Jobs, labour and boosting economy

Have our EPZs succeeded?

In 2001 the South African government created the first of its four Industrial Development Zones despite opposition from labour. **Crispen Chinguno** examines the success of these zones in terms of job creation, labour relations and their role in boosting the domestic economy.

The International Labour Office in Geneva commissioned a study reviewing the Decent Work Country Programme in export processing zones (EPZ) in four countries: South Africa, China, Brazil and Mexico. This followed the unprecedented global economic crisis which challenged the hegemony of neo-liberal capitalism.

The Decent Work Country Programme promotes decent work as a component of national development. The programme has four priorities: strengthening fundamental principles and rights of work, promotion of employment, strengthening of social protection and coverage and strengthening of tripartism and social dialogue.

EPZs are part of South Africa's national industrial policy implementation strategy designed to attract investment and job creation through establishing industrial park enclaves that offer incentives to investors. This article focuses on job creation, labour relations and the existence of linkages to the South African domestic economy.

BACKGROUND

Following extensive debate amongst social partners, South Africa adopted an EPZ model in line with its free market policy expressed in its Growth, Employment and Redistribution (GEAR) policy. The EPZ model was designed to promote the competitiveness of enterprises and enhance job creation and manufacturing capacity.

Organised labour, particularly Cosatu (Congress of South African Trade Unions) vehemently opposed the adoption of the EPZ model as this was associated with the violation of labour and social legislation. The ANC government's macroeconomic GEAR was also opposed by Cosatu. However, a relatively strong labour movement made conditions that exist in EPZs across the world politically unfeasible.

After much debate, South Africa adopted Industrial Development Zones (IDZs), but government explicitly forbade any variation to environmental and labour legislation.

Four IDZs were proclaimed: Coega in Port Elizabeth, East London, OR Tambo in Johannesburg and Richard's Bay in northern KwaZulu-Natal. The proposal to implement IDZs was tied to fiscal and non-fiscal incentives. However, the incentives have not been implemented due to lack of government political will and consensus amongst the social partners during the social dialogue process.

SA INDUSTRIAL ZONES

Coega covers 11 000 hectares and was the first IDZ to be designated in 2001. It was designed to support regional development and to complement the development of Ngqura deep seaport. It is operated by the Coega Development Corporation which is jointly owned by the national and provincial governments.

By the end of 2009, the government had expended over US $1.8-billion US dollars on this project making it the largest infrastructure development in the country since 1994 and the biggest industrial zone in Africa.

The zone provides world-class industrial infrastructure with linkages between different forms of transport. By 2010 it had over ten operating investors including in automotive, agro-processing, and logistics. The biggest employer, Dynamic Commodities which operates in agro-processing, has over 1 000 workers all employed through a labour broker.

About half of the investors are new and the others relocated from other industrial parks. After the withdrawal of a smelter plant investment due to shortage of electricity, the zone shifted focus from large anchor to small catalyst investors with potential to attract others.

East London was the first zone with a fully developed infrastructure and operational investors. It was designated as an IDZ in 2001 and targets industries in automotive, agro processing, marine aquaculture, pharmaceutical, ICT and electronics, business processing and outsourcing.

However, the majority of the current 15 investors are components manufacturers. The first phase targeted manufacturers of components supplying the nearby Mercedes Benz plant. However, it has failed to diversify significantly.

Richard's Bay was designated in 2002 but progress has been delayed due to the lack of an operating permit because of a land transfer dispute. Its main focus is development of mineral beneficiation, ie the manufacturing of South Africa's diverse raw minerals. Two investors were located in the zone before it was designated but only one is operational.

OR Tambo is located near the OR Tambo International Airport in Johannesburg and is aimed at supporting provincial development. Its progress has however been disturbed after the land was rezoned for airport expansion. New land has now been acquired and is going through the application process to re-define it as an IPZ. The zone has no operational investments yet.

EMPLOYMENT CREATION

One of the key objectives of IDZs is to create jobs and contribute towards reducing the massive unemployment in the country which poses a threat to political and social stability. As highlighted in the table below IDZs account for 5 537 operational jobs.

However, most of these jobs are precarious and are not new jobs as more than half of the investors relocated with staff from other industrial parks. Most are in high-end technology capital intensive industries employing a few semi-skilled and skilled workers. This limits the number of jobs created.

Coega for example, has a target of 20 000 jobs by 2014 but so far only 4 573 jobs have been created since 2001.The government has invested billions of dollars aimed at creating employment opportunities but investors are not coming 'to the table'.

EMPLOYMENT IN INDUSTRIAL DEVELOPMENT ZONES

Zone	Manufacturing/ Operational Jobs	Target/Focus	Construction Jobs	Number of Investors	Value of Investment
PE Coega	4 573	20 000	33 849	17	$110.2m
East London	788	1 200	4 500	15	$95m
Richard's Bay	176	1 890	NA	2	$67m
Total	**5 537**	**23 090**	**38 349**	**34**	**$272.2m**

LABOUR RELATIONS

EPZs in many countries are associated with sweatshops. However, in South Africa the labour movement managed to force a variation of conditions of employment in IDZs. Nevertheless, what the law prescribes often differs from the practice. Employers in South African IDZs employ workers under conditions akin to conditions in EPZs across the world.

For example, Dynamic Commodities outsource all its labour requirements to a third party labour broker. This allows for an evasion of labour legislation and clandestine erosion of workers' rights. Trade unions representation in the IPZs is very weak and is the exception rather than the norm.

Dynamic Commodities workers are not unionised. A workers' committee representative lamented: 'It's not yet uhuru for us the super-exploited workers in the IDZs. The pay and general conditions is pathetic and akin to apartheid. Employers make it impossible for unions to organise. 90% of the workers here are women and yet have no right to basic conditions such as maternity leave. We are always in fear; our future is very uncertain. Our jobs can be terminated anytime without notice. Many have worked here for more than five years but are still casuals. We literally are slaves in a democratic South Africa.'

IPZs are a pseudo-victory for labour as investors are by-passing the industrial relations regime. However, surprisingly some employers cited the labour relation regime as being rigid and as one of the reasons for poor investment and job creation in the IDZs.


Coega


East London


Richards Bay

DOMESTIC ECONOMY LINKAGES

The zone success can be measured by the level of linkages with suppliers and consumers in the domestic economy.

Linkages with suppliers in EPZs are usually limited as the focus is on export markets. Most African models have poor linkages because they are usually not designed to focus on the industrial priorities of the actual country. The majority of the industries in these zones import the bulk of their raw materials for exports they will pass on to the global market.

The East London IDZ for example, specialises in vehicle components for cars for the export market. It imports over 70% of its inputs from Germany. This highlights poor integration with the domestic economy, a common phenomenon in most zones.

The successful zones have higher linkages and there are significant partnerships between local and foreign capital beyond technological transfer. These are however, exceptions. Dynamic Commodities, for example, is closely linked to the domestic economy as it procures all its raw material from local and outlying farmers.

CONCLUSION

The IDZs were implemented despite lack of a clear consensus among social partners during the social dialogue process at Nedlac (National Economic Development and Labour Council). This has negatively affected progress and viability of the final product. This is reflected in poor administrative support, coordination, and government inconsistency.

Government has, for example, shifted from offering exemptions such as on import duties, on raw materials, on capital imports as well as tax holidays. These were proposed in the initial government proposal, but have not been implemented because of government lack of political will. The IPZs were described by key informants as 'not an EPZ in the real sense' or 'pseudo-EPZs' as they lacked the 'usual' incentives. Investors blame lack of special incentives as the major reason for lacklustre performance.

However, the study showed that despite an agreement on no variation to labour and environmental legislation, employers are able to create conditions akin to EPZs worldwide through triangular and other forms of flexible employment. Thus the model has failed to meet all the four priorities prescribed by the Decent Work Country Programme and undermines fundamental work principles and rights.

The IDZs have very little interaction with the local economy and have made very limited contribution to economic development and job creation.

The radical shift to an export oriented industrial policy has been criticised for prematurely exposing the domestic industry to the hyper competitive global market. A middle of the road approach has been proposed which focuses on manufacturing intermediate goods given that South Africa has a lack of skills and engineering expertise and a poor education system which cannot cope with the demand for high skills needed in the high-end goods market.

Others suggest prioritising IDZs for the employment of first-time wage entrants where labour legislation would be suspended, except for the basic labour, health and safety regulations. This would be linked to specific incentives to attract investors and enhance job creation. This, however, is strongly opposed by trade unions.

A major criticism of IDZs has been their failure to draw on the potential of the domestic economy such as the agro-processing industries in the domestic economy. This failure may point to a lack of integration of macro-economic, trade and industrial policies.

The government's commitment to the IPZ programme is not in question given the amount of resources it has committed to the development of infrastructure. However, we question the policy of drawing on an industrial policy framework on the basis of foreign experience where different socio-political and economic contexts exist. The creation of industrial enclaves may not be the solution for South Africa given its social, political and economic context. There is a need to think of an alternative strategy which does not rely solely on exports but focuses on producing and building linkages in the domestic economy. LB

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