadequacies such as high schools, clinics, police station and universities.</p> <p>K1, K11, K7, K10, K14</p>
Need Local Economic Development	<p>Infrastructural development</p> <p>Investment opportunities and SME development</p> <p>Employment creation</p>	<p>Both the Limpopo Economic Development (LED) and SME key informants stressed that the SMEs are hungry for development and support in terms of funding from the government.</p> <p>The LED key informants stressed Infrastructural development is paramount for the success of SEZs in Limpopo.</p> <p>SEZs have a potential to assist SMEs to expand and attract investment and thereby create jobs.</p> <p>The LED key informants stressed the need for housing, schools, universities, clinics, police station, entertainment, banking, and retail facilities, together with social and recreational facilities were highlighted as necessary.</p>
SME constraints	Labour issues, skills shortages, access to finance, hidden costs	<p>Due to skills shortages, foreigners are being used and this is causing political strife amongst the locals since foreigners are taking their jobs.</p> <p>There is very limited communication with SMEs due to the sensitivity of the study.</p> <p>"SMEs are aware of the proposed SEZs and the prospects of job opportunities, but information is not communicated to them" K14.</p>
Foreign and non-BBEE ownership/partnership	Investments and skills shortages	<p>A MOU has been signed with Hoi Mor group for the metallurgical cluster and they are planning to take 200 artisans to China for industry specific training.</p> <p>Two local FET colleges will also be adopted, and a very strong partnership will be forged with the Hoi Mor and a select few Chinese institutions for a skills development collaborative partnership.</p> <p>These institutions will be upgraded to meet the needs of the investor.</p> <p>Hoi Mor, in consultation with the department of education and training, will establish a training centre within the metallurgical cluster zone for continuous training and assessments and will also seek SITA accreditation. "This will give our people a chance of being skilled and will mean a brighter future for generations to come" K1.</p> <p>According to LEDA, the SEZ is expected to employ around 20 000 employees, of which 19 000 will be for the metallurgical cluster and the balance for the other sectors.</p>
SME Development Plan	Technocratic Planning SME incubation and development – SMEs are not yet involved in the process	<p>According to LEDA, strategic plans will guide procurement with the sourcing of products and services from local firms and how development of SMEs will be supported, for example, involvement in an incubator.</p> <p>"The incubator program will assist the SMEs in growing their businesses from concept to launch and will also provide mentorship and guidance every step of the way" K1.</p>
Incentives	Viability of SEZs are dependent on the type of subsidies that will help SMEs reduce production costs significantly	<p>Many key informants as noted in section 5.3.4 believe that the tax and reduction in customs procedure incentives are like other SEZs around the world, which are inadequate to attract businesses and investments to the zone and in addition they require additional subsidies that directly impact on production costs. "Electricity and labour costs in South Africa are exorbitant, the price of electricity in recent years have just escalated and this has negatively impacted on our businesses and made our industries relatively uncompetitive" K14.</p> <p>Informants are of the opinion that more emphasis should be placed into electricity and water subsidies, low production costs, technological advancements, long duration youth subsidies K1, K11, K7, K10</p>

Source: Information obtained by the author from transcripts of the structured and semi-structured interviews and presentations from official documents from LEDA (refer Appendix F and G)



The following sub-section will provide further elaboration of the themes and sub-themes that are presented in the above table.

### **5.3.1. Challenges Faced by SEZs and SMEs**

Skills shortage in Limpopo Province:

The proposed zones being in Musina and Tubatse are based in undeveloped areas and skills shortage seems to be the overriding issue faced by both municipalities. The current pool of people is uneducated and lack the necessary skills required to be employed for the job opportunities that have become available. This has created a huge problem and employees are being imported which has resulted in labour unrests and downtimes due to the locals fighting for jobs and halting mining operations.

*“This has created huge setbacks and adding to operational costs due to the forced downtimes caused by the angry communities. The Chinese investor has offered to train 200 employees in China, but this is only offered to semi-skilled, skilled and professional employees who are expected to come back and train others. This information cannot be known to the large community for fear of political unrest which will delay the plans of the proposed cluster” (K1).*

At this stage, all key players are busy with feasibility study and no decision has been taken in terms of SMEs to be relocated within the zones, moreover all relevant SMEs will be given first preference in line with cluster and zone development.

Reticence:

The issue of withholding information or sharing on a need-to-know basis has serious implications, as mentioned above it can lead to opportunistic behaviours which lean towards bribery and corruption, the very issue that government is trying to eradicate. DTI’s policy of non-cooperation with the media and the University leaves one to speculate as to the nature of the strategy. Uncommunicative behavior also leads to people being uninformed, hence decisions they make are also uninformed. This was evident when interviewing officials within the municipalities, some had no clue about issues pertaining to SEZs or the benefits that it could bring into the area. The type of SMEs selected to be interviewed or considered to be part of the zone was totally mismatched. Reticence can cause key officials to be inadequate in their decision-making skills and ultimately can sometimes lead to financial loss being incurred. There was confusion at the local government and SME level regarding information and the way forward. *“We are aware that there are big plans for development and that SMEs can be assisted but how and who to approach is another issue” K18.*



A municipal official was kind enough to accompany me to interview all possible SMEs to be relocated into the zones. The type of businesses that he identified was a bakery, panel beating owner ('back-yard' business), spray painter (backyard business), and farmers. The researcher questioned his choice of SMEs and he responded, *"I am busy trying to set up small businesses whom I think will be relevant"* K10. It was evident that he was uninformed, while it is commendable that they are harnessing the SEZ framework to accelerate the development goals by focusing on the historically disadvantaged groupings they are failing to exploit the comparative advantages that bigger firms and white owned SMMEs enjoy.

Many of the key informants requested that the SEZs introduce special employment arrangements like long duration youth subsidies to train and develop youth in a work environment. Some also requested for SEZ projects to choose production processes that absorb the unskilled and semi-skilled workforce instead of allowing firms to automate their production processes:

*"There is no work for Musina people who have matric, jobs of our workers are being taken over by machines in the mines, they must stop using machines, youth need jobs, government must help pay for youth on the job training, so company can employ until youth are trained..."* (K18)

### **5.3.2. Infrastructural Needs**

The LED key informants were unanimous that there is a need for housing, wholesalers, department stores, banking facilities, retail facilities, entertainment facilities, social and recreational facilities, high school, universities, clinics, a police station and a waste water treatment for Steelpoort. This perspective is supported by a business survey that was conducted by Tubatse LED:

*"The existing waste water treatment works for Steelpoort town is inadequate and this is a major hindrance to development in Steelpoort. A new water treatment works must be commissioned for Steelpoort town and additional boreholes must be developed for villages outside Steelpoort town"* (K 11).

*"Our municipality is not developed, people want to move to Pretoria and Gauteng in those areas they have top facilities, housing, schools, many colleges and varsities, that's why people leave, and here they have nothing, not even jobs..."* (K17).

The other challenges faced were access to foreign markets, technical expertise, red tape and corruption, informants K15, K17, K18, K19, agreed that these challenges must be addressed for the smooth running of the zones and for its success.



*“...it’s hard to apply for assistance from DTI, they want so many documents and business plan, how must I know about how I can export, have to employ consultant to help me but there is no guarantee that I will get help...” (K15).*

### **5.3.3. Asymmetry of Information**

The proposed SEZs are in the strategic planning phase and will roll out in the next 10 to 15 years, hence all planning and communication is kept at the highest level, and only limited information is filtered down to stakeholders on the ground, viz., low ranking local government officials and SME entrepreneurs. This creates asymmetry of information whereby all information regarding the developments within zones are not filtered to all levels within the municipalities or the public at large:

*“SMEs are hungry for information and are looking forward to being part of the SEZs, but information is not communicated to them” K14.* The informant added that *“...this is causing great frustration amongst SMEs because they are aware of the huge opportunities presented by SEZs but are being kept in the dark about the developments” K14.*

According to another informant, *“SMEs need to grow into big businesses to be considered to be relocated into the zones” K11.* Informant K13 also commented that *“all projects are aligned within the SEZs, but people are not well informed and lack the understanding of the bigger picture”.*

Due to information, not being shared with the relevant parties, the manager (based at the local government level) in charge of selecting SMEs to be developed and relocated into the zones selected SMEs whom in the researcher’s opinion were inadequate in answering questions pertaining to SEZs and the businesses they ran were a bakery, repair shop, spray painter and panel beaters, stationery and farmers:

*“The identified site has to be kept under wraps for fear of land invasion by the local farmers, they are aware that the government will pay huge relocation costs for the land they occupy, hence no information is disclosed to anyone outside the SEZ team and key players within the municipalities” K5.*

### **5.3.4. Incentives**

Some informants, commented that the incentives provided were inadequate where emphasis was placed on tax incentives and custom procedures, but they should instead offer soft financial loans, electricity and water subsidies, backward and forward linkages to international markets, low production costs, innovation, technological advancements and long duration youth subsidies which they considered important for the success of the proposed SEZs:



*“The incentives that the Limpopo zone is providing is not sweet enough, our biggest costs come from wages, lights and water accounts and the payment of interest on loans, if they could offer discounts on these costs my business can grow” (K18).*

*“Most of the established SMEs face big obstacles to expanding their businesses, knowledge costs money, importing the latest technology is expensive” (K13).*

*“... youth need jobs, government must help pay for youth on the job training, so company can employ until youth are trained...” (K14).*

### **5.3.5. Foreign and Non-BBEE Ownership/Partnership**

According to a report presented to councilors, a US\$ 4 billion memorandum of understanding (MOU) has been signed between LEDA and Hoi Mor group for the metallurgical cluster (refer to Appendix H). Plans are underway to take 200 South African artisans to China for industry specific training, two local FET colleges will be upgraded to meet the investor’s needs and will be adopted by the investor. A strong partnership will be forged with the Hoi Mor and a select few Chinese institutions for a skills development collaborative partnership. The 200 artisans will return and train approximately 20 000 that will be employed within the zones (refer Appendix D).

Hoi Mor, in consultation with the department of education and training, will establish a training centre within the metallurgical cluster zone for continuous training and assessments and will also seek SITA accreditation:

*“This will allow for the people of Musina to be trained and eventually be skilled enough to hold positions that become available. It will take some time, but this brings hope to the community” K1.*

Tubatse Municipality is working on the Steelpoort Regeneration study to cover the needs of the SEZ. They are working in conjunction with Eskom, Sanral and Transnet to make this a success:

*“Discussion are underway with the municipality on waste water treatment plant, portable water and industrial water plans” K11.* These partnerships will assist in building the required infrastructures, educate the locals and eventually create the much-needed employment in Limpopo Province.

### **Follow up on progress.**

The researcher contacted a key informant in November 2015, 2016, 2017, and 2018, on all occasions a similar stance of no further developments was maintained.



### 5.3.6. The SEZ ACT

The interviews conducted further explored the perceptions of the government and SMEs on the SEZ ACT and all informants agreed that the ACT offers incentives and the support required for the success of the SEZs:

*“The [SEZ] ACT is an important document that was well overdue, it is exactly the thing that is needed to jumpstart our economy for it offers opportunities to established business and a chance for small entrepreneurs to grow their businesses and come up with new business ideas... the tax breaks and the provision of a special area for us will help us will help reduce costs” (K18).*

A municipal official noted that *“.... the SEZ ACT was a life saver for my municipality for we were struggling to come up with LED opportunities and projects in our area to alleviate poverty and boost employment...this ACT helped us to develop our own Municipal Economic Development Plan... now we have something solid to focus on” (K9).*

### 5.4. Descriptive Statistics

In the interests of arriving at trustworthy findings this study also administered a questionnaire to the key informants plus 4 stakeholders who never participated in the semi structured and structured interviews. These four stakeholders participated via telephonic interviews only.

**Table 5.4: Comparison of Perceptions of Challenges Faced by SEZs**

Listed below are some of the challenges faced by entrepreneurs locally and globally. In your opinion, would you consider addressing these challenges as important for the SEZ initiative to be successful? Please tick (✓) the appropriate boxes.										
Government Officials and stakeholder						SMEs				
	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
Skills shortage	89	11	0	0	0	75	0	0	25	0
Inefficiencies in the South African ports network (container terminal capacity constraints);	44	11	33	11	0	0	25	75	0	0
Under-developed infrastructure, including rail branch-lines, roads, electricity and water supply;	44	56	0	0	0	75	25	0	0	0
Political uncertainty including strikes	22	44	22	11	0	50	25	0	25	0
Access to foreign markets	44	33	11	11	0	50	0	50	0	0
Complex regulatory and inter-governmental integration systems	44	0	33	22	0	50	50	0	0	0
Lack of Technical expertise	44	22	22	11	0	75	25	0	0	0
Inflexible labour laws and high rates	22	11	22	33	11	50	25	0	25	0
Red tape	44	11	22	22	0	50	25	0	25	0
Corruption	56	22	11	11	0	0	0	100	0	0



The above data is gathered from the questionnaires received from the 19 informants. If one groups the 'strongly agree' and 'agree' responses it is evident that government officials, stakeholders and SMEs perceive that skills shortages, underdeveloped infrastructure, political uncertainty, lack of technical expertise and red tape as being huge challenges threatening the potential success of SEZs. These findings are consistent with those obtained from the interviews.

With regards to the inefficiencies in the South African ports network it makes sense that most SME owners based in Limpopo are unaware of the issues in the coastal region and at the airports for they are remotely located and only the 25% of the respondents are aware of the issues perhaps through direct business experience or through the media. While the government officials are fully aware of the challenges faced by the entities in question.

There is also disagreement between government and the SME owners in respect of the complex regulatory and intergovernmental integration systems (different government departments not working together, this had to be explained to respondents). The SMEs were unanimous that this is a serious problem but only 44% of the government officials view it as a problem. This finding makes sense if one recognizes that the SME owners are the clientele of the various government departments and suffer significant frustrations, setbacks and delays when engaging with different government department for various business compliance related issues.

As indicated in Table 5.4 only "22%" government officials strongly agree that inflexible labour laws and high wage rates are an issue whilst "50%" of SMES strongly agree that this is a challenge. Furthermore, "11%" government officials disagree that this is a challenge whilst "0" SME's strongly disagree that this is not a challenge. Here again it is the SMEs who face the challenges of operating within the constraints of the labour laws daily.

Another interesting finding is that government officials working within the system are acutely aware of patronage and the corrupt practices within government. It might also be the case that due to fear of loss of access to opportunities promised by SEZ involvement that SME owners strategically adopted a neutral stance regarding the issue of corruption. In their individual interviews, they were unanimous that corruption in government is a problem. Perhaps in the answering of the questionnaire they were afraid of their names being attached to the informed consent form.



**Table 5.5: Comparison of Perceptions of Incentives to Attract FDIs**

<b>Special economic zones bring together different businesses to operate in. Listed below are incentives offered globally to attract foreign direct investment. In your opinion, do you think that these incentives are adequate to attract foreign direct investment? Please tick (✓) the appropriate box.</b>										
	<b>Government Officials and stakeholder</b>					<b>SMEs</b>				
	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
Corporate tax exemptions and discount rates over specific time frames	56	44	0	0	0	50	50	0	0	0
Discounted exemptions from import duties	44	44	11	0	0	75	25	0	0	0
Conditional exemptions from import duties	44	33	22	0	0	75	25	0	0	0
Zero-rated value-added tax	33	11	22	22	11	50	0	0	50	0
Subsidised investment loans	33	22	33	11	0	100	0	0	0	0
Subsidised imported capital goods	33	22	33	11	0	100	0	0	0	0
Research and development support	44	22	33	0	0	100	0	0	0	0
Preferential access to markets	44	22	22	11	0	100	0	0	0	0
Discounted and competitive land and property prices, as well as rental rates	44	0	22	33	0	100	0	0	0	0
Customs control delegated to zone operator by internal revenue authorities.	22	67	0	0	11	75	0	25	0	0
Liberal interpretation of customs control regime	11	44	44	0	0	25	0	75	0	0
Zone operator allowed autonomy/independence	11	44	11	11	22	75	25	0	0	0

In the above table it is evident that government officials and the SMEs have differing views on “Zero-rated value-added tax” which was highlighted as one of the incentives offered globally, “33%” government officials strongly agreed with this incentive whilst “50%” SMEs strongly agreed with this incentive. Moreover, “11%” government officials strongly disagreed with this incentive whilst “0” SMEs strongly disagreed. Also, with the incentive of “Customs control delegated to zone operator by internal revenue authorities”, only “22%” of government officials strongly agreed with this incentive whilst “75%” SMEs strongly agreed. Moreover, “11%” government officials strongly disagreed with this incentive whilst “0” SMEs strongly disagreed.

Finally, the incentive “Zone operator allowed autonomy/independence”, “11%” government officials strongly agreed with this incentive whilst “75%” SMEs strongly agreed with this, furthermore, “22%” government officials strongly disagreed with this incentive whilst “0” SMEs disagreed that this was an important incentive to attract FDI.

The above statistics reveal that the SMEs are more vocal about the incentives and believe the current incentives offered are insufficient. This perspective also emerged strongly in the interviews. Although there is a wider variance in the responses on the side of government



officials between 55% to 89% (if the 'strongly agree' and 'agree' responses are grouped together) perceive the second to the thirteenth incentive, as stated in table 5.5, to be important in making the SEZs attractive to SMEs. Regarding the first incentive the government sector is convinced that the tax incentive is the single most important incentive that makes SEZs attractive.

**Table 5.6: Comparison of Perceptions about the Global Wish List Incentives**

Listed below is a wish list of incentives from SME's globally. Please tick (v) which you would you consider as important for the success of the proposed SEZ initiative in Limpopo province.										
Government Officials and stakeholder						SMEs				
	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
Higher tax incentives	11	33	22	22	11	25	50	0	0	25
Soft financial loans	44	11	22	11	11	75	25	0	0	0
Electricity and water subsidies	33	22	22	22	0	100	0	0	0	0
Backward and forward linkages to international markets	22	33	44	0	0	100	0	0	0	0
Low production costs	22	22	44	11	0	100	0	0	0	0
Innovation	44	33	22	0	0	100	0	0	0	0
Technological advancements	44	22	33	0	0	100	0	0	0	0
Flexibility in hiring and firing of labour	0	22	11	33	33	25	0	0	75	0
Flexible wage rates	22	11	11	33	22	75	25	0	0	0
Non-union involvement	0	0	11	56	33	75	25	0	0	0
Long duration youth subsidies		22		11		75	25	0	0	0
Other, please specify:	0	0	100	0	0	0	0	100	0	0

It is evident that SMEs are in favour of more incentives to be offered while government officials and stakeholders are relatively more conservative in their responses. If one groups 'strongly agree' and 'agree' together then SMEs responses to all but one of the listed incentives ranged between 75% and a 100% while the government and stakeholders' responses ranged from 0% to 77%. Moreover, there is a much greater variability in the responses of the government and stakeholders compared to that of the SMEs, thus implying there is less consensus among the respondents in the former group concerning the incentives.

Regarding tax incentives 75% of SME respondents prefer the incentive while only 45% of government officials and stakeholders do. However, incentives involving utility bill subsidies, linkages to markets, production cost reductions, technology and innovations, 100% of the SMEs strongly support these incentives while government officials are more conservative in their support. SMEs will be happy to reduce their costs as much as possible (which was also the case in the interviews of key informants) while government officials and parastatal stakeholders are acutely aware of the burden on government should many of these measures be put in place.



The response of SMEs if one groups ‘*strongly agree*’ and ‘*agree*’ together, 100% of them support flexible wages, non-union involvement and long duration youth wage subsidies. While government officials and stakeholders are diametrically opposed to the flexible wage and non-union involvement incentives, by 55% and 89%, respectively, if one combines ‘*strongly disagree*’ and ‘*disagree*’ responses. This disagreement perhaps reflects the current government’s leftist stance regarding economic matters.

Most interestingly, both the SMEs and government are in strong agreement over flexible hiring and firing policies. Where, 75% of the SME and 66% of the government officials and stakeholders do not support this type of incentive. There appears to be a bit of contradiction of the part of SMEs if it is viewed in conjunction with their responses to non-union involvement and flexible wage rates. However, it might make sense if one knows only selected (BBEE compliant) SMEs have been invited to participate in the SEZ project for they are most likely to be sensitive to unemployment in their communities.

## 5.5. Analysis of official documents

The Department of Trade and Industry (DTI) has developed guidelines for the application for designation of special economic zones which each municipality has to prepare and submit to demonstrate the feasibility and sustainability of a proposed SEZ. The table below captures some of the high-level key deliverables to be submitted by the local municipalities.

**Table 5.7: Key deliverables**

Key deliverable	Concept note
Name and address of applicant and status of promoter	Specify whether province/PPP and details of incorporation, mandate etc.
Summary of key project	Location, area (size), summary of business case, institutional arrangements and support for SEZ development, list of supporting documents
Statement of intent	Substantiate how the SEZ designation will further government’s industrial development goals and national objectives
Socio-economic profile	Prove details of the SEZ area
Economic rationale	Motivate why the concept should be considered for an SEZ and how it will add value to the economy
Risk profile	Summary of risks with technical, operational and financial risk transfer/ mitigation strategies
Brief business case	Thematic focus, financial details, environmental considerations, costs, scope and plans, timelines, reference to the socioeconomic and economic profile and impact
Financial resources	List possible financial resources and demonstrate affordability value for money drivers
Regional economic analysis	Provide a regional profile for the proposed SEZ, including general socio-economic trends (economic growth by national, provincial and district), Gross Regional Domestic Product (GRDP), export and import, local government finance, comparative and competitive advantages, employment, investment (foreign direct investment and domestic investment), population and density, minimum regional/provincial wage etc.  General sectoral analysis  Regional transportation data (national/provincial or local road network, main modes for cargo movement, transportation system (land, sea, air and ferry) domestic and international load and unload.



	Existing industrial infrastructure (assessment of the availability, costs, quality functionality and appropriateness of existing infrastructure such as land, water supply, energy, information and communications technology, housing, waste water/solids, education and training, etc.
Opportunity identification and analysis	Analyse and identify key industrial sectors, their value chain opportunities, product lines, mapping and analysis of global trends, strategies and market analysis for each prioritized sector, identification of key projects.
Key requirements	Policy and strategy alignment at national, provincial and regional levels, investors and investor readiness, skills and human capital, technology, environmental matters, availability of land (incl. location in terms of connectivity to transport networks, proximity to the labour base, availability of public transport, access to IT and communication networks, adequacy of space for growth), stakeholder readiness and bulk infrastructure (water, energy, waste, etc.)
Economic impact assessment	Identify and quantify the economic benefits that are likely to emerge from the zone development.
Benchmark study	Provide a benchmark of key trends and strategies for the prioritized industrial sectors of selected leading players or regions.
Key strategies	Outline key strategy options and their implications for exploiting the opportunity (e.g., Public sector driven, Public Private Partnership) and recommended strategies, mechanisms for ranking options: cost and benefit analysis/ratios.
Business case	The pre-feasibility study should provide a detail rationale and business case for the SEZ.
General overview	General overview of demographic and socio-economic and economic profile of the area, availability of utilities for future planning
Socio-economic feasibility	Economic rationale, projected outputs and expected key outcomes of the SEZ on the local, district, provincial and national economies, projected employment to be created during the various stages of the SEZ, detailed industry and sector assessment studies, housing, education, health care, access to public transport, safety and security and availability of basic services.
Technical feasibility	Detailed geo-technical investigation of land, traffic impact studies, topographical surveys, land availability, suitability, and planning, civil engineering studies.
Financial feasibility	Financial modelling and scenario planning, financial forecasting, sustainable revenue and the sources of revenue, turnover and profit, operational financing and capital financing.
Legal and policy study	Detailed environmental impact assessment, public consultations, contracts and agreements, land ownership and use rights, labour relations and related
Risk analysis	Identification of all risks (local, national and global), risk monitoring and assessment, risk responses (elimination, mitigation and prevention), unforeseen and immediate risks, risk contingency planning and risk tracking.
SEZ Strategy	Built on pre-feasibility and feasibility studies
Socio-economic studies	Detailed work conducted on pre-feasibility and feasibility studies.
Economic analysis	Full economic analysis of the region with economic rationale for the establishment of the SEZ, including estimated employment opportunities, SEZ's potential contribution to regional and national GDP, potential to develop a critical mass or cluster of enterprises to achieve commercial viability amongst others.
Spatial development plan	Location and boundary of industries and services areas and CCA, security measures to ensure lawful operation of the proposed SEZ, nearby residential and commercial zones and developments.
Infrastructure plans	Detailed demonstration of utilities to be provided such as electricity, water, hazardous waste facilities, refuse disposal facilities, etc.
Construction plan	Provide delivery timeframes, concept and architectural drawings designs and details regarding regulatory requirements for construction.
Financial plan	Include a financial analysis for 20 years including the budget for the next 5 years and for every 5-year period thereafter and a clear indication of the sources of funding.
Market analysis	Detailed analysis depicting international and local trends and market size, SEZ risks, SWOT, local and external clients, location of potential markets and tenants.



Marketing Plan	Detailed channels and services to be used in sourcing foreign direct investment and local investment including secured letters of intent with potential investors.
Operational Plan	Operational plan of the SEZ and the indication of the date on which the initial phase of the SEZ is estimated to be operational, together with the anticipated implementation of subsequent phases, i.e. business plan milestones inclusive of a work breakdown structure with tasks and activities and a Gantt chart showing all deliverables and objectives of the business plan.
Governance Plan	This provides the institutional framework and the basis for systems and procedures to be implemented later including HR policies, employment contracts, personnel record system, documentation required by relevant labour legislation, administrative system, organogram, and delegation of authorities, etc.
Risk Management Plan	Risks addressed to include, operational risks, financial risks, market risks, environmental and regulatory risks, utilities, quality, costs and continuity management risks and governance and institutional risks
Knowledge Management Plan	Indicate how organizational learning is retained and built upon, including monitoring, evaluating and learning processes and the dissemination of knowledge to the global body of knowledge.
Industrial Sector Development Plan	Details on how the specific industrial sector and clusters will be developed in the SEZs.
Technology Development Plan	The use of technology in support activities in the SEZ and the promotion of Rand activities related to technology used by SEZ tenants.
Logistics Plan	All components of the logistics infrastructure that will be established, the supply chain, logistics flow, systems and technology, management and service providers.
Environment Management Plan	Measures to address protection of biodiversity in the area, methods to address climate change, carbon and water footprint and monitoring thereof, compliance of legislation, prevention and response plans for environmental events and disasters, waste management and recycling policies.
Human Capital Development Plan	The implementation of human resources and development including skills development plan, staffing/recruitment plan, job descriptions and key performance indicators (KPI's), leave policy and working hours, code of conduct, disciplinary measures, outsourcing plan and HR budget.
SME Development Plan	Indicate how procurement will involve sourcing of products and services from local firms and how development of SMEs will be supported, e.g. incubation programme.
Quality Management Plan	Outline relevant ISO and SANS standards, how quality control will be implemented and monitored.
Occupational Health and Safety and Hygiene (OHS and H)	Indicate emergency evacuation and response procedures and containment measures, escalation levels for responses, decision making authorities and prevention measures to ensure a safe, healthy and hygienic workplace which will enhance productivity. Incident management, training and communication to be included.
Stakeholder Management Plan	Identify all stakeholder groups and specific entities in each group, contact details of key people, nature of linkage to the SEZ, influence, interest, impact, issues and challenges for the stakeholder and the SEZ, objectives to be achieved, engagements required and tools to be used in engagement. Including a Communications Plan drawn up separately or form part of this plan.
Energy Plan	Describe energy requirements, electricity provision, sources of alternative energy, use of renewable energy sources, energy efficiency measures, upgrade plan, emergency and backup plans.

Source: Author's categorization of themes from official DTI and Local Government documents

The above table is a summary of a 14-page key deliverables expected to be drafted by Tubatse and Musina Municipalities for the approval of the zones by DTI.

It is evident that a great deal of time and effort were put into the tabling of this document and what stands out to the researcher is the mention of policy reviews and the incubation programme for SMEs which were nonexistent during the interview and focus group sessions.



## **5.6. Discussion**

The interviews with key informants identified a range of themes and sub-themes as contained in Table 5.3 above and which were further expanded under sections 5.3.1 to 5.3.6. This subsection will now attempt to discuss the relevance and implications of the mentioned themes and subthemes.

### **5.6.1. Infancy Stage of SEZ Implementation**

One of the key informants located at the provincial level stressed that SEZs have a 10 to 15-year strategic plan and a roll-out strategy over the next 40 years and the current developments are just the beginning of the first phase of the establishment of SEZs. Hence there is a requirement for Musina and Tubatse Municipalities to continuously develop and update their local strategic plans. It is indeed a disappointment that DTI officials declined to participate in this study. Moreover, their approach to information dissemination is tightly guarded and is only cascaded downwards on a need to know basis. Hence at the lower tiers of government and within business and parastatal forums very little is known about the details of the SEZs establishment and the criteria and type of businesses that are eligible to participate. As a result of this secretive approach to establishing the Limpopo SEZ, at the ground level there is much confusion and inappropriate SMEs have been identified by the local authority managers to be part of the SEZ formation. Moreover, some of the state and parastatal related officials interviewed were clueless about the set of criteria that was being used to identify SMEs. Additionally, it is unclear what structures exist to vet the selected SMEs to be considered for participation within the SEZ. Because of this state of events, gross inefficiencies involving corrupt practices like politically connected individuals being considered to participate within the SEZ is likely to arise. Furthermore, since the project will unfold over the next 10 to 15 years there is much uncertainty from the SME side whether they will be considered and what is required of them. With regards to the current developments a picture is being pieced together that the master plan behind the SEZ is that it is state driven that is consistent with the developmental state notion that was in vogue in the Zuma administration. Moreover, in line with this notion an inference can be made that the state will identify those SME groupings that are fully consistent with the BBBEE requirements and the likely foreign institutions that will be actively sourced to participate in the project will be members that BRICS partners with. Hence the MOU that has been signed with the Chinese Hoi Mor Group and the undertaking to get 200 artisans trained in China reflects this inference.

### **5.6.2. Viability of SEZ**

The overall perception by the LED Officials and the Small to Medium Businesses forums in Limpopo Province is that SEZs are a viable vehicle for attracting investments and promoting SME development thereby boosting employment and economic growth. However, several



key informants as noted in section 5.3.4 believe that the tax and reduction in customs procedure incentives are similar to other SEZs around the world, are inadequate to attract businesses and investments to the zone and they require additional subsidies that directly impact on production costs. This perspective is plausible given that electricity and labour costs in South Africa are exorbitant due to the unprecedented increases in recent years and are unlikely to be reduced in the foreseeable future which makes the industries relatively uncompetitive.

### **5.6.3. Foreign Partnerships**

South Africa, due to its relative infrastructural sophistication to other African economies, has long been considered as a springboard for international companies to venture into the greater African continent and Musina due to its northernmost location is the gateway into Africa and as such there is more progress evident in this zone supported by the US\$ 4 billion MOU and the Chinese partnership and its support.

Research shows that SMEs globally are aware of the benefits offered by SEZs and the SMEs in Limpopo are also aware of the opportunities offered and are very keen to be part of this development. Studies also reveal that the Chinese have the knowledge and ability to create successful SEZs, therefore government has allowed for this partnership. The only debilitating factor is that they will bring in their own workforce and this defeats the purpose of the SEZs in Limpopo. However, their undertaking to train 200 artisans in China and the recent promotion of Mandarin in South African schools might be indicative of long-term development initiatives between both our economies (Zeng, 2015).

### **5.6.4. Holistic Development-Infrastructure Needs**

Unfortunately, the areas selected are undeveloped and all the LED informants were unanimous that to retain skills and talented people in the Limpopo region significant infrastructural development across the board will be required. This is a holistic perspective for it recognizes for SEZs to thrive there needs to be not only economic infrastructure in terms of roads, mines and factories but also in terms of habitat infrastructure which include education, housing, medical and recreational facilities. This is the only way to attract and retain skilled personnel and their families to the sub-region. Hence it makes sense why the architects of the SEZ strategy envisage the project to unfold over 10 to 15 years and to have a life span for about 40 years. The idea to invite the Zimbabwean public and private sector is yet another example of holistic thinking on the part of planners as they are thinking in terms of growing a whole sub-region which is the trend throughout the developed world. The European Union is a case in point and the developments between China or Japan and the South East Asian economies are another example. This sub-regional developmental approach is critical for



South Africa's future growth and development, the business community has already expanded into other African economies, the next strategic step will be for regional economic integration (LEDA, 2015). To this end the region requires the funding and technical support provided by the Chinese consortium. The consolation is that the people of Limpopo will eventually receive the training, knowledge spillover and skills development to benefit from the zones in terms of job creation and business opportunities.

Moreover, another indicator that the initiators of the Limpopo SEZ is being holistic is their approach and is likely to reap huge development benefits for the region is that they are working together with ESKOM, SANRAL and Transnet. However, they need to draw on this experience to get other critical development institutions in place as well, which include the town planners, the Health and Education Ministries, so that plans to expand on the habitat infrastructure is also considered.

#### **5.6.5. Importance of Cluster Projects**

Studies reflect that policy changes from the old IDZs to that of the SEZs and it is evident (refer to chapter 3) that policies will also be adapted to make the proposed SEZs a viable business model and is likely to be a success consistent with models from South East Asia. Moreover, the signing of the MOU with the Chinese consortium and allowing for the import of skilled labour are likely to ensure the success of the Musina SEZ since investment, skills and know-how will flow into the region.

The concept of clustering was a known factor amongst the informants from the Provincial and Local Governments but not amongst the SMEs selected for the interview. The SEZ team spent a month in China and fully grasp the concept. Furthermore, it is evident in their planning since both the SEZs have predetermined clusters to be incorporated within the zones. Clustering is a strategic concept that must be pursued, since all major industries involve various separate core processes that can involve various SMEs joining in at various points along the value chain, for example, as the motor industry has successfully incorporated local SMEs within its value chain. Presently the previously mentioned steel cluster and its resulting beneficiation processes have been identified (with the Chinese Hoi Mor Group serving as a foreign partner) as a cluster project. However, during the interviews it was mentioned that an agribusiness project has been earmarked but not much detail is available regarding partnership and type of produce to be processed.

#### **5.6.6. Selection of SMEs for Cluster Projects**

As noted above certain cluster projects have been predetermined, however, the following worrying quote by a key informant from the LED forum raises issues about the transparency of the selection process:



*“The respective businesses will be notified, developed and relocated to the zones”* K1. The approach to the selection of the SME is problematic from the perspective that the businesses will be identified and invited to participate by an LED official for it creates room for corrupt practices to take root. Several key informants from the private sector have alluded to corrupt practices in government as being a major stumbling block to SME development. At this stage because of restrict flow of information from DTI, the architects of the SEZs strategy, it is not clear what the set of criteria to be used and what form will the monitoring and screening committee that will vet the selection of SMEs to participate in the SEZ. One hopes that the process will be transparent and will involve neutral upstanding citizens involved in addition to state officials.

#### **5.6.7. Skill Shortages and Labour Issues**

Skills shortage, lack of semi-skilled, skilled and professional workforce and the lack of communication among the various levels of Government Officials and SMEs were the dominant issues raised by most of the key informants. Skills shortages can only be addressed in the medium to long term by sorting out the challenges in our education system especially regarding Mathematics and Science competencies at the primary and secondary levels where our learners are ranked among the lowest in the world regarding these skills. In the short term, we will need to import skilled labour if we are to address the skills gap, notwithstanding the xenophobic propensities of certain sections of society that compete for few available semi and unskilled jobs. According to Mateus, Allen-Ile, and Iwu (2014) skills shortage in South Africa stems from many origins, namely a lack of investment in skills development, and more importantly in education. “One of the deepest scars of Apartheid was certainly the denial of acquisition of quality education and skills for Black people. As a result, skills shortage was long identified as one of the critical constraints to economic growth and employment creation by the South African government” (Mateus, *et al.*,2014:64).

A significant concern is the importation of skilled workforce since the local communities are demanding jobs and halting mining operations. The authorities need to find ways to ease the bureaucratic hurdles to facilitate the entry scare of skilled emigrants into the South African economy otherwise it will not be possible to achieve the envisaged developmental goals in general and through the SEZ strategy. Key informants also mentioned that more mining projects are going to be mechanised which will further exacerbate the issue of job creation. These are very difficult issues for the authorities to deal with, South Africa has long been criticized for its inflexible pro-trade union wage policies which make the costs of hiring and firing workers unsustainable for firms hence they are reluctant to hire workers over and above the absolute essential and resort to other short-term strategies, like casual labour or making



use of labour brokers, to meet their labour needs. However, in the long term, the country's development goals are adversely affected.

### **5.7. Limitations**

The major limitation of this study was that all informants, especially from all levels of government were afraid of information shared being disseminated in the public domain. Moreover, for reasons related to the fear of loss of a chance to participate in SEZ formation many of the SMEs located in the Limpopo Province refused to participate in the research. Additionally, farmers who were allocated plots of land and were notified of participation in a yet to be determined agri-business project were afraid to participate for fear of losing their land. The 19 key informants who participated in interviews did so under conditions of strict anonymity.

### **5.8. Validity and Reliability and Generalisability**

Evaluating the quality of research is essential if findings are to inform policy makers and stakeholders and to be incorporated into practice. The term validity refers to the integrity and application of the methods undertaken and the precision in which the findings accurately reflect the data, while reliability describes consistency within the employed analytical procedures. Generalisability refers to whether the findings in a localised small sample setting can be used to understand similar cases in other contexts. In other words, one addresses the question: can the findings on SEZs and SMEs in the Limpopo Province shed light on the issues in other SEZs around the country? If the study was undertaken with the necessary rigour, then the findings ought to be valid in other contexts as well.

Assessing the reliability of study findings requires one to make judgements about the 'soundness' or 'correctness' of the research in conjunction the application and appropriateness of the methods undertaken and the integrity of the final conclusions. Oftentimes, qualitative research is criticised for lacking scientific rigor and is fraught with dubious justification of the methods adopted, absence of transparency in the analytical procedures and that the findings are merely a collection of personal opinions subject to researcher bias. Quantitative studies involve the application of statistical methods for establishing validity and reliability of research findings whereas qualitative researchers aim to design and include methodological strategies to ensure the trustworthiness of the findings.

Three strategies were used in this study to ensure trustworthiness, first, data triangulation where the quantitative method involving the administration of a questionnaire to 19 respondents was employed and the finding in this context corroborated much the findings in the qualitative results, as discussed above. Second, the findings were presented in Faculty seminars which included other researchers in the field, interesting debates were raised which



helped shape the findings presented above. Third, a key informant was shown the reports on the themes and the transcripts and were asked to comment, these findings were validated as an accurate reflection of the stakeholder concerns and the current of the SEZ progress. The key informant was approached in November 2015, 2016, 2017, and 2018, on all occasions a similar stance was maintained.

## **5.9. Conclusion**

The chapter delineated the background and the recent initiatives to the formation of the Limpopo SEZ, moreover the data gathered from the 19 key informants were scrutinized to identify themes and subthemes which were presented in a table format and then explained together with evidence provided from transcripts. Thereafter detailed discussions of the implication of the findings were undertaken. The transcripts were used to draw descriptive statistics and analysis.

Special economic zones harnessing small to medium enterprises in Limpopo Province to promote SME growth and broader economic development goals are plausible business/economic models that can enhance each other's successes. The challenges encountered are like those experienced internationally, moreover the holistic approach adopted by the SEZ task team in engaging the relevant regional, private and public-sector stakeholders, and infrastructural development agencies is a step in the right direction.

It is also understandable that the SEZ team are reluctant to openly share information until they have all the necessary plans and strategies in place, considering the shortcomings of the IDZs, they have a mammoth task of ensuring that the proposed SEZs are a success. The SEZ is a concept that has proven to be successful internationally, but proper planning and strategies needs to be put in place for it to be interwoven into the South African market and its complexities. However, if the SEZ task team maintain their secretive approach to the establishment of SEZs without providing the criteria for selection of SMEs and without putting monitoring and evaluation structures in place then the entire initiative is likely to lend itself to political interference and corrupt practices in selecting the relevant SMEs to participate in the zone and the cluster value chains.

The SEZ task team needs to further expand its holistic approach by including the FET colleges, universities, health, education and population development ministries and other infrastructural development agencies which will help build and develop the region of Limpopo.

The next chapter provides a presentation of the researcher's conclusion and recommendation.



## **CHAPTER 6**

### **6.0. Conclusion**

The motivation of the study was based on a new buzzword introduced by the South African government, special economic zones (SEZs), which was tasked with the objectives to deal with the unemployment crisis, SMME development, BBEE, regional development and economic growth. The researcher was intrigued with this concept and attempted to evaluate the perspectives of government and small to medium enterprises (SMEs) on the viability of SEZs based in the Limpopo Province. The key issues, amongst a list of others, that the researcher investigated were the perceptions, concerns, challenges, and risk factors that affected the success of SMEs located within SEZs which will be addressed below. The chapter is structured as follows: the main themes in the literature review and key objectives are presented in section 6.1., thereafter the research methodology is summarised in section 6.2., followed by a summary of the findings in section 6.3. The limitations of the study and future research is presented in (section 6.4.), policy recommendations (section 6.5.) and finally conclusion and recommendations are presented in section 6.6.

### **6.1. Literature Review Highlights**

This sub-section focused on the key literature discussed in chapters two and three that provided a cogent summary of the issues faced with regards to SEZs in South Africa vis-à-vis the rest of the world.

According to Gleason (2013), the director of the Centre of Development and Enterprise, Bernstein stated that the rapid speed in which countries such as China was developing created an opportunity for South Africa to make use of the natural move of labour-intensive factories to other countries. Bernstein stressed that the SEZs should not be as ineffective as the industrial development zones (IDZs) and that concerted efforts should be used in ensuring that the SEZs attracted labour-intensive businesses. More importantly, she adds that due to the raising costs in Asia, many firms were looking to relocate, and South Africa should seize this new opportunity. Moreover, the firms should be allowed considerable flexibility in working conditions and especially allow for businesses to grow and shrink their labour forces according to fluctuating demands. This would have allowed for the country's unskilled and semi-skilled millions to be put to work, however, this was not to be accepted by the "19<sup>th</sup>-century labour moguls at Cosatu" as stated by Bernstein (Gleason, 2013).

China is one of the leading countries to boast success stories with SEZs, notably, in 2010, China outperformed Japan and became the world's second-largest economy, a leader in international trade and investment, and an important growth engine of the global economy having single-handedly lifted more than 400 million people out of poverty. China's success



with SEZs were based on the following factors: strong and long-term commitment from the government; a conducive business environment in the zones; strategic locations; technology upgrades and skill transfers; and strong linkages with the local economy. Equally important was the correct location of choice, well planned policy with regards to infrastructure, incentives, labour supply and overall decentralization (Zeng, 2010; CDE, 2012). For the South African SEZs to be a success the key stakeholders need to be mindful of these factors.

According to Bernstein, “if our new SEZ policy is going to work then it has to be very different from the ineffective policies that governed the industrial development zones” (CDE, 2011). Bernstein states that SEZs had to be special and globally competitive and move away from the ideals of the IDZs which were basically industrial parks hence failed in attracting new investors and creating jobs. SEZs played a critical role in transforming economies world-wide and the world would look very different today had Deng Xiaoping not created SEZs on China’s east coast, same being true for Mauritius or Costa Rica (CDE, 2011). Bernstein reiterated that successful SEZs can create employment for millions, catapulted countries out of poverty and completely transformed their economies. South Africa should seize this opportunity, especially when the rising costs in Asia and labour-intensive firms are looking for new regional locations, but this would require bold leadership and engagement with difficult choices on labour costs and flexibility to be made (CDE, 2012).

The new SEZ programme needs to become a presidential priority with unprecedented support for the DTI from all government departments. The performance of the IDZs were miserable moreover, SEZs world-wide performed poorly since they failed to offer potential investors with a sufficiently attractive package of competitiveness and market access. The biggest problem that South Africa was faced with was the lack of jobs for unskilled workers and if the South African government was serious about addressing this, then it should set the stage for the emergence of businesses that can employ unskilled labour, and the SEZ could be the tool used to achieve this (CDE, 2012).

South African studies by Chinguno (2011), and Bernstein and Altbeker, have documented several challenges faced by South Africa’s experiments with IDZs which prevented them from being the panacea for the huge unemployment and development constraints that the country faced (CDE, 2012). The report states that it was critical that the South African industrial policy supported the informal sector as a strategy to transform South Africa and encourage the much-needed economic trade to the continent. The SEZ initiative, as captured by the 2014 SEZ Act and a number of DTI policy documents, was not overconfident but, if pertinent issues were not addressed, then this could potentially stymie the advancement of the initiative (CDE, 2012). The authors alluded that should South Africa elect SEZs as the tool to transform the country’s



economic prospects, then the approach to their development must be quite different from the ineffective IDZ strategy. Moreover, if South Africa is to deliver on the promise of SEZs, then the country's new approach will need to embrace some key lessons from international experience (CDE, 2012).

There are various risks inherent in all business functions and activities, the risks or challenges encountered by the various stakeholders, particularly by SMEs, included opportunistic tendencies such as dishonesty, shirking, distortion of information, and poaching partners' skills, clients or personnel.

Adding to this is political risks, whereby a country's political forces have the potential to adversely affect the performance of businesses operating within its borders, resulting in investors losing money and their assets. South Africa currently has one of the largest public protests in the world that is partly due to the municipalities' failure in providing essential services. There are various reasons for the service delivery protests which include allegations of corruption and nepotism within local government structures, political opportunism, inadequate community engagement, dysfunctional ward committees, and poor performance by the municipalities (Brand, 2018). SMEs are at huge risk if they are faced with a wide range of political factors from governmental risk such as bribery and corruption and societal risk such as violence, revolutions, terrorism, strikes, and national boycotts of firms. There is a negative relationship between the various sources of policy risk such as government instability, political violence, corruption and the flow of FDI within the country (Wickberg, 2013). To create an enabling and successful environment for SMEs and SEZs, the South African Government's involvement and support is mandatory to address these factors and allow for FDI to flow into the country.

Economic risk is prevalent when a country's government mismanages its economy which adversely affected the business environment and resulted in poor performance of firms operating there. Economic and political risks are therefore related and two factors that result from economic mismanagement is inflation and fluctuation in exchange rates. The economic and political risks in South Africa must be duly managed by government to improve inflation and the exchange rate to attract SMEs and the much needed FDI to the zones (Sunjka and Sklar-Chik, 2012). Moreover, the competitiveness of South Africa's SMEs is severely hindered by the repercussion of apartheid, foreign competition, internal constraints such as labour costs, government red-tape, unskilled workforce, the poor labour relations and the electricity crisis.

Electricity costs remained a contentious issue in South Africa which also affected global mining giant BHP Billiton which was forced to close its Bayside aluminium smelter in the Richards



Bay IDZ despite having secured long-term contracts with Eskom (Allix, 2015). The author state that investment was not easily attracted and could be very transient due to various factors such as foreign exchange rates to commodity prices that could push the manufacturing costs over the top.

Patronage networks sustained by corrupt politicians, dishonest government officials and dubious private enterprises are typically funded through resource extraction. Massive patronage is being funded through exporting commodities, government borrowings, taxes, regulations, and looting (Mamogale, 2014). It is crucial for SME's operating within SEZs to sustainably compete globally, add value, create employment, unleash horizontal and vertical business opportunities must be untainted by such corrupt practices and networks.

The South African government's ascendency to power was achieved through maintaining an unassailable majority through aligning with the country's militant trade unions and the South African Communist party which might explain its perpetual hostility toward the business sector which is largely white dominated, but which is responsible for 70% of the economy's investment and it generates jobs and taxes (Anwar, 2017). The experienced business sector must be strategically incorporated into the SEZ framework if it is to play a vital role in promoting black owned SMEs, investing, technology and know-how transfers and creating employment.

Scholars such as Hausmann (2014), noted that while BEE was a correction for past sins, but growth comes from start-ups and from new firms. By diverting attention away from creating new firms and imposing costs on existing firms, BEE could possibly create the deleterious effect of causing fewer of these firms to be created, and more of the firms that do get off the ground to die, hence the low rate of SME development.

The study aimed to investigate and provide feedback for the objectives listed below but given the fact that the study regarding the SEZ project is in its preliminary phase, it was not possible for the researcher to address all these objectives to the desired level.

1. To Identify the key concerns, challenges, and risk factors that affect the success and sustainability of SMEs located within SEZ's
2. To highlight communication barriers that hinder the success of SME's and SEZ's
3. To investigate the possibility of SMEs, especially light manufacturing industries, involving themselves in SEZ projects.
4. To identify the incentives provided to attract local and foreign investors
5. To investigate whether the incentives are adequate to satisfy the needs of SMEs
6. To ascertain whether the SEZ ACT and South Africa's governance is adequate to provide basic services and to promote economic and political interests.



7. To establish whether government and entrepreneurs are working towards identifying cluster strategies in the identified zones.
8. To establish whether clustering is a priority amongst SEZs and SMEs in Limpopo province.

## **6.2. Summary of Research Methodology**

The research methodology that the researcher employed was the mixed methods approach since it combines elements of qualitative and quantitative approaches for the purpose of acquiring an in-depth insight into the perceptions of stakeholders on a wide range of issues pertaining to SEZs. Regarding the time-line of the investigation a multiphase approach was adopted where the researcher conducted both concurrent and sequential data collection and analysis over a longer period. The first set of interviews were conducted in July 2014 with SALGA and the SEZ team followed by more interviews conducted in November 2014, both the semi interviews and the survey questionnaire were administered to selected individuals as appointed by SALGA and the SEZ team. Thereafter on a yearly basis the perspectives of the reachable stakeholders were evaluated through follow-up telephonic interviews and engagements via email communications. Additionally, document analysis of reports, and presentations from local government were undertaken to gain clarity on pertinent issues.

In this study, the qualitative research design was employed as part of the mixed method approach. The rationale behind the qualitative approach is that it embraces the nature of the world and reality assumption of multiple truths or multiple realities, that is, persons understand reality in different ways that reflect individual perspectives as opposed to the quantitative approach which ignores differences and focuses on common objective reality. The qualitative research approach is subjective and considers human realities instead of just the facts and typically only a small sample is required, hence it was appropriate to this study since predominantly officials from the three tiers of government and a few entrepreneurs were interviewed.

Qualitative research is characterised by its aims, which relate to understanding some aspect of social life, and its methods which (in general) generate words, rather than numbers, as data for analysis. However, since 19 purposively selected key informants were interviewed it was considered a reasonably large sample to assess the views of informants on their perceptions via the use of a 5-point Likert scale on a number of relevant issues to assess whether there are similar patterns in the respondents' beliefs on a wide range of issues that might not be covered via interviews.

To achieve the research objectives both qualitative and quantitative approaches were used. This approach was used because the researcher attempted to secure key informants (or



stakeholders) who were involved at all levels of government in the establishment and, operationalization of SEZs in the Limpopo Province as well as the entrepreneurs of SMEs that were identified as suitable candidates to be assimilated into the SEZ. Hence the key informants comprised of government officials at local, provincial and national government levels as well as SME entrepreneurs were identified to participate by officials within the municipalities.

This study used a purposive sampling method together with the snowball sampling whereby a few individuals from the relevant population were approached and other acquaintances and experts were then identified for the inclusion in the sample.

The researcher made a deliberate choice in selecting the relevant informant due to the special qualities (experience, knowledge and insights) they possessed. This approach is by its very nature nonrandom and thus does not need underlying statistical theories or a specific number or set of informants. The researcher decided what needed to be known and embarked on finding the relevant people who were able and willing to provide the information. Ideally the key informants are knowledgeable, observant, reflective members who are appropriately located in the community of interest and are willing to share their insights.

Three strategies were used in this study to ensure trustworthiness, first, data triangulation where the quantitative method involving the administration of a questionnaire to 19 respondents was employed and the finding in this context corroborated with the findings in the qualitative results. Second, the findings were presented in Faculty seminars which included other researchers in the field, interesting debates were raised which helped shape the findings presented. Third, a key informant from local government, and an entrepreneur were shown the reports on the themes and the transcripts and were asked to comment, they validated the findings as an accurate reflection of the stakeholder concerns and the current of the SEZ progress. These key informants were approached in November 2015, 2016, 2017, and 2018, on all occasions they maintained a similar stance.

### **6.3. Summary of the Findings**

Special economic zones must offer investors something significantly different from what is available in the rest of the economy. Precisely what an SEZ offers, and how this differs from conditions elsewhere, depends on the goals of the country's SEZ programme. International evidence indicated that SEZs were most successful when they were targeted toward specific industries and offered concrete solutions to the challenges faced by those industries (Chitambara, 2015). The masterplan for the SEZs in Tabatse and Musina attempts to address this but the key stakeholders need to address a lot more for this plan to bode well for the SEZs.



Global competitiveness is a quintessential requirement for an economy to thrive hence it is not enough just to be better than the host economy. South Africa's SEZs need to be globally competitive and research depicted that local and foreign investors chose SEZs for different reasons. Most considered their location, market access and logistics; others considered wage levels and labour market practices; whilst others place a premium on access to skilled labour or a favourable regulatory environment. According to Allix (2015), the new SEZ legislation offered "qualifying enterprises" with a controlled customs area, a low company tax rate (15% as opposed to 28%) and other rebates whilst the IDZs only offered top-notch infrastructure.

Many SEZs offered investors certain fiscal incentives such as tax breaks and subsidies but, international evidence revealed that few investment decisions were made based on these incentives alone, more critical was ensuring the zone's overall competitiveness. Nevertheless, the government should retain the capacity to provide fiscal incentives, this would ensure that the tax burden in an SEZ is not out of line with the tax rates paid in the investor's home country or other potential investment locations. Tax incentives may also help to attract first movers who may be uncertain of the area's competitiveness. The tax incentive might not be attractive enough since the National Treasury was afraid that businesses may relocate to take advantage of tax breaks thus eroding the traditional tax base which was already quite thin (Chinguno, 2011).

Another factor that affects the competitiveness of SEZs is the availability of skilled workers. Successful SEZ programmes must ensure that businesses have access to the skills they need. In some countries, this has been achieved by locating SEZs in regions where the population is better educated or by aligning interventions in secondary and tertiary education with the skills needs of SEZs. There is some evidence that SEZs can help to create skills, and firms in SEZs around the world have seen rapid productivity gains through on-the-job training. Additionally, in the short-term South Africa needs to recruit foreign skilled labour to meet the shortfall which suggests the bureaucratic hurdles need to be removed to facilitate the process.

The problem with setting up SEZs in the Limpopo region is that there is a scarcity of skilled resources, the SEZ architects envisage the setting up of residential and educational infrastructure over the next forty years, however the SEZs need to take root in the next 10 to 15 years, which then begs the question where will the skilled labour come from? Reports suggest that the Hoi Mor project apart from training 200 South African artisans, will initially import their own skilled workforce to service the project (refer Appendix D).

SEZs can tailor their offerings to specific sectors and subsectors across the industrial spectrum. The key is to ensure that the zones help address the constraints that limits the



growth of those sectors elsewhere in the economy. South Africa has a massive unemployment problem, SEZs ought to focus on addressing the needs of labour-intensive industries. Additionally, the costs and flexibility of employment are pertinent to the success of SMEs, SEZs can create large numbers of jobs provided that the benefits derived from locating into the SEZs meets the needs of labour-intensive industries. Apart from competitive wage levels being important, the following factors such as rigid overtime rules, legal conditions governing temporary employment and/or piece-work, shift systems, rules of dismissal, also have a huge impact on the success of SMEs. The ability of employers to adjust the size of their workforce and adjust their operations in response to these variations is an important determinant of their competitiveness. Unfortunately, the Limpopo SEZ masterplan does not make any labour concessions perhaps for fear of raising the wrath of the militant trade unions. Furthermore, there is no specific mention, in the master plan, of labour-intensive manufacturing industries and any specific incentives (namely wage subsidies) to promote such SMEs.

Some of the least successful SEZs, for example in Jamaica and Kenya, have been set up as vehicles for developing poorer regions of a country. The weakness of this model was that some areas were less developed than others due to a lack of infrastructure, limited access to skilled labour, and distances from markets. The Limpopo Province is quite underdeveloped which means that tremendous amount of resources needs to be devoted to those regions over a long term to make them conducive for SEZs to thrive in.

One of the key concerns highlighted was the inadequate incentives that were provided to attract foreign direct investment within the zones. This was addressed as one of the pertinent reasons for the failure of the industrial development zones, and it appears that government has not learnt from its past mistakes. Moreover, one may conclude that the success of the SEZs may rest in the same fate of not being able to bring in the much-needed foreign direct investments and create the opportunity for providing employment to the unemployed masses.

During the interviews, the researcher discovered that there was no transparency or communication to staff within the local government or the general public in Limpopo province regarding the designated zones or the intention/purpose of the zones. The researcher was informed that the feasibility study was underway, and information was only disseminated to the highest authority and on a need to know basis for fear of illegal squatting. Communication and transparency is key for any project to be a success, furthermore, the researcher discovered that staff within local government had no clue of the special economic zones and the list of 'potential' small to medium enterprises to be targeted for the zones were not suitable for the role that they were meant to provide within the zones. The researcher was taken to a



baker, a 'backyard' panel beater and the only potential SMEs were the farmers which was part of the agricultural zone, but they refused to be interviewed for fear of losing their plots of land. Many of the 'potential' SMEs could not speak in English, neither were they related to a cluster specific industry as most international studies alluded to.

Information asymmetry in the form of lack of communication, transparency and secrecy within various organs of bureaucracy has resulted in much confusion and evident here is the inappropriate SMEs that have been identified by the local authority managers to be part of the SEZ formation. Moreover, some of the state and parastatal related officials interviewed were clueless about the set of criteria that was being used to identify SMEs. Additionally, it was unclear what structures existed to vet the selected SMEs that were considered to participate within the SEZs.

Lack of communication and transparency creates the ideal breathing ground for corrupt practices to take root since government officials and politicians can easily manipulate the system. Moreover, lack of communication and transparency between different government departments leads to inefficiencies in planning and in the operationalisation of such plans.

The SEZ team spent months away in foreign countries to learn from the success stories regarding the development of zones, but this attempt becomes futile if the lesson learnt are not applied in key areas. Great ideas without action will not help in ensuring that the SEZs in South Africa succeed, more importantly, the government has spent billions of taxpayers' money in this project together with billions spent in the industrial development zones which was a failure. The government has also made billions of Rand available for small to medium enterprises, but it had to be BEE compliant. This is a huge shortcoming since many of the BEE companies lacked the skills and expertise necessary to make a company successful and become world class. Furthermore, SMEs had no clue that these funds were made available and the red tape around gaining access to these funds was another stumbling block.

The private sector played a huge role in successful SEZs worldwide (Munyoro, 2017), the South African government should have allowed for private sector collaboration with SMEs to get this project off the road with the proper support or backing. The objectives of the SEZs amongst others were to provide support for a wider economic reform strategy, and to act as experimental laboratories for the application of new policies and approaches, the SEZ team appointed to direct this project should work towards achieving these objectives.

The data gathered from the questionnaires reflected that government officials, stakeholders and SMEs perceived skills shortages, underdeveloped infrastructure, political uncertainty, lack of technical expertise and red tape as being huge challenges threatening the potential success of SEZs. These findings were consistent with those obtained from the focus group interviews.



Interestingly, government officials disagreed with the private sector regarding inflexible labour laws and high wage rates. Here again it is the SMEs who faced the challenges of operating within the constraints of the labour laws daily. Another interesting finding is that government officials working within the system are acutely aware of patronage and the corrupt practices within government. It might also be the case that due to fear of loss of access to opportunities promised by SEZ involvement that SME owners strategically adopted a neutral stance regarding the issue of corruption. In their individual interviews, they were unanimous that corruption in government is a problem. Perhaps in the answering of the questionnaire they were afraid of their names being attached to the informed consent forms.

#### **6.4. Limitations and Future Research Directions**

The limitations experienced by the researcher is that the Department of Trade and Industry (DTI) refused to be interviewed on the basis that all information regarding the proposed SEZs was highly confidential and not open to public discussions. A further limitation experienced by the researcher was that some farmers based in a co-operative refused to be part of the study for fear of disclosing pertinent information that might result in them losing a plot of land that was allocated to them. Moreover, they distrusted the researcher despite the ethical assurances made. Apart from these limitations, the information disseminated amongst stakeholders in local government and potential stakeholders were very sketchy and based on how the questionnaires were answered further supports the fact that there was no transparency or communication between the various stakeholders.

Future research, armed with the appropriate ethical clearance assurances, ought to make representations to the high-ranking officials in the Department of Trade and Industry, even if it means that deputations need to be made to the Minister of Trade and Industry, to secure the necessary un-embargoed information.

Additionally, the study ought to be extended to include other SEZs in the country and comparisons ought to be made between coastal and inland SEZs. Further, an in-depth literature review ought to focus on international cases studies of successful inland SEZs and what were the main elements that resulted in success.

#### **6.5. Policy Recommendations**

According to Bernstein, (CDE, 2017), South Africa needs to employ a new approach to make the economy more inclusive. Due to the extremely high levels of unemployment, it is suggested that the redistributive policies should be the heart of inclusion, to encourage a wider participation in the economy which is the key to a more inclusive society. The way to achieve this in South Africa is by raising the rate of growth while simultaneously encouraging production to become more labour intensive. This required urgent policy reforms to make it



more attractive to create jobs for unskilled and poorly educated workers. Moreover, the labour market policies need to be reviewed which prevented the creation of the kinds of jobs that have been the point of entry for millions of unskilled workers which was prevalent in modernising economies and in the rest of the developing world (CDE, 2017).

It is also understandable that the SEZ team were reluctant to openly share information until they have all the necessary plans and strategies in place, considering the shortcomings of the IDZs, they have a mammoth task of ensuring that the proposed SEZs are a success. The SEZ is a concept that has proven to be successful internationally, but proper planning and strategies needs to be put in place for it to be interwoven into the South African market and its complexities. However, if the SEZ task team maintain their secretive approach to the establishment of SEZs without providing the criteria for selection of SMEs, and without ensuring that monitoring and evaluation structures are put in place then the entire initiative is likely to lend itself to political interference and corrupt practices in selecting the relevant SMEs to participate in the zone and the cluster value chains.

The global practice is to set up IDZs/SEZs in the vicinity of coastal cities and along national borders, however, the Limpopo SEZ is located in a mining/agricultural zone that is both landlocked and lack the requisite infrastructure but locating a SEZ in such a region could be the innovation to jumpstart the Limpopo economy and promote the development of SMEs. The authorities, from the documentary evidence studied, have provided grand plans in using the holistic approach to bring all the relevant role players to assist in developing the sub-region. However, the notable exclusions from this grand plan are those who command significant investment capital and expertise, that is, the private sector which is largely white owned/controlled and major companies from the West. A holistic approach to sub-regional development is critical for the Limpopo Province and for South Africa's future growth and development, the largely white business community has already expanded into other African economies and has much to contribute to the local economy if political risks are curtailed and private property rights are assured.

There are indications that the authorities are amiable to regional development for the Zimbabwean government and some of their private sector participants, the next strategic step will be for regional economic integration. To this end the region requires the funding and technical support provided, not only by the Chinese but also by both local companies albeit largely white owned, Western investors now have resources, skills many years of collaborative development experience in the African context compared to the Chinese consortiums. With reference to the MOU the authorities developed with the Hoi Mor Group it is encouraging to note that the skills development conditionality is being imposed. Using MOUs similar type of



arrangements are encouraged with all potential partnerships irrespective of whether they are local white owned companies, Western companies that can extend to include beneficiation, clustering, local content in the production processes, developing of black industrialists and other critical concerns.

Skills shortages emerged as a critical issue by all those that were interviewed and those who filled in the survey questionnaire. However, skills shortages can only be addressed in the medium to long term by sorting out the challenges in our education system especially regarding Mathematics and Science competencies at the primary and secondary school level where our learners are ranked among the lowest in the world regarding these skills. In the short term, we will need to import skilled labour if we are to address the skills gap, notwithstanding the xenophobic propensities of certain sections of society that compete for few available semi and unskilled jobs.

Incentive schemes extending to reduction of red-tape, reduced electricity prices, tax incentives and more flexible labour policies are the bedrock of all successful SEZs around the world. If the Limpopo SEZ is to succeed these incentives ought to be the bare minimum requirements. It is important to create renewed emphasis on meeting the real needs of the SME recipients as a top priority. Cosatu needs to be an important role player in leading the drive to create more flexible labour policies within SEZs that necessarily incorporates the training of youth. Furthermore, the provision of the energy needs of the Limpopo SEZ must be in consonance with the national strategic plan of provision of cost-effective sources of electricity supply based on the latest available technology.

## **6.6. Conclusion and recommendations**

The CDE report suggested that South Africa's IDZs failed to attract investment and to make a significant contribution to economic growth and job creation since there was nothing 'special' about these zones, for example, labour regulations in the IDZs did not differ from those in the rest of the country, moreover, firms that invested or operated in IDZs did not receive preferential treatment in terms of tax obligations. Other scholars argue that the failure to devise a comprehensive policy framework has resulted in poor planning, implementation and management of the IDZs, coupled with the lack of inter-agency coordination and a failure to adequately involve the private sector in the ownership and management of the zones, led to the failure of IDZs in South Africa.

The annexure to the 2013 Special Economic Zones Bill summarised these problems as "a weak policy and legislative framework; poor institutional and governance arrangements; ad hoc funding arrangements that render long term planning in the IDZ impossible, lack of IDZ specific incentives; lack of targeted investment promotion, lack of programme definition and



strategic direction and poor coordination and integration". There must also exist synchronicity between policies and programmes affecting key elements of infrastructure and the zone and amongst departments and agencies.

The creation of special economic zones in East Asia and Latin America to stimulate industrialisation and job creation has been fairly successful but, critical for the success of the SEZs in South Africa is a 'strong strategic plan and business case'. Notwithstanding that it also required the building of reliable infrastructure, the linking of the various zones to each other, and for regional value chains to be integrated into local and global markets (Allix, 2015).

The IDZs were not viewed as a positive model or approach to spatial targeting due to the lack of a comprehensive policy framework and the lack of proper guidance; poor inter-agency coordination; problems in governance, planning, implementation, management and operation led to its eventual failure. These factors must be addressed with utmost urgency so that the SEZ programme can succeed and attract the much-needed foreign direct investment and provide jobs for the masses.

The SEZ programme was introduced as a government instrument to propel industrialisation, regional development, export promotion, job creation and finally to make South Africa an attractive market to invest in (Nyakabawo, 2014). South Africa can achieve success with its SEZ program by avoiding past mistakes and by following the success models from international studies. The choice of location to establish SEZs must not be driven by political objectives nor by an abstract set of limitations, it must be based on economic drivers. Government must also choose companies that will generate the greatest national benefits without any prejudices.

Over that last decade there has been a rise in the affinity towards populist policies including excess budget deficits, radical economic transformation, land appropriation without compensation, together with the politics of patronage and the mismanagement of State-Owned Enterprises (SOEs) - which are meant to play a vital role in SEZ development. All these negative developments resulted in credit downgrades and have given rise to perceptions of a threat to private property rights (inclusive of mining right), a decline in business confidence, hence local and developed economies' investors were reluctant to invest locally. The latter may explain why the Limpopo SEZ has given emphasis to Chinese investors, which has been the trend in other mismanaged African economies that shun the West because of their critical stance on governance and human rights issues and openly embrace the Orientals who turn a blind eye to such issues. The government needs to boost business confidence through taking determined steps to root out corruption in government and SOEs, to guarantee private property rights and to implement the business-friendly National Development Plan.



Such stances together with inviting all local and international communities to participate in SEZ development is likely to be more successful.

In conclusion, the researcher wishes to echo the words of Bernstein, (2012), “if our new SEZ policy is going to work then it has to be very different from the ineffective policies that governed the industrial development zones”. Although international studies reflect that SEZs have been a successful industrial policy tool globally, however, benefits derived from them were not automatic but depended on whether the necessary conditions for success are created. In the Limpopo province, government should fully support the SEZ team together with all the stakeholders to ensure that proper policies are in place to help create an environment conducive for the success of the SEZs.



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#### Legislation:

1. The Manufacturing Development Act No. 187 of 1993
2. Special Economic Zone Bill
3. Policy on the development of Special Economic Zones in South Africa, 2012
4. National Credit Regulator. Literature Review on Small and Medium Enterprises' Access to Credit and Support in South Africa. 2011.
5. The Department of Trade and Industry (the DTI), Industrial Policy Action Plan (IPAP) 2012/13 – 2014/15.
6. Government Gazette, 2014. Special Economic Zones Act, 2014. Republic of South Africa.



## APPENDIX A: ETHICAL CLEARANCE

**UNIVERSITY RESEARCH ETHICS  
COMMITTEE**  
(Reg No: UZREC-171110-030-RA Level 01)



**UNIVERSITY OF ZULULAND**  
Website: <http://www.unizulu.ac.za>

Private Bag X1001  
KwaDlangezwa 3886

Tel: 035 902 6887  
Fax: 035 902 6222  
Email: [ManqeleS@unizulu.ac.za](mailto:ManqeleS@unizulu.ac.za)

### ETHICAL CLEARANCE CERTIFICATE

Certificate Number	UZREC-171110-030-RA Level 01 PGM 2014/99									
Project Title	To evaluate the perspectives of government and small to medium enterprises on the viability of the special economic zone in Limpopo Province									
Principal Researcher/ Investigator	L Naidoo									
Supervisor and Co- supervisor	Dr. I Kaseeram					Mr. S Heeralal				
Department	Business Management									
Nature of Project	Honours/4 <sup>th</sup> Year			Master's	x	Doctoral		Departmental		

The University of Zululand's Research Ethics Committee (UZREC) hereby gives ethical approval in respect of the undertakings contained in the above-mentioned project proposal and the documents listed on page 2 of this Certificate. Special conditions, if any, are also listed on page 2.

The Researcher may therefore commence with the research as from the date of this Certificate, using the reference number indicated above, but may not conduct any data collection using research instruments that are yet to be approved.

Please note that the UZREC must be informed immediately of

- Any material change in the conditions or undertakings mentioned in the documents that were presented to the UZREC
- Any material breaches of ethical undertakings or events that impact upon the ethical conduct of the research

The Principal Researcher must report to the UZREC in the prescribed format, where applicable, annually and at the end of the project, in respect of ethical compliance.



The table below indicates which documents the UZREC considered in granting this Certificate and which documents, if any, still require ethical clearance. (Please note that this is not a closed list and should new instruments be developed, these may also require approval.)

Documents	Considered	To be submitted	Not required
Faculty Research Ethics Committee recommendation	X		
Animal Research Ethics Committee recommendation			X
Health Research Ethics Committee recommendation			X
Ethical clearance application form	X		
Project registration proposal	X		
Informed consent from participants	X		X
Informed consent from parent/guardian			X
Permission for access to sites/information/participants	X		
Permission to use documents/copyright clearance			X
Data collection/survey instrument/questionnaire	X		
Data collection instrument in appropriate language		Only if necessary	
Other data collection instruments		Only if used	

**Special conditions:** Documents marked "To be submitted" must be presented for ethical clearance before any data collection can commence.

The UZREC retains the right to:

- Withdraw or amend this Certificate if
  - Any unethical principles or practices are revealed or suspected
  - Relevant information has been withheld or misrepresented
  - Regulatory changes of whatsoever nature so require
  - The conditions contained in this Certificate have not been adhered to
- Request access to any information or data at any time during the course or after completion of the project

The UZREC wishes the researcher well in conducting the research.



**Professor Rob Midgley**

Deputy Vice-Chancellor, Research and Innovation  
 Chairperson: University Research Ethics Committee  
 03 June 2014

**CHAIRPERSON**  
 UNIVERSITY OF ZULULAND RESEARCH  
 ETHICS COMMITTEE (UZREC)  
 REG NO: UZREC 171110-30

06 -06- 2014



## APPENDIX B: QUESTIONNAIRES

### B1: QUESTIONNAIRE (The Department of Trade and Industry)

TOPIC: To Evaluate the Perspectives of Government and Small to Medium Enterprises on the Viability of the Special Economic Zone in Limpopo Province

RESEARCHER : Logambal Naidoo (Michelle)

STUDENT NUMBER: 201330467

PROPOSED DEGREE: Mcom (Business Management)

FACULTY: Commerce, Administration and Law

DEPARTMENT: Business Management

SUPERVISOR: Dr I Kaseeram

CO-SUPERVISOR: Mr S Heeralal

INSTITUTION:

UNIVERSITY OF ZULULAND

### INFORMED CONSENT DECLARATION (Participant)

Project Title: To Evaluate the Perspectives of Government and Small to Medium Enterprises on the Viability of the Special Economic Zone in Limpopo Province

*(Logambal Naidoo (Michelle))* from the Department of Business Management, University of Zululand has requested my permission to participate in the above-mentioned research project.



The nature and the purpose of the research project and of this informed consent declaration have been explained to me in a language that I understand.

I am aware that:

1. The purpose of the research project is to conduct an evaluation of the perspectives of Government and Small to Medium Enterprises on the Special Economic Zone as a Business Model in the Limpopo Province.
2. The University of Zululand has given ethical clearance to this research project and I have seen/ may request to see the clearance certificate.
3. By participating in this research project, I will be contributing towards developing policy recommendations that may benefit all stakeholders concerned.
4. I will participate in the project by completing the attached questionnaire without prejudice.
5. My participation is entirely voluntary and should I at any stage wish to withdraw from participating further, I may do so without any negative consequences.
6. I will not be compensated for participating in the research, but my out-of-pocket expenses will be reimbursed.
7. I understand that the foreseeable risks associated with this study are minimal. These risks are similar to those associated with the disclosure of work-related information to others. The researcher has assured me of confidentiality and anonymity in regard to the dissemination of any information to others. However, I am fully aware that I may decline to answer any question (or all the questions) and that I have a right to withdraw from participating at any time during the interview/administration of questionnaire, as noted in point 5, above.
8. The researcher intends publishing the research results in the form of a dissertation, however, confidentiality and anonymity of records will be maintained and that my name and identity will not be revealed to anyone who has not been involved in the conduct of the research.
9. I will not receive feedback regarding the results obtained during the study.
10. Any further questions that I might have concerning the research, or my participation will be answered by Dr I Kaseeram, Faculty of Commerce, Administration and Law, Economics Department.  
  
Telephone no: (035) 9026424  
Email: KaseeramI@unizulu.ac.za
11. By signing this informed consent declaration, I am not waiving any legal claims, rights or remedies.
12. A copy of this informed consent declaration will be given to me, and the original will be kept on record.



I, ..... have read the above information / confirm that the above information has been explained to me in a language that I understand, and I am aware of this document's contents. I have asked all questions that I wished to ask, and these have been answered to my satisfaction. I fully understand what is expected of me during the research.

I have not been pressurised in any way and I voluntarily agree to participate in the above-mentioned project.

.....  
**Participant's signature**

.....  
**Date**

## INSTRUCTIONS:

Respondent Number: \_\_\_\_\_

1. Please answer all questions.
2. Answer as honestly as possible. **YOUR OPINION IS REQUIRED.**
3. Please do not change any of your responses afterwards (for instance: do not scratch out or tippex any of your responses).
4. Please use a pen to mark your responses by placing a tick (✓), in the appropriate numbered column, or by writing down the appropriate information, wherever required.

## SECTION A: Background Information

### DEMOGRAPHICS

1. Gender of respondent

Male	1
Female	2

2. Under which ambit of the Department of Trade and Industry do you work in? Please specify.

--

3. Please state your profession/role with DTI.


4. How long have you been working at the DTI? Please place a tick (✓) in the appropriate box below:

One year	1
Two years	2
Three years	3
More than three years, please specify	4



## SECTION B: Information regarding the SEZ Bill

As per information published in media it is stated that “The Department of Trade and Industry is of the view that the Industrial Development Zones (IDZ) Programme has performed below expectations. A policy review was conducted, and it was highlighted that the following are the key contributors for the shortcomings of the IDZ Programme: a weak policy and legislative framework; poor institutional and governance arrangements; ad hoc funding arrangements; lack of IDZ specific incentives; lack of targeted investment promotion, lack of programme definition and strategic direction, and poor coordination and integration”.

In lieu of the above, the SEZ Bill passed in October 2013, was sanctioned to address the above-mentioned shortcomings.

5. Were the relevant Stakeholders consulted when the Bill was being formulated regarding its impact on their businesses?

YES	1
NO	2

6. If you answered **YES** to question 5, who were consulted before passing of the Bill? Please tick (✓) the relevant boxes.

Municipalities	1
Local Industries	2
Entrepreneurs	3
Local Economic Development	4
Clients	5
Prospective Business Owners	6
Other, specify:	7

7. With the sanctioning of the new SEZ Bill, do you think that the shortcomings listed below will be resolved? Please tick (✓) the relevant boxes.

	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
1. A weak policy and legislative framework;	1	2	3	4	5
2. Poor institutional and governance arrangements	1	2	3	4	5
3. Ad hoc funding	1	2	3	4	5
4. Lack of IDZ specific incentives	1	2	3	4	5
5. Lack of targeted investment promotion	1	2	3	4	5
6. Lack of programme definition and strategic direction	1	2	3	4	5
7. Poor coordination and integration	1	2	3	4	5

8. In the event that some of these shortcomings will NOT be entirely resolved or addressed, are there future plans for addressing same?

YES	1
NO	2



9. If you answered YES to question 8, please elaborate.


10. Listed below are some of the challenges faced by SMEs, in your opinion will the sanctioning of the new SEZ Bill address some of these challenges? Please tick (✓) the relevant boxes.

		Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
1.	Skills shortage	1	2	3	4	5
2.	Inefficiencies in the South African ports network (container terminal capacity constraints);	1	2	3	4	5
3.	Under-developed infrastructure, including rail branch-lines, roads, electricity and water supply;	1	2	3	4	5
4.	Political uncertainty such as strikes	1	2	3	4	5
5.	Access to foreign markets	1	2	3	4	5
6.	Complex regulatory and inter-governmental integration systems	1	2	3	4	5
7.	Technical expertise	1	2	3	4	5
8.	Inflexible working hours and labour rates	1	2	3	4	5
9.	Red tape	1	2	3	4	5
10.	Corruption	1	2	3	4	5
11.	Others: please specify	1	2	3	4	5

11. In your opinion do you think that the new SEZ Bill will foster development within the zones?

YES	1
NO	2

12. If you answered NO to question 11, in your opinion how can the Bill be more effective?


### **SECTION C: Information regarding Policies for economic development in Limpopo Province as earmarked by the Department of Trade and Industry (DTI)**

13. Is there a policy or programme that the DTI has drafted with the local municipality or the authorities within the local economic development (LED) regarding the proposed SEZ initiative for Limpopo province?

YES	1
NO	2



14. If you answered **YES** to question 13, please elaborate on the policy.


15. Were local and foreign investors actively involved in designing the programme/s with the DTI?

YES	1
NO	2

16. Has the DTI established any working committees or forums with National and other local government officials regarding SEZ initiative?

YES	1
NO	2

17. If you answered **YES** to question 16, who attend these forums? Please tick (✓) the appropriate box.

Municipalities	1
Local investors	2
Foreign investors	3
Local Economic Development	4
Stakeholders	5
Other, specify:	7

18. How often will this forum convene? Please specify.

--

19. Are there any plans/programmes in place for the active participation of local and foreign prospective businesses in the proposed SEZ initiative?

YES	1
NO	2

20. If you answered **YES** to question 19, please elaborate on these plans.


21. Are there plans to create a forum with the relevant stakeholders to discuss the shortcomings of the IDZ and best solutions going forward to make the proposed SEZ initiative a success?

YES	1
NO	2



22. The following incentives have been lobbied for by stakeholders both globally and locally. Please specify which of these incentives will be offered by the SEZ initiative? Please tick (✓) the relevant boxes.

		Offered	Not sure	Not offered
1.	Tax incentives	1	2	3
2.	Rebates on rental and warehousing costs	1	2	3
3.	Access to finance	1	2	3
4.	Access to foreign markets	1	2	3
5.	Access to foreign and local trade fairs	1	2	3
6.	Support in cluster formation	1	2	3
7.	Access to distribution based on synergistic clustering effects	1	2	3
8.	Access to value chain nodes	1	2	3
9.	Access to infrastructure	1	2	3
10.	Flexible wage policies	1	2	3
11.	Flexibility on hiring and firing	1	2	3
12.	Non-union zone	1	2	3
13.	Access to incubation based on innovation and technological advancement	1	2	3
14.	Access to skilled workforce	1	2	3

23. Listed below are some of the challenges faced by entrepreneurs locally and globally. In your opinion, would you consider addressing these challenges as important for the SEZ initiative to be successful? Please tick (✓) the appropriate boxes.

		Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
1.	Skills shortage	1	2	3	4	5
2.	Inefficiencies in the South African ports network (container terminal capacity constraints);	1	2	3	4	5
3.	Under-developed infrastructure, including rail branch-lines, roads, electricity and water supply;	1	2	3	4	5
4.	Political uncertainty such as strikes	1	2	3	4	5
5.	Access to foreign markets	1	2	3	4	5
6.	Complex regulatory and inter-governmental integration systems	1	2	3	4	5
7.	Technical expertise	1	2	3	4	5
8.	Inflexible working hours and labour rates	1	2	3	4	5
9.	Red tape	1	2	3	4	5
10.	Corruption	1	2	3	4	5



24. Special economic zones by definition bring together different businesses to operate in. Listed below are incentives offered **globally** to attract foreign direct investment. In your opinion, do you think that these incentives are adequate to attract foreign direct investment? Please tick (✓) the appropriate box.

		Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
1.	Corporate tax exemptions and discount rates over specific time frames	1	2	3	4	5
2.	Discounted exemptions from import duties	1	2	3	4	5
3.	Conditional exemptions from import duties	1	2	3	4	5
4.	Zero-rated value-added tax	1	2	3	4	5
5.	Subsidised investment loans	1	2	3	4	5
6.	Subsidised imported capital goods	1	2	3	4	5
7.	Research and development support	1	2	3	4	5
8.	Preferential access to markets	1	2	3	4	5
9.	Discounted and competitive land and property prices, as well as rental rates	1	2	3	4	5
10.	Customs control delegated to zone operator by internal revenue authorities.	1	2	3	4	5
11.	Liberal interpretation of customs control regime	1	2	3	4	5
12.	Zone operator allowed autonomy/independence	1	2	3	4	5

25. Listed below are incentives offered in **South Africa**. In your opinion, do you think that these incentives are adequate to attract local or foreign owned companies to relocate within the zones? Please tick (✓) the appropriate box.

		Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
1.	Full corporate tax for enterprises in customs-controlled area (CCA) of the IDZ	1	2	3	4	5
2.	Full personal tax for IDZs and CCA enterprise employees	1	2	3	4	5
3.	Conditional exemptions from import duties	1	2	3	4	5
4.	Zero-rated value-added tax	1	2	3	4	5
5.	Inconsistent investment incentives and no zone-specific incentives	1	2	3	4	5
6.	Stringent admission criteria and requirements.	1	2	3	4	5
7.	Six-month turnaround time reduces certainty and investor confidence	1	2	3	4	5
8.	Market-related property prices and rental rates	1	2	3	4	5
9.	Authority reserved and controlled by SARS	1	2	3	4	5
10.	Cumbersome customs procedure compounded by excessive monitoring and reporting requirements	1	2	3	4	5



26. Listed below is a **wish list** of incentives from SME's globally. Please tick (✓) which you would consider as important for the success of the proposed SEZ initiative in Limpopo province.

		Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
1.	Higher tax incentives	1	2	3	4	5
2.	Soft financial loans	1	2	3	4	5
3.	Electricity and water subsidies	1	2	3	4	5
4.	Backward and forward linkages to international markets	1	2	3	4	5
5.	Low production costs	1	2	3	4	5
6.	Innovation	1	2	3	4	5
7.	Technological advancements	1	2	3	4	5
8.	Flexibility in hiring and firing of labour	1	2	3	4	5
9.	Flexible wage rates	1	2	3	4	5
10.	Non-union involvement	1	2	3	4	5
11.	Long duration youth subsidies	1	2	3	4	5
12.	Other, please specify:	1	2	3	4	5

#### SECTION D: Information regarding Cluster Formation

Clusters are geographic concentrations of similar or related firms that together create competitive advantages for member firms and regional and national economies. The benefits of industrial clusters are the enhancing of productivity and competitiveness of firms.

27. Has the DTI identified cluster projects that may be implemented in the Limpopo SEZs?

YES	1
NO	2

28. Will Government officials and the relevant Stakeholders form partnerships in order to advance this initiative?

YES	1
NO	2

29. Will there be any incentives provided for local and foreign industries to form clusters?

YES	1
NO	2

30. If you answered **YES** to question 29, please elaborate on the incentives that will be provided?




31. Are the local and foreign businesses in favour of the concept of clustering?

YES	1
NO	2

32. If you answered YES to question 31, at what operational stage are they at?


33. If you answered NO to question 31, why would local and foreign investors be against clustering? Please specify reasons.


34. In your opinion, what type of industries would support clustering? Please list below.


35. Do you think that clustering can assist small to medium enterprises in becoming successful?

YES	1
NO	2

36. In your opinion, which industries within Limpopo province would be most suited to cluster formation?


37. Are you of the opinion that clustering will assist the viability of the Limpopo SEZ initiative?

YES	1
NO	2

38. In your opinion, which of the following cluster formations would best suit industries in Limpopo province? Please tick (✓) the appropriate box.

Agri-processing	1
Chemicals	2
Tourism	3
Mining	4
Meat processing	5
Furniture	6
Jewellery	7
Other: Please specify	8

**THANK YOU FOR YOUR TIME**



## **B2: QUESTIONNAIRE (Local Government)**

**TOPIC:** To Evaluate the Perspectives of Government and Small to Medium Enterprises on the Viability of the Special Economic Zone in Limpopo Province

RESEARCHER : Logambal Naidoo (Michelle)

STUDENT NUMBER: 201330467

PROPOSED DEGREE: Mcom (Business Management)

FACULTY: Commerce, Administration and Law

DEPARTMENT: Business Management

SUPERVISOR: Dr I Kaseeram

CO-SUPERVISOR: Mr S Heeralal

**INSTITUTION:**

UNIVERSITY OF ZULULAND

### **INFORMED CONSENT DECLARATION (Participant)**

Project Title: To Evaluate the Perspectives of Government and Small to Medium Enterprises on the Viability of the Special Economic Zone in Limpopo Province

*(Logambal Naidoo (Michelle))* from the Department of Business Management, University of Zululand has requested my permission to participate in the above-mentioned research project.

The nature and the purpose of the research project and of this informed consent declaration have been explained to me in a language that I understand.

I am aware that:



1. The purpose of the research project is to conduct an evaluation of the perspectives of Government and Small to Medium Enterprises on the Special Economic Zone as a Business Model in the Limpopo Province.
2. The University of Zululand has given ethical clearance to this research project and I have seen/ may request to see the clearance certificate.
3. By participating in this research project, I will be contributing towards developing policy recommendations that may benefit all stakeholders concerned.
4. I will participate in the project by completing the attached questionnaire without prejudice.
5. My participation is entirely voluntary and should I at any stage wish to withdraw from participating further, I may do so without any negative consequences.
6. I will not be compensated for participating in the research, but my out-of-pocket expenses will be reimbursed.
7. I understand that the foreseeable risks associated with this study are minimal. These risks are similar to those associated with the disclosure of work-related information to others. The researcher has assured me of confidentiality and anonymity in regard to the dissemination of any information to others. However, I am fully aware that I may decline to answer any question (or all the questions) and that I have a right to withdraw from participating at any time during the interview/administration of questionnaire, as noted in point 5, above.
8. The researcher intends publishing the research results in the form of a dissertation, however, confidentiality and anonymity of records will be maintained and that my name and identity will not be revealed to anyone who has not been involved in the conduct of the research.
9. I will not receive feedback regarding the results obtained during the study.
10. Any further questions that I might have concerning the research, or my participation will be answered by Dr I Kaseeram, Faculty of Commerce, Administration and Law, Economics Department.
  - a. Telephone no: (035) 9026424
  - b. Email: KaseeramI@unizulu.ac.za
11. By signing this informed consent declaration, I am not waiving any legal claims, rights or remedies.
12. A copy of this informed consent declaration will be given to me, and the original will be kept on record.

I, ..... have read the above information / confirm that the above information has been explained to me in a language that I understand, and I am aware of this document's contents. I have asked all questions that I



wished to ask, and these have been answered to my satisfaction. I fully understand what is expected of me during the research.

I have not been pressurised in any way and I voluntarily agree to participate in the above-mentioned project.

.....  
**Participant's signature**

.....  
**Date**

## INSTRUCTIONS:

Respondent Number: \_\_\_\_\_

1. Please answer all questions.
2. Answer as honestly as possible. YOUR OPINION IS REQUIRED.
3. Please do not change any of your responses afterwards (for instance: do not scratch out or tippex any of your responses).
4. Please use a pen to mark your responses by placing a tick (✓), in the appropriate numbered column, or by writing down the appropriate information, wherever required.

## SECTION A: Background Information

### DEMOGRAPHICS

1. Gender of respondent

Male	1
Female	2

2. Under which ambit of the local government do you work in?

Municipality	1
Special economic zone	2
Local economic development	3
Department of Trade and Industry	4
SEDA	5
Other, specify:	6

3. Please state your profession.

--

4. How long have you been working at this institution? Please place a tick (✓) in the appropriate box below:

One year	1
Two years	2
Three years	3
More than three years, please specify	4



SECTION B: Information regarding Policies for economic development in Limpopo Province as earmarked by the Department of Trade and Industry (DTI)

5. Is there a policy or programme that your municipality has drafted regarding the proposed SEZ initiative for Limpopo province?

YES	1
NO	2

6. If you answered **YES** to question 5, please specify the policy.


7. Were you actively involved in designing the programme/s with the DTI?

YES	1
NO	2

8. Have you established any working committees or forums with National and other local parastatals regarding SEZ initiative?

YES	1
NO	2

9. If you answered **YES** to question 8, who attend these forums? Please tick (✓) the appropriate box.

Municipalities	1
Local Industries	2
Entrepreneurs	3
Local Economic Development	4
Clients	5
Prospective Business Owners	6
Other, specify:	7

10. How often does this forum convene? Please specify.

--

11. Are there any plans/programmes in place for the active participation of local and foreign prospective businesses in the proposed SEZ initiative?

YES	1
NO	2

12. If you answered **YES** to question 11, please elaborate on these plans.




13. The following incentives have been lobbied for by stakeholders both globally and locally. Please specify which of these incentives will be offered by the SEZ initiative? Please tick (✓) the relevant boxes.

		Offered	Not sure	Not offered
1.	Tax incentives	1	2	3
2.	Rebates on rental and warehousing costs	1	2	3
3.	Access to finance	1	2	3
4.	Access to foreign markets	1	2	3
5.	Access to foreign and local trade fairs	1	2	3
6.	Support in cluster formation	1	2	3
7.	Access to distribution based on synergistic clustering effects	1	2	3
8.	Access to value chain nodes	1	2	3
9.	Access to infrastructure	1	2	3
10.	Flexible wage policies	1	2	3
11.	Flexibility on hiring and firing	1	2	3
12.	Non-union zone	1	2	3
13.	Access to incubation based on innovation and technological advancement	1	2	3
14.	Access to skilled workforce	1	2	3

14. Listed below are some of the challenges faced by entrepreneurs locally and globally. In your opinion, would you consider addressing these challenges as important for the SEZ initiative to be successful? Please tick (✓) the appropriate boxes.

		Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
1.	Skills shortage	1	2	3	4	5
2.	Inefficiencies in the South African ports network (container terminal capacity constraints);	1	2	3	4	5
3.	Under-developed infrastructure, including rail branch-lines, roads, electricity and water supply;	1	2	3	4	5
4.	Political uncertainty such as strikes	1	2	3	4	5
5.	Access to foreign markets	1	2	3	4	5
6.	Complex regulatory and inter-governmental integration systems	1	2	3	4	5
7.	Technical expertise	1	2	3	4	5
8.	Inflexible working hours and labour rates	1	2	3	4	5
9.	Red tape	1	2	3	4	5
10.	Corruption	1	2	3	4	5



15. Special economic zones by definition bring together different businesses to operate in. Listed below are incentives offered **globally** to attract foreign direct investment. In your opinion, do you think that these incentives are adequate to attract foreign direct investment? Please tick (✓) the appropriate box.

		Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
1.	Corporate tax exemptions and discount rates over specific time frames	1	2	3	4	5
2.	Discounted exemptions from import duties	1	2	3	4	5
3.	Conditional exemptions from import duties	1	2	3	4	5
4.	Zero-rated value-added tax	1	2	3	4	5
5.	Subsidised investment loans	1	2	3	4	5
6.	Subsidised imported capital goods	1	2	3	4	5
7.	Research and development support	1	2	3	4	5
8.	Preferential access to markets	1	2	3	4	5
9.	Discounted and competitive land and property prices, as well as rental rates	1	2	3	4	5
10.	Customs control delegated to zone operator by internal revenue authorities.	1	2	3	4	5
11.	Liberal interpretation of customs control regime	1	2	3	4	5
12.	Zone operator allowed autonomy/independence	1	2	3	4	5

16. Listed below are incentives offered in **South Africa**. In your opinion, do you think that these incentives are adequate to attract local or foreign owned companies to relocate within the zones? Please tick (✓) the appropriate box.

		Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
1.	Full corporate tax for enterprises in customs-controlled area (CCA) of the IDZ	1	2	3	4	5
2.	Full personal tax for IDZs and CCA enterprise employees	1	2	3	4	5
3.	Conditional exemptions from import duties	1	2	3	4	5
4.	Zero-rated value-added tax	1	2	3	4	5
5.	Inconsistent investment incentives and no zone-specific incentives	1	2	3	4	5
6.	Stringent admission criteria and requirements.	1	2	3	4	5
7.	Six-month turnaround time reduces certainty and investor confidence	1	2	3	4	5
8.	Market-related property prices and rental rates	1	2	3	4	5
9.	Authority reserved and controlled by SARS	1	2	3	4	5
10.	Cumbersome customs procedure compounded by excessive monitoring and reporting requirements	1	2	3	4	5



17. Listed below is a **wish list** of incentives from SME's globally. Please tick (✓) which you would consider as important for the success of the proposed SEZ initiative in Limpopo province.

		Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
1.	Higher tax incentives	1	2	3	4	5
2.	Soft financial loans	1	2	3	4	5
3.	Electricity and water subsidies	1	2	3	4	5
4.	Backward and forward linkages to international markets	1	2	3	4	5
5.	Low production costs	1	2	3	4	5
6.	Innovation	1	2	3	4	5
7.	Technological advancements	1	2	3	4	5
8.	Flexibility in hiring and firing of labour	1	2	3	4	5
9.	Flexible wage rates	1	2	3	4	5
10.	Non-union involvement	1	2	3	4	5
11.	Long duration youth subsidies	1	2	3	4	5
12.	Other, please specify:	1	2	3	4	5

### SECTION C: Information regarding the SEZ Bill

The Department of Trade and Industry is of the view that the Industrial Development Zones (IDZ) Programme has performed below expectations. A policy review was conducted, and it was highlighted that the following are the key contributors for the shortcomings of the IDZ Programme: a weak policy and legislative framework; poor institutional and governance arrangements; ad hoc funding arrangements; lack of IDZ specific incentives; lack of targeted investment promotion, lack of programme definition and strategic direction, and poor coordination and integration.

In lieu of the above, the SEZ Bill passed in October 2013, was sanctioned to address the above-mentioned shortcomings.

18. Are you aware of the passing of the new SEZ Bill?

YES	1
NO	2

19. Were the relevant stakeholders consulted regarding the Bill and its impact on their business?

YES	1
NO	2



20. If you answered YES to question 19, who were consulted before passing of the Bill? Please tick (✓) the relevant boxes.

Municipalities	1
Local Industries	2
Entrepreneurs	3
Local Economic Development	4
Clients	5
Prospective Business Owners	6
Other, specify:	7

21. Are there plans to create a forum to discuss previous shortcomings of the IDZ and best solutions to make the proposed SEZ initiative a success?

YES	1
NO	2

22. In your opinion, which of the following challenges listed below, will be addressed by the SEZ Bill? Please tick (✓) the relevant boxes.

	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
1. Skills shortage	1	2	3	4	5
2. Inefficiencies in the South African ports network (container terminal capacity constraints);	1	2	3	4	5
3. Under-developed infrastructure, including rail branch-lines, roads, electricity and water supply;	1	2	3	4	5
4. Political uncertainty such as strikes	1	2	3	4	5
5. Access to foreign markets	1	2	3	4	5
6. Complex regulatory and inter-governmental integration systems	1	2	3	4	5
7. Technical expertise	1	2	3	4	5
8. Inflexible working hours and labour rates	1	2	3	4	5
9. Red tape	1	2	3	4	5
10. Corruption	1	2	3	4	5
11. Others: please specify	1	2	3	4	5

23. In your opinion do you think that the new SEZ Bill will foster development within the zones?

YES	1
NO	2

24. If you answered NO to question 23, in your opinion how can the Bill be more effective?





25. How often will the Bill be changed?

--

## SECTION D: Information regarding Cluster Formation

Clusters are geographic concentrations of similar or related firms that together create competitive advantages for member firms and regional and national economies. The benefits of industrial clusters are the enhancing of productivity and competitiveness of firms.

26. Are you aware of the terms 'clustering' or 'cluster formation'?

YES	1
NO	2

**ONLY** if you answered **YES** to question 26, please answer questions 27-44.

27. What is your opinion on clustering?


28. Are there any discussions regarding clustering between government officials and the relevant stakeholders?

YES	1
NO	2

29. In your opinion, will clustering assist the viability of the Limpopo SEZ initiative?

YES	1
NO	2

30. Are there any awareness campaigns to drive this initiative forward?

YES	1
NO	2

31. If you answered YES to question 30, what kinds of campaigns are being used?


32. In your opinion, will these campaigns achieve the desired result?

YES	1
NO	2

33. If you answered **NO** to question 32, how can these campaigns be improved?




34. Are local government officials tasked with developing and supporting clustering in Limpopo Province?

YES	1
NO	2

35. In your opinion, do you think that local and foreign owned industries are in favour of clustering?

YES	1
NO	2

36. Will there be any incentives provided for local and foreign industries to form clusters?

YES	1
NO	2

37. If you answered YES to question 36, what incentives will be provided?


38. In your opinion, what type of industries would support clustering? Please list below.


39. Do you think that clustering can assist small to medium enterprises in becoming successful?

YES	1
NO	2

40. Which industries within Limpopo province would be most suited to clustering?


41. In your opinion, which of the following cluster formations would best suit industries in Limpopo province? Please tick (✓) the appropriate box.

Agri-processing	1
Chemicals	2
Tourism	3
Mining	4
Meat processing	5
Furniture	6
Jewellery	7
Other: Please specify	8

**THANK YOU FOR YOUR TIME**



### **B3: QUESTIONNAIRE (Small to Medium Enterprises)**

TOPIC: To Evaluate the Perspectives of Government and Small to Medium Enterprises on the Viability of the Special Economic Zone in Limpopo Province

RESEARCHER : Logambal Naidoo (Michelle)

STUDENT NUMBER: 201330467

PROPOSED DEGREE: Mcom (Business Management)

FACULTY: Commerce, Administration and Law

DEPARTMENT: Business Management

SUPERVISOR: Dr I Kaseeram

CO-SUPERVISOR: Mr S Heeralal

**INSTITUTION:**

UNIVERSITY OF ZULULAND

### **INFORMED CONSENT DECLARATION (Participant)**

Project Title: To Evaluate the Perspectives of Government and Small to Medium Enterprises on the Viability of the Special Economic Zone in Limpopo Province

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I am aware that:



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3. By participating in this research project, I will be contributing towards developing policy recommendations that may benefit all stakeholders concerned.
4. I will participate in the project by completing the attached questionnaire without prejudice.
5. My participation is entirely voluntary and should I at any stage wish to withdraw from participating further, I may do so without any negative consequences.
6. I will not be compensated for participating in the research, but my out-of-pocket expenses will be reimbursed.
7. I understand that the foreseeable risks associated with this study are minimal. These risks are similar to those associated with the disclosure of work-related information to others. The researcher has assured me of confidentiality and anonymity in regard to the dissemination of any information to others. However, I am fully aware that I may decline to answer any question (or all the questions) and that I have a right to withdraw from participating at any time during the interview/administration of questionnaire, as noted in point 5, above.
8. The researcher intends publishing the research results in the form of a dissertation, however, confidentiality and anonymity of records will be maintained and that my name and identity will not be revealed to anyone who has not been involved in the conduct of the research.
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10. Any further questions that I might have concerning the research, or my participation will be answered by Dr I Kaseeram, Faculty of Commerce, Administration and Law, Economics Department.
  - a. Telephone no: (035) 9026424
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wished to ask, and these have been answered to my satisfaction. I fully understand what is expected of me during the research.

I have not been pressurised in any way and I voluntarily agree to participate in the above-mentioned project.

.....  
**Participant's signature**

.....  
**Date**

## INSTRUCTIONS:

Respondent Number: \_\_\_\_\_

1. Please answer all questions.
2. Answer as honestly as possible. YOUR OPINION IS REQUIRED.
3. Please do not change any of your responses afterwards (for instance: do not scratch out or tippex any of your responses).
4. Please use a pen to mark your responses by placing a tick (✓), in the appropriate numbered column, or by writing down the appropriate information, wherever required.

## SECTION A: Background Information

### DEMOGRAPHICS

1. Gender of respondent

Male	1
Female	2

2. What is your age?

18-24 yrs	1
25-34 yrs	2
35-49 yrs	3
50-64 yrs	4
65 + yrs	5

3. Population group

Black	1
Coloured	2
Indian	3
White	4
Other, specify:	5



4. What is your profession? Please tick (✓) one of the following:

Owner	1
Business Partner	2
Manager	3
Supervisor	4
Clerk	5
Other, specify:	6

5. How is your company registered? Please tick (✓) the appropriate box.

Partnership	1
Private company	2
Close corporation	3
Sole Proprietor	4

6. In your opinion, how would you rate yourself in terms of BEEE compliance? Please tick (✓) the appropriate box.

100%	1
80% - 100%	2
60% - 80%	3
40% - 60%	4
20% - 40%	5
0% - 20%	6
0%	7

## SECTION B: Information regarding Small to Medium Enterprises and Special Economic Zones

A Special Economic Zone (SEZ) is defined as “geographically designated areas of a country set aside for specially targeted economic activities, which are then supported through special arrangements (which may include laws) and support systems to promote industrial development”.

7. Are you familiar with the concept ‘special economic zones’?

YES	1
NO	2

8. If you answered yes to question 7, via which communication channel were you made aware of this concept? Please tick (✓) the appropriate box/es.

Radio	1
Television	2
Magazines, Specify type:	3
Newspapers	4
Internet	5
E-Mail	6
Telephone	7
Other, specify:	8



9. Listed below are some of the challenges faced by entrepreneurs locally and globally. Please tick (✓) the challenges that you are faced with.

		Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
1.	Skills shortage	1	2	3	4	5
2.	Inefficiencies in the South African ports network (container terminal capacity constraints);	1	2	3	4	5
3.	Under-developed infrastructure, including rail branch-lines, roads, electricity and water supply;	1	2	3	4	5
4.	Political uncertainty such as strikes	1	2	3	4	5
5.	Access to foreign markets	1	2	3	4	5
6.	Complex regulatory and inter-governmental integration systems	1	2	3	4	5
7.	Technical expertise	1	2	3	4	5
8.	Inflexible working hours and labour rates	1	2	3	4	5
9.	Red tape	1	2	3	4	5
10.	Corruption	1	2	3	4	5
11.	Others: please specify	1	2	3	4	5

10. Special economic zones by definition bring together different businesses to operate in. Listed below are incentives offered **globally** to attract foreign direct investment. In your opinion, do you think that these incentives are adequate to attract foreign direct investment? Please tick (✓) the appropriate box.

		Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
1.	Corporate tax exemptions and discount rates over specific time frames	1	2	3	4	5
2.	Discounted exemptions from import duties	1	2	3	4	5
3.	Conditional exemptions from import duties	1	2	3	4	5
4.	Zero-rated value-added tax	1	2	3	4	5
5.	Subsidised investment loans	1	2	3	4	5
6.	Subsidised imported capital goods	1	2	3	4	5
7.	Research and development support	1	2	3	4	5
8.	Preferential access to markets	1	2	3	4	5
9.	Discounted and competitive land and property prices, as well as rental rates	1	2	3	4	5
10.	Customs control delegated to zone operator by internal revenue authorities.	1	2	3	4	5
11.	Liberal interpretation of customs control regime	1	2	3	4	5
12.	Zone operator allowed autonomy/independence	1	2	3	4	5



11. Following from question 10, listed below are incentives offered in **South Africa**. In your opinion, do you think that these incentives are adequate to attract local or foreign owned companies to relocate within the zones? Please tick (✓) the appropriate box.

	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
1. Full corporate tax for enterprises in customs-controlled area (CCA) of the IDZ	1	2	3	4	5
2. Full personal tax for IDZs and CCA enterprise employees	1	2	3	4	5
3. Conditional exemptions from import duties	1	2	3	4	5
4. Zero-rated value-added tax	1	2	3	4	5
5. Inconsistent investment incentives and no zone-specific incentives	1	2	3	4	5
6. Stringent admission criteria and requirements.	1	2	3	4	5
7. Six-month turnaround time reduces certainty and investor confidence	1	2	3	4	5
8. Market-related property prices and rental rates	1	2	3	4	5
9. Authority reserved and controlled by SARS	1	2	3	4	5
10. Cumbersome customs procedure compounded by excessive monitoring and reporting requirements	1	2	3	4	5

12. Listed below is a wish list of incentives from SME's globally. Please tick (✓) which you would you consider as vital for the success of your enterprise and the proposed SEZ initiative in Limpopo province.

	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
1. Higher tax incentives	1	2	3	4	5
2. Soft financial loans	1	2	3	4	5
3. Electricity and water subsidies	1	2	3	4	5
4. Backward and forward linkages to international markets	1	2	3	4	5
5. Low production costs	1	2	3	4	5
6. Innovation	1	2	3	4	5
7. Technological advancements	1	2	3	4	5
8. Flexibility in hiring and firing of labour	1	2	3	4	5
9. Flexible wage rates	1	2	3	4	5
10. Non-union involvement	1	2	3	4	5
11. Long duration youth subsidies	1	2	3	4	5
12. Other, please specify:	1	2	3	4	5



13. In your opinion, if the above mention incentives in question 12 are granted, would it be adequate in enabling the proposed SEZ in becoming a viable business model?

YES	1
NO	2

14. If you answered **NO** to question 13, what would in your opinion, enable the proposed SEZ initiative in becoming a successful business model. Please specify.


15. Would your company be interested in relocating within the zone?

YES	1
NO	2

16. If you answered **NO** to question 15, please specify reasons for not wanting to be part of the special economic zone.


17. Were you approached by government officials, foreigners or stakeholders regarding being an active participant in the proposed SEZ initiative? Please tick (✓) the appropriate box.

YES	1
NO	2

18. If you answered YES to question 17, who were you approached by?

--

19. Are you aware of any forums that were formed by government officials, foreign investors and stakeholders to discuss the proposed SEZ initiative?

YES	1
NO	2

20. If you answered YES to question 19, who are the participants of this forum?

--

21. If you answered YES to question 19, how frequent does this forum meet?

--

22. In your opinion, does this forum have the capacity to deal with challenges faced by stakeholders? Please tick (✓) the appropriate box.

YES	1
NO	2



23. If you answered **NO** to question 22, in your opinion, what factors can enable this forum in addressing the challenges faced by all stakeholders? Please specify.


24. Is your company partially or wholly foreign owned? Please tick (✓) the appropriate box.

YES	1
NO	2

25. If you answered **YES** to question 24, then answer questions **25-33**. What percentage of your company is owned by foreigners? Please tick (✓) the appropriate box.

100%	1
80% - 100%	2
60% - 80%	3
40% - 60%	4
20% - 40%	5
< 20%	6

26. Based on the incentives provided within special economic zones in South Africa would your company and other foreign investors participate in these zones?

YES	1
NO	2

27. What type of support are you receiving? Please tick (✓) the appropriate box/es.

Funding	1
Infrastructure	2
Expertise	3
Technology	4
Policies	5
Government	6
Industry	7
Local Economic Development	8
Municipalities	9
Other, specify:	10

28. In your opinion, are foreign partners content with the incentives provided?

YES	1
NO	2

29. If you answered **NO** to question 28, please state what additional incentives would make the SEZ programme attractive?





30. In your opinion what are the factors hindering your company and other foreign investors from investing in South Africa's special economic zones?


31. Are you part of any government incentive schemes?

YES	1
NO	2

32. Are you in favour of tender based projects?

YES	1
NO	2

33. If you answered YES to question 32, please specify the reason...


## SECTION C: Information regarding the SEZ Bill

The Department of Trade and Industry is of the view that the Industrial Development Zones (IDZ) Programme has performed below expectations. A policy review was conducted, and it was highlighted that the following are the key contributors for the shortcomings of the IDZ Programme: a weak policy and legislative framework; poor institutional and governance arrangements; ad hoc funding arrangements; lack of IDZ specific incentives; lack of targeted investment promotion, lack of programme definition and strategic direction and poor coordination and integration.

In lieu of the above, the SEZ Bill passed in October 2013, was sanctioned to address the above-mentioned shortcomings.

34. Are you aware of the passing of the new SEZ Bill?

YES	1
NO	2

35. Were you consulted regarding the Bill and its impact on your business?

YES	1
NO	2

36. In your opinion do you think that the new SEZ Bill will foster development within the zones?

YES	1
NO	2



37. In your opinion, how can the Bill become effective in overcoming the shortcomings addressed above?


## SECTION D: Information regarding Cluster Formation

Clusters are geographic concentrations of similar or related firms that together create competitive advantages for member firms and regional and national economies. The benefits of industrial clusters are the enhancing of productivity and competitiveness of firms.

38. Are you aware of the terms 'clustering' or 'cluster formation'?

YES	1
NO	2

39. **ONLY** if you answered **YES** to question 38, please answer questions 39-46.  
What is your opinion on clustering?


40. Are there any discussions regarding clustering with your company and other stakeholders?

YES	1
NO	2

41. Is there any government support regarding clustering?

YES	1
NO	2

42. If you answered YES to question 41, please specify the support.


43. Is there any support from foreign investors regarding clustering in Limpopo Province?

YES	1
NO	2

44. If you answered YES to question 43, please specify the support.


45. Are the local industries and stakeholders in favour of clustering?

YES	1
NO	2



46. In your opinion, do you think clustering can assist small to medium enterprises in becoming successful?

YES	1
NO	2

47. Will your business fit well into a cluster formation that can operate within a SEZ?

YES	1
NO	2

48. If you answered YES to question 47, which cluster would benefit your business? Please tick (✓) the appropriate box.

Agri-processing	1
Chemicals	2
Tourism	3
Mining	4
Meat processing	5
Furniture	6
Jewellery	7
Other: Please specify	8

**THANK YOU FOR YOUR TIME**



## APPENDIX C: PHOTOGRAPHS

### C1: visit to identified SEZ:



### C2: SMEs identified: Bakery





**C3: SMEs identified: Panel Beater**



**C3: Focus group session with farmers at MAKOPI Community Garden**









## **APPENDIX D: OFFICIAL DOCUMENTS**

### **Musina SEZ skills plan**

#### **1. Overall purpose**

This document outlines a high-level framework for the development of critical skills in the Musina SEZ. It further highlights a snap shot of skills currently available in Limpopo, as captured by the department of labour. Key role players are currently being mobilised to ensure proper training and development.

#### **2. The skills required for the Musina SEZ**

Musina SEZ is classified as light, medium and heavy industry zone. It is envisioned that the light and medium industry zone will be home to logistics, light and medium manufacturing companies as well as value added services. The heavy industry zone will house the metallurgical cluster, with all its associated steel manufacturing processes. The light and medium industry zone requires unskilled to semi-skilled personnel, whilst the heavy industry zone would require semi-skilled, skilled and professionals. According to studies conducted, the SEZ is expected to employ around 20 000 employees, of which 19 000 will be for the metallurgical cluster and the balance for the other sectors.

#### **3. Skills availability in Limpopo**

A number of factors continue to challenge the existing skills supply in the area such as low levels of education, current courses on offer in institution of higher learning versus industry requirements, pulling factors to other provinces such as Gauteng, etc. The below information is an extract from the department of labour on all skills that are immediately available. This is a living document. It changes over time.

#### **4. Additional skills required and capacity building plan**

Hoi Mor group is planning to take 200 artisans to China to give them industry specific training. These 200 artisans will receive technical as well as train the trainer training. Upon return, the 200 artisans are expected to train the bulk of employees that are going to be employed in the metallurgical cluster zone.

#### **Phase 1 of training**

Two local FET colleges will be adopted, and a very strong partnership forged with the Hoi Mor and a select few Chinese institutions for a skills development collaborative partnership. These institutions will be upgraded to meet the needs to the investor. LEDA training facilities will also be used. The 200 artisans will use the facilities as identified above to train for the required skills.

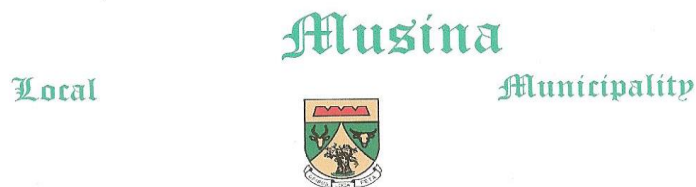
#### **Phase 2 of training**

Hoi Mor, in consultation with the department of education and training, will establish a training centre within the metallurgical cluster zone for continuous training and assessments. It is envisioned that this facility would seek SITA accreditation.



## APPENDIX E: OFFICIAL DOCUMENTS

### E1: MIWEC Conference:



28 September 2015

The Honourable MEC of LEDET

**INVITATION TO PARTICIPATE : MUSINA INVESTOR WEEK (MIWEC) CONFERENCE FOR MUSINA LOCAL MUNICIPALITY**

Musina Municipality has planned to ignite and deliver job creation projects as per the National Development Plan, Provincial Development Plan and Local Economic Development (LED) Strategy together with local businesses and interested stakeholders outside Musina Municipality. In order to enhance Municipality capacity to ensure timeously and integrated delivery of the LED mandate, the Municipality has appointed the service provider to recruit investors and interested companies to initiate sustainable business projects in Musina across different sectors.

This strategic move taken by the Municipality is in support of the Municipality Vision which is  
"....."

Companies and investors have been invited to attend the Musina Investor Week Conference (MIWEC) to be held at Tshipise Forever Resort in Musina from the 17<sup>th</sup> to the 19<sup>th</sup> of November 2015. Invited stakeholders include company executives, academics Vhavenda King and Chiefs, local businesses, local economic forums, Zimbabwe Business Forums and companies, Ministers of Small Business Development, Minister in the Office of the Presidency Responsible for Women, Limpopo Premier, Limpopo MECs and Zimbabwe Minister of Small Businesses and Cooperatives. MIWEC is aimed at achieving the following:

- Stimulate local economic development as per the National Development Plan
- Sensitise people of Musina that there is economic potential in Musina
- Stimulate the economy of the Musina Municipality
- Provoke an analysis of various components that constitute the economy of Musina
- Identify stakeholders that can drive the economy of Musina
- Promote government policy in economic development as guided by the National Development Plan at Musina Municipality level

The theme of the MIWEC is *"Exploiting potential, versatile and unexploited natural wealth of the Musina Region"* with sub-themes:

- Economic opportunities as the Municipality Local Economic Development (LED) Strategy
- Small Business Development Hub as an empowerment vehicle for local businesses
- The economy of Musina today, and the economy of Musina in 15 year time – A journey to job creation
- Planned Investment Opportunities in the planned Eco –Industrial Park in Musina
- Eco-Agri Park is key towards sustainable job creation in Musina

Your Office is hereby invited to join local and other interested stakeholders to join Musina Municipality in its journey towards sustainable job creation projects. You are requested to deliver Provincial Strategic Address in



Local **Musina** Municipality



supporting Local Municipalities towards delivering job creation projects. The Key note address will be delivered by the Honourable Minister in the Office of the Presidency responsible for Women, Ms Suzan Shabangu. "National strategy towards empowering local women through local economic value chain in Musina capital and infrastructure projects"

All other MIWEC documents including programme will be submitted to your office in due course.

Your cooperation will be highly appreciated.

Mitloti Ramoyada

**Mayor: Musina Municipality**


Email :

Tel:




## APPENDIX F: PRESENTATION BY LEDA: MUSINA

MUSINA SPECIAL ECONOMIC ZONE




Musina Councilors Meeting:  
10 November 2015



**LEDA**  
LIMPOPO ECONOMIC  
DEVELOPMENT AGENCY  
ROOTED IN THE FUTURE  
REPUBLIC OF SOUTH AFRICA  
AN AGENCY OF THE LIMPOPO  
PROVINCIAL GOVERNMENT

### Table of contents



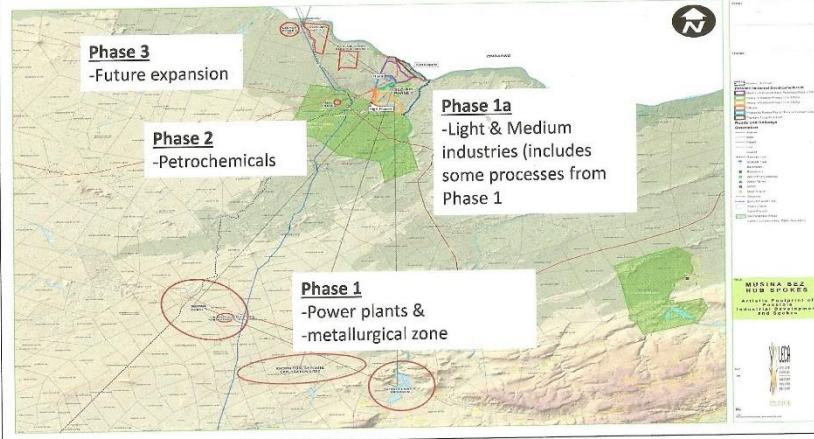
**LEDA**  
LIMPOPO ECONOMIC  
DEVELOPMENT AGENCY  
ROOTED IN THE FUTURE  
REPUBLIC OF SOUTH AFRICA  
AN AGENCY OF THE LIMPOPO  
PROVINCIAL GOVERNMENT

1. Musina SEZ Geographic map
2. Emerging Design principles
3. Proposed Clusters
4. Progress Report
5. Next steps
6. Q/A session

LEDA Group of Companies: Rislma Housing, Great North Transport, Corridor Mining Resources.



## Musina SEZ Geographical Map



LEDA Group of Companies: Ritsima Housing, Great North Transport, Corridor Mining Resources.

## Emerging Design Principles



- The SEZ to be styled as Multi -Cluster development
- The design will optimise the utilisation of available land with a long term outlook
- The SEZ to adopt a phased approach informed by investment per zone
- Optimal utilisation of the bulk infrastructure in Musina
- Consider for environmental matters in design, implementation and operation
- Focus on the needs of the anchor project for appropriate SEZ status.
- Due consideration to the development of adequate amenities
- Consideration for designation based on radius due to multiple sites

LEDA Group of Companies: Ritsima Housing, Great North Transport, Corridor Mining Resources.



## Proposed SEZ clusters



### 1. Light Industries (Primarily Logistics)

- Export preparation centres; dry port; Container yard; consolidated warehouses, etc

### 2. Medium and heavy industries (Manufacturing/Beneficiation)

- Steel production
  - Coke plant; ferro-chrome plant; steel plant; stainless steel plant; chrome plant, etc
- **Petro-chemical production (Collaboration with EIS)**
  - Coke plant, water treatment plant, methanol plant, Coal to liquid plant, plasma waste gasification plant
- Completely knocked down (CKD) of mining and other implements, service parts

### 3. Energy

- Coal fired power plants to support the heavy industries. Excess power to the grid

LEDA Group of Companies: Risima Housing, Great North Transport, Corridor Mining Resources.

## Progress Report - Musina SEZ



- **Application for designation submitted on the 31 of July 2015, at approximately 14h45.**
- **Application review process**
  - DTI reviews the application and makes recommendations to the board. DTI may make certain requests associated with the application.
  - DTI makes recommendations to the advisory board
  - The advisory board considers the application. The board may make certain requests associated with the application
  - The advisory board makes recommendations to the minister for consideration

LEDA Group of Companies: Risima Housing, Great North Transport, Corridor Mining Resources.



## Progress Report - Musina SEZ



- **Suitable pockets of land investigated and acquisition underway**

-Antonvilla 375.5 hectares secured, with a lease agreement

-Municipal application on behalf of SEZ to secure additional 3125 hectare; ); the application was submitted to the national committee for consideration. The application was later returned for additional information required from the former property owner (Dept. of Public works) and it is to be resubmitted with the required information for the committee's consideration.

-Lease resolution obtained from Mulambwane community for appr. 8000 hectares and rental lease agreement negotiation have commenced.

-Identified additional land for future expansion – 40 year horizon

LEDA Group of Companies: Ritsima Housing, Great North Transport, Corridor Mining Resources.

## Progress Report - Musina SEZ



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LEDA Group of Companies: Ritsima Housing, Great North Transport, Corridor Mining Resources.



## Progress Report - Musina SEZ



### • Investment attraction

- Signed MOU with Hoi Mor to develop a metallurgical cluster
  - received 5 letters of intent from investors for the metallurgical cluster
  - identify companies to be attracted into the light/medium part of the SEZ
- Investment Promoter advertised, proposal received, and evaluated, and recommendation made to LEDA EXCO.

LEDA Group of Companies: Rizima Housing, Great North Transport, Corridor Mining Resources.

## Progress Report - Musina SEZ



### • Land preparation

#### -Antonvilla Activities underway

- Environmental impact assessment
- Zoning and rezoning from agricultural to industrial use
- Geotechnical assessment, etc

#### -Bokmakirie Activities underway

- currently developing terms of reference for EIA, zoning, etc

### • Infrastructure

- high level needs assessment has been conducted on both sites

LEDA Group of Companies: Rizima Housing, Great North Transport, Corridor Mining Resources.



## Next key steps



- Co-operation with the DTI and advisory board for the designation of the SEZ
- Infrastructure needs consolidation
- Development of SEZ master plan (including infrastructure)
- Finalize Lease agreement for the Mulambwane CPA land (Met zone)
- Investment promotion and attraction for light and medium industries
- Town planning and environmental Impact Assessments (EIA) for all sites
- Skills assessment and skills development plan (Collaborate with relevant departments)
- Develop an integrated plan to solve water challenges
- Finalise SEZ company registration
- Develop SEZ marketing plan
- Implement heads of agreement for the LEDA/Hoi Mor agreement

LEDA Group of Companies: Risima Housing, Great North Transport, Corridor Mining Resources.

## Questions/comments



Ro livhuwa.....!

LEDA Group of Companies: Risima Housing, Great North Transport, Corridor Mining Resources.



## APPENDIX G: PRESENTATION BY LEDA: TUBATSE



ROOTED IN THE FUTURE

PROVINCIAL DEVELOPMENT FORUM  
ECONOMIC ZONES IN LIMPOPO PROVINCE

M. E Ratlabala  
18<sup>TH</sup> JUNE 2015

LEDA Group of Companies:  
Risima Housing, Great North Transport, Corridor Mining Resources.



### SEZ ?

- Facilitate creation of industrial complex for manufacturing sectors and tradable services
- Develop infrastructure to support targeted industrial activities
- Attract foreign and domestic investments
- Provide location for targeted investments
- Support beneficiation of minerals and natural resources
- Promote integration within the local industry
- Promote regional development and create decent work

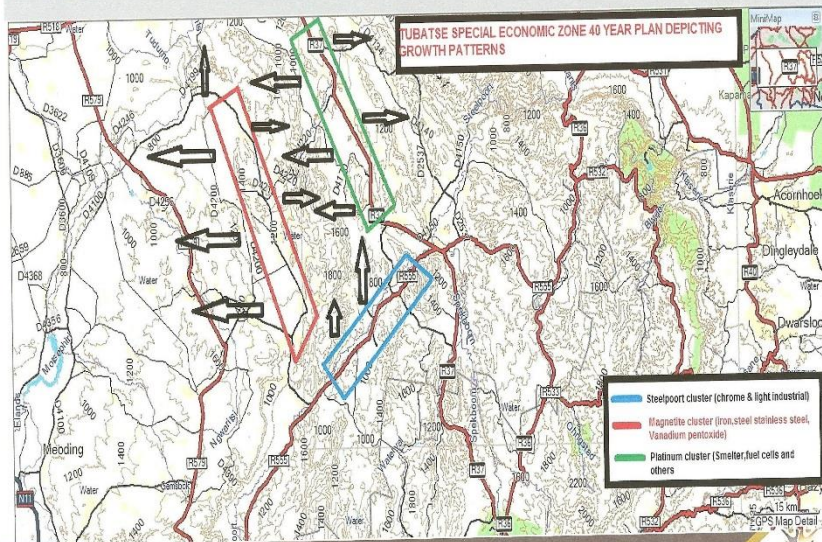


## TUBATSE SEZ UPDATE

- 2700 hectares secured and more still required
- Consultant for EIA to be appointed by end June 2015
- Busy with Steelpoort Regeneration study to cover SEZ needs
- Awaiting Eskom report on available electricity for SEZ
- Written confirmation from Sanral on R555 and R37 development plans
- In discussion with Municipality on waste water treatment plant, portable water and industrial water plans
- Looking into IT infrastructure plans
- In discussions with Transnet over Steelpoort siding



## TUBATSE SEZ 40 YEAR HORIZON PLAN





## Promoting Industrial clusters

Mining inputs (ST)	Magnetite(LT)	Platinum(LT)	Chrome(LT)	Other sectors (ST to MT)
Yellow metal assembly	Iron	Jewellery	Ferrochrome	Green economy
Roof support	Steel	Hydrogen Fuel cells	Chrome chemicals	Agro-processing
Valves and pumps	Steel products	Auto catalyst	Chrome dyes	Others
Processing plants	Vanadium pentoxide	Turbine blades	Pharmaceutical	Hydro power
Pipes	Vanadium batteries	Platinum smelter /refinery		Solar plant
Refurbishment and maintenance	Titanium	Base metal refinery		
Engineering services				



## MUSINA SEZ Progress Report.....

- Bid evaluation for the appointment of town planning and engineering professionals ( civil engineers, environmental specialists etc) completed with recommendations
- LEDA and Hoi Mor signs a US\$4 billion memorandum of understanding (MOU)
- Hoi Mor commenced with the establishment of the project team
- Suitable pockets of land investigated and acquisition underway
- Engineering services investigation for pockets of land partially done
- Land allocated as per Musina Municipal Council resolution
- Identified additional land for future expansion – 40 year horizon
- Identified sufficient investment pipeline to support designation
- Currently working on key requirements for designation





## Land Options and Requirements

- 1) Antonvilla portion 1 (3 125 hectares) – Department of Rural Development
- 2) Antonvilla RE (375.5 hectares) - Musina Municipality
- 3) Bokmakierie (Communal Land CPA negotiations)
  - Hoi Mor Investor land requirement is 6 000 hectares; preferably close to coal deposits
  - Maryland and Uitenpas ( 2 180 + 2 390 hectares) – Eco Industrial Park (H Schoeman Investment cc)
  - Tempelhof ( 200 hectares) – Leekor Group
  - Maryland ( 367 hectares) – Musina Municipality
  - Musina Associated Carriers (32 hectares) - MAC Group
  - Tempelhof (800 hectares) – Lionshare Group
  - Erasmus (372 hectares) – Pieter Meinjies

Possible future expansion areas



## Metallurgical Zone Project

ID.	Project Name	Investment ( Billion Rands)	Land use	Water required (mM3)	Labour	Annual Production
1	Power plant	11, 610 (1000)	300	9	800	250
2	Coking plant	3, 483 (300)	500	2.5	1200	220
3	Ferrochrome plant	4, 644 (400)	500	6	2600	600
4	Ferromanganese plant	4, 644 (400)	500	6	2300	400
5	Pig iron plant	1, 161 (100)	600	4	3000	450
6	Steel plant	6, 966 (600)	600	3	2600	800
7	Stainless steel plant	4, 644 (400)	500	2	2000	2000
8	Lime plant	1, 161 (100)	500	3	1500	200
9	Supporting facilities	3, 483 (300)	2000	5	3000	180
10	<b>Total project investment</b>	<b>42, 957 (3700)</b>	<b>6000</b>	<b>40.5</b>	<b>19000</b>	<b>5100</b>

Notes: (a) Investments are in rands @ exchange rate of R 11.61 to the dollar  
(b) Values in brackets denotes dollars





## Logistics Zone

Institutions that expressed tenant interest during the feasibility studies

- Grinrod Logistics:
  - container yard
  - inter modal facilities
  - warehouse and Vehicle Distribution Centre
- Uti – warehouses
- Helmann Logistics
  - Cool Room Storage
  - Warehouse
- Kuehne & Nagel – All logistics



## Next key steps

- **Infrastructure needs assessment and consolidation**
- Development of SEZ master plan including
- Technical site assessment (mini feasibility) for the CPA land
- Lodge application for designation
- Investment promotion and attraction for and medium industries
- Finalisation of the SEZ governance structure
- Town planning and environmental Impact Assessments (EIA)
- Fund sourcing for SEZ operations beyond 3 years





## Skills challenges

- Unemployment is very high
- Jobs are there (skills mismatch)
- More mining projects are going mechanisation
- Low skilled labour
- Employees are imported (high labour turnover)
- Equipments imported
- Communities demanding jobs halting mining operations.



## PLANS

- Develop Limpopo as the centre of mining excellence
- Mechanisation is reality
- Preparing TVETS and Universities
- Develop Hydrogen fuel cell (LHD, Rigs, Locos, dozers and generators)
- Manufactured, maintained and operated by locals
- Develop export market
- Zero emissions underground
- Develop Hydrogen fuel for surface yellow metal





## Expectations

- Develop local skills for all new projects mining, SEZ and others
- Align TVET and university curriculum with skills requirement (process is running)
- Keep record on all development in the province and skills requirements
- Identify skills requirements by all projects.
- Integration of contractors skills requirements with local needs
- Develop skills pool that will service the growing economy.



## REALITY

- We have new mines opening up, average three big mines a year
- Jobs are created, no local skills available
- It is possible if we plan together





**QUESTIONS**

**THANK YOU**

**E-mail: [matome.ratlabala@lieda.co.za](mailto:matome.ratlabala@lieda.co.za)**





## APPENDIX H: TURN-IT-IN REPORT

2/20/2018

Turnitin Originality Report

### Turnitin Originality Report

To Evaluate the Perspectives of Government and Small to Medium Enterprises on the Viability of Special Economic Zones in Limpopo Province by Logambal Naidoo  
From Master Thesis (Management)



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ARADHNA AGGARWAL, "PROMOTING AGGLOMERATION ECONOMIES AND INDUSTRIAL CLUSTERING THROUGH SEZs: EVIDENCE FROM INDIA", *Journal of International Commerce Economics and Policy*, 2011

#### paper text:

To Evaluate the Perspectives of Government and Small to Medium Enterprises on the Viability of Special Economic Zones in Limpopo Province By Logambal Naidoo Student no. 201330467 A Dissertation Submitted to the Faculty of Commerce, Administration and Law in Fulfilment of the Requirement for the Master of Commerce (Management) Degree, University of Zululand February 2018 To Evaluate the Perspectives of Government and Small to Medium Enterprises on the Viability of Special Economic Zones in Limpopo Province By Logambal Naidoo Student no. 201330467 A Dissertation Submitted to the Faculty of Commerce, Administration and Law in Fulfilment of the Requirement for the Master of Commerce (Management) Degree, University of Zululand February 2018 Supervisor: Prof I Kaseeram Co-Supervisor: Mr S Heeralal ..... DECLARATION I, the undersigned, hereby declare that this dissertation, save for guidance received, is the product of my own work and effort. I have, to the best of my knowledge and belief, acknowledged all the resources of information in line with normal academic conventions. I further certify that the dissertation is original, and has not been submitted before at this or any other university for obtaining a degree. .... Logambal Naidoo Date: 10 February 2018 ACKNOWLEDGEMENTS Upon completing my research, I would like to express my sincere appreciation towards the following persons and institutions. I would like to thank my Master and Guru, Shri Mataji Nirmala Devi, for the perseverance in completing this research. This thesis owes its existence to the help, support and inspiration of several people. I would like to express my sincere appreciation and gratitude to my supervisors, Prof I Kaseeram and Mr S Heeralal for their guidance and unwavering support during my research. I would also like to acknowledge with great gratitude the authors whose work I have cited and to the participants for agreeing to participate in this study amidst their busy schedules and high-profile jobs. I would also like to thank my family and friends for their support, encouragement and guidance during this thesis project. Special thanks go to my dearest friend Dr P Moodley (Sam), without her I would have never started this journey and my remarkable daughters (Daphne and Nadine) who coaxed me to complete this study when tragedies and



## APPENDIX I: EDITOR'S REPORT

*Dr. P. Moodley*

### **EDITING SERVICES**

Cell: 084 711 3864

Telephone: 031 373 6870

email: [padhmam@dur.ac.za](mailto:padhmam@dur.ac.za)

Date: 08 February 2018

Re: Editing services rendered – NAIDOO, L. Thesis entitled: **"To Evaluate the Perspectives of Government and Small to Medium Enterprises on the Viability of Special Economic Zones in Limpopo Province".**

The following areas were considered during editing and proof reading of this thesis:

- Spelling
- Punctuation
- Grammar
- Sentence Structure
- Word reduction
- Cross reference citations
- Reference check
- Formatting basics
- Presentation style
- Other mechanics of the English language.

Corrections were made using track changes which have been clearly outlined for your reference.

Should you have further queries in this regard, please contact me via email or telephonically.

Yours Faithfully



**Dr. P. Moodley**

*(PhD Communications (UNIZUL), Master of Arts (UNIZUL), Honors Communication Culture and Media Studies- Cum Laude (UKZN), Bachelor of Arts (UNISA), Senior Lecturer, Department of Marketing and Retail Management Faculty of Management Sciences, Durban University of Technology*