



Bohlale Institute

Policy Paper

Enhancing the Coega Special Economic Zone (SEZ) for Foreign Direct Investment (FDI) and Economic Growth

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POSITIONING SOUTH AFRICA'S SEZs FOR FOREIGN DIRECT INVESTMENT DESTINATION OF CHOICE

Executive Summary

As South Africa seeks to transform its economy into global competitiveness with a solid industrial base that is export oriented, Special Economic Zones provide potential as hubs for such development. The country has over the last decades experimented with the SEZ approach to industrial and economic development. However, South Africa's SEZs have not yielded the expected results, with most of them underperforming. This includes one of the oldest and most promising of the SEZs, the Coega development hub. There are various reasons for the underperformance of South Africa's SEZs in general and Coega in particular. Coega's shortcomings are bound to be repeated in other SEZs including the latest one which is the Musina Makhado Special Economic Zone.

This paper seeks to interrogate some of the challenges that lead to the failure of SEZs in South Africa and specifically Coega. The Coega SEZ is the largest in Southern Africa and serves as gateway to the African continent. One of the main challenges of Coega and other SEZs in South Africa is that they are not wholly export oriented resulting in their unfair competition with firms that operate outside the zones. An assertion is made in this paper that the public development model of South Africa's SEZs acts as a limitation to realisation of full potential. There is a need for government to consider a Public Private Partnership model in the development and operation of SEZs.

While the government through the DTIC has various PPP initiatives in multiple sectors, there has been no efforts to introduce the same in the SEZ sector. There are examples from economies such as Vietnam, Ethiopia, Mauritius and China that demonstrate the successes of involving a bigger role for the private sector to play in the development and running of SEZs.

In this paper a proposal is also made for effective regulatory sandboxing of SEZs including Coega to allow for a full favourable environment not saddled with administrative, policy and regulatory challenges. This is in addition to improving infrastructure and energy efficiencies. In this proposal, the Continental Free Trade Area is highlighted as being key to the success of Coega and other SEZs as it offers an export market for products produced inside these zones.

The Tshwane Automotive Special Economic Zone provides a blueprint on an agglomeration model that takes into account of the country's comparative advantage. Emphasis is also placed on the need to focus on labour intensive sectors that leverage supply chain agglomeration. Over and above, this paper proposes more streamlining of government processes through more robust interministerial coordination.

Background

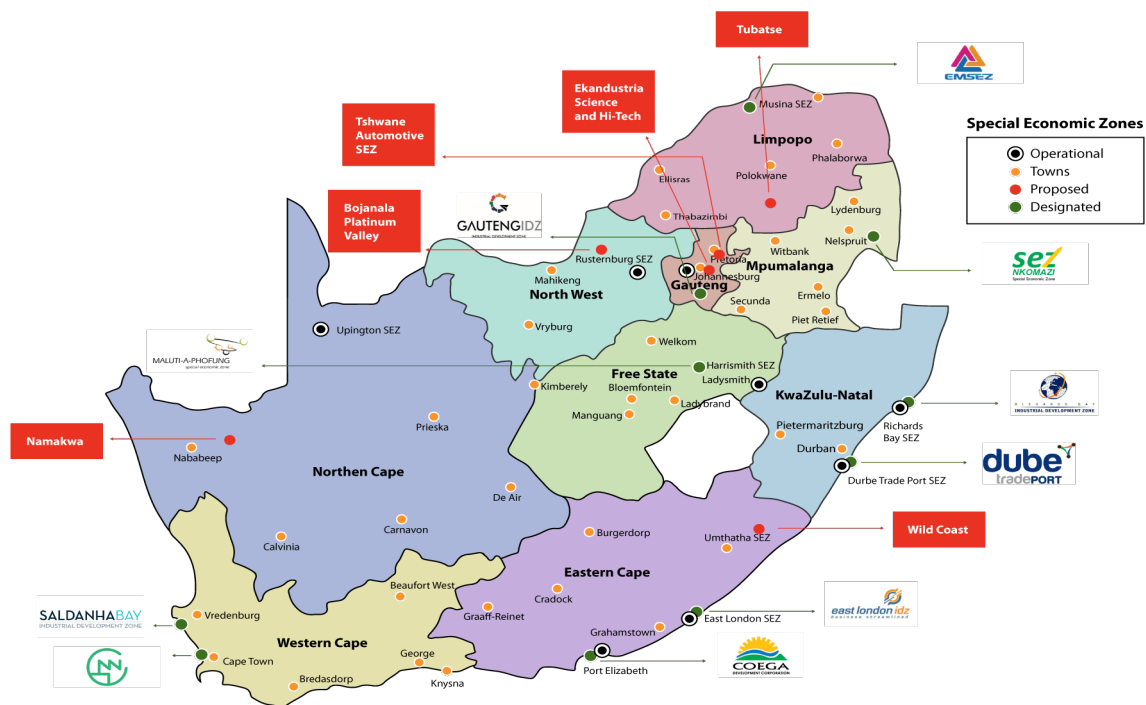
Overview of South Africa's Special Economic Zones

South Africa seeks to transform its economy into a globally competitive industrial economy, built on the full potential of all citizens and regions. A critical tool to accelerate the country's industrial development agenda is the

establishment of Special Economic Zones (SEZ). The SEZs are mandated by the Special Economic Zones Act, proclaimed on February 9, 2016.¹ SEZs are designed to promote economic development, industrial agglomeration, build required industrial infrastructure, facilitate coordinated planning among key government agencies and the private sector, and guide the deployment of other necessary development tools.

South Africa has 11 designated SEZs spread across various provinces, each strategically positioned to enhance industrialisation, attract investment, and promote economic development. These SEZs focus on diverse sectors which include manufacturing, logistics, agro-processing, automotive production, energy, and mineral beneficiation. Notable SEZs include: Coega, the largest in Southern Africa, which is strategically positioned to service global and African markets; Richards Bay, which supports mineral beneficiation and manufacturing; and the Tshwane Automotive SEZ, which is Africa's first automotive city designed to enhance vehicle production and exports. Other key SEZs, such as the East London, Dube TradePort SEZ and Musina-Makhado SEZ cater to industries ranging from high-tech agriculture, metal fabrication, agroprocessing, logistics to metallurgical processing and green technology.²

Figure 1. South Africa's Special Economic Zones



Source: Industrial Financing, <https://industrialfinancing.co.za/special-economic-zones-sez/>

Currently, special economic zones can be established and run by national government, provincial administrations, local authorities or a combination of the three, causing challenges for the viability of these spaces.

The SEZ programme plays a crucial role in driving South Africa's industrial policy by fostering economic growth, creating employment, and positioning the country as a competitive investment destination. By leveraging world-class infrastructure, strategic locations, and government incentives, SEZs serve as key enablers of regional

¹ Special Economic Zones Act 16 of 2014.

² The Department of Trade, Industry and Competition (the dtic), November 2020.

integration and international trade. SEZs are critical for a country like South Africa that has an export led industrial policy, coupled with high unemployment and a low skills base. They provide a special space for experimentation with less regulated spaces that can spur industrial and economic development as evidenced in economies such as China, South Korea, Colombia, the Dominican Republic, Vietnam and Bangladesh.³

This policy brief seeks to contribute to the development of the Coega SEZ by, in the first instance, advancing proposals for policy reforms that can make Coega an even more attractive destination for FDI, outlining some of the main constraints that make the SEZ unattractive and secondly by detailing the process of implementing the reforms in government and private sector. As mentioned above, the Coega SEZ is a strategic industrial hub in South Africa, designed to attract FDI and stimulate export-led economic growth. It is one of the four more developed, albeit low performing SEZs in South Africa, notwithstanding billions of rand already spent in its establishment and operation. Despite its potential, policy reforms are necessary to improve its attractiveness to investors and ensure its role in driving industrialisation and job creation. This proposal, therefore, outlines key reforms, implementation strategies, and comparative lessons from successful SEZs globally.

Coega Special Economic Zone

History of Establishment and Performance

Established in 2000, the Coega SEZ is South Africa's first and largest Industrial Development Zone (IDZ). It is consistently considered the best SEZ in the country and among the best performing in the continent. It was later converted into an SEZ after the South African government launched the SEZ project in 2012, which was later legislated under the Special Economic Zone Bill of 2014. This SEZ is managed by the Coega Development Corporation (CDC), a state-owned entity under the Eastern Cape Provincial Government. The CDC was established in 1999 to serve as both a developer and operator of the Coega SEZ. The SEZ also receives support financial from the Department of Trade, Industry and Competition (DTIC) through grants from the SEZ Fund – which goes through an application process. In practice, this means any project or construction of facilities has to be approved by the Minister of the DTIC.

The Coega SEZ is located 20 km east of Gqeberha (formerly Port Elizabeth), adjacent to Ngqura Deepwater Port. The SEZ spans 9,003 hectares, out of which 5,650 hectares available for lease. The SEZ benefits from a well-developed infrastructure including strategic access to rail, road, air, and sea transport links, making it a key driver of industrial and economic development in South Africa.

While SEZs are traditionally meant to serve as low-cost global hubs, the Coega SEZ employs a different strategy. Leveraging South Africa's strategic position within the region, the Coega SEZ attracts the FDI by serving as both a launchpad for foreign firms to access the Southern African markets and an entry point for other foreign entities into the South African market.⁴ In this way, the Coega SEZ is positioned to provide both FDI and facilitate

³ Center for Development and Enterprise. Ann Bernstein 'Use the private sector to turbocharge the SEZ program' The Agenda Series, 2024.

⁴ UNCTAD. 2021. Handbook on Special Economic Zones in Africa - Towards Economic Diversification across the Continent. https://unctad.org/system/files/official-document/diaeia2021d3_en.pdf

international trade. With intra-African trade high on the agenda of African policymakers, the Coega SEZ is also well-positioned to play an important role in regional integration.⁵

The adopted differentiated strategy to the traditional SEZ policy approach is given credence by the growing trends in intra-African trade – which has been steadily on the increase. Furthermore, the operationalisation of the African Continental Free Trade Agreement (AfCFTA) is likely to bolster this approach. This will of course require the intricate navigation of the Rules of Origin related to the AfCFTA as stipulated in the AfCFTA Ministerial Regulations on SEZs, the SEZ regulations, and the WTO regime among others. The second aspect of utilising the SEZ as an entry point to gain access into the South African market is still relevant as South Africa still has a large and, albeit constrained, dynamic domestic market with a growing middle class.

Even though the Coega SEZ is export-oriented, it has local objectives i.e., ramping up industrialisation, advancing job creation, pursuing economic development – including pursuing opportunities in areas that possess unrealised potential etc. These two objectives are merged through the SEZ's focus on sourcing materials locally and manufacturing within the zone then exporting the finished product.⁶ Consequently, the Coega SEZ is a production-based SEZ. However, as indicated, Coega is currently mostly empty with 63 firms operating within the zone, having created 10 527 jobs, with most of the companies located inside having moved from other parts of the country instead of being foreign investors as is generally expected in an SEZ.

Despite the differentiated investment attraction policy approach of the Coega SEZ, it remains a traditional export processing zone⁷ (see *Figure 2 below*). The policy framework anchoring the development of SEZs such as Coega is premised on export promotion and preference for labour-intensive manufacturing⁸ – an idea that has been the cornerstone of both South Africa's trade and industrial policies. Coega is currently not wholly export focused resulting in the firms located inside the zone having a comparative advantage against the ones operating in the broader economy which do not receive similar incentives and subsidies from the government.

This, to an extent, indicates that South African SEZ are aimed at upgrading the country's industrial base while also focusing on direct job creation and export benefits. In this regard, the Coega SEZ in terms of conception is focused on labour intensive, low skilled export-oriented industries. This was mostly in the manufacturing sector. For instance, BHP Billiton had promised to build a multi-billion aluminium smelter while a German Consortium had intended to establish a submarine construction facility inside the SEZ. Both these and other envisaged developments can be construed as a blend of objectives that are typically seen in both middle-income and low-income economies.⁹

⁵ UNCTAD. 2021. Special Economic Zones & African Continental Free Trade Agreement: Results from a continent-wide survey. <https://www.africaneconomiczones.com/wp-content/uploads/2021/04/SEZs-and-AfCFTA-Results-from-a-wide-continental-survey-AEZO-UNCTAD-Project.pdf>.

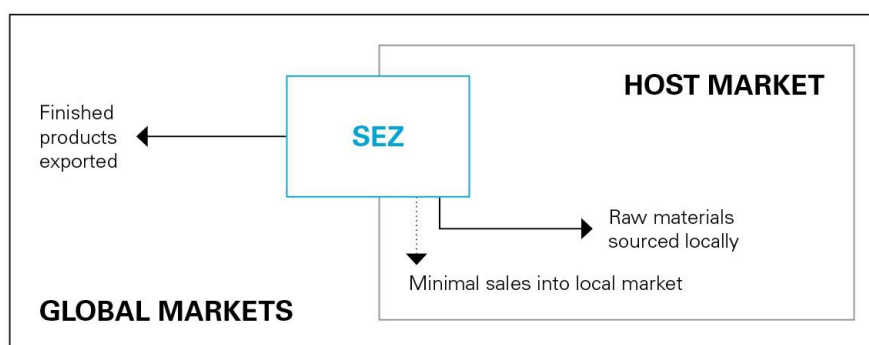
⁶ Hodder, G. 2024. Special Economic Zones: A tool for African governments to grow their economies. <https://www.whitecase.com/insight-our-thinking/africa-focus-summer-2024-special-economic-zones>.

⁷ Aggarwal, A. 2021. SEZs: International Best practices. <https://rksi.adb.org/wp-content/uploads/2021/06/DECZ-S2-31Mar21-Aradhana-Aggarwal.pdf>.

⁸ Chen, L. 2023. "China's special economic zones and the industrialisation of Africa", *Journal of Sino-African Studies*, Vol.2(1). pp. 1–20.

⁹ UNCTAD. 2020. World Investment Report 2019. https://unctad.org/system/files/official-document/WIR2019_CH4.pdf.

Figure 2: SEZ as an export processing zone¹⁰



Current Status and Operations

The Coega SEZ is a multisectoral industrial development zone that employs a regional cluster-based industrial development model. Through this model, core industries are integrated with their supply chains to maximise economic efficiency and stimulate regional growth. This approach has attracted a diverse range of industries. The 14 zones of the Coega SEZ are tailored to cater for heavy, medium, and light industries.¹¹ The SEZs typically focus on prioritised industrial sectors.¹² While this is the case, the focus of SEZ also take into consideration the geographic advantage and potential. As such, the Coega SEZ has key focus sectors that include the following:

- Metals and Metallurgical services
- Automotive
- Agro-processing and Aqua farming
- Chemical manufacturing
- Business process outsourcing (BPO)
- Energy
- Maritime

The Coega SEZ continues to face challenges in achieving financial self-sufficiency. The Zone has successfully attracted investment, but it remains reliant on government funding for operational costs and expansion projects. In an attempt to negate the strong reliance on government support and improve its financial sustainability as an operating entity, the CDC diversified its focus to beyond merely SEZ services.

The CDC has effectively placed emphasis on its commercial mandate as it also offers non-SEZ services that are aimed at generating revenue outside government support. These commercial services are the Coega Human Capital Solutions (HCS), Coega Travel Agency (CTA), Coega Business Solutions, Project Management Services, and the Coega Africa Programme. While this is the case, these commercial activities are only sufficient to generate funds for operational expenses.

¹⁰ Hodder, G. 2024. Special Economic Zones: A tool for African governments to grow their economies.

<https://www.whitecase.com/insight-our-thinking/africa-focus-summer-2024-special-economic-zones>.

¹¹ Coega SEZ. SEZ Investments – Overview. <https://www.coega.co.za/site/sez-investments>.

¹² DTIC. 2018. South African Special Economic and Industrial Development Zones. https://www.thedtic.gov.za/wp-content/uploads/SEZ_brochure.pdf.

Furthermore, despite the commercial activities pursued by the CDC, the institutional model adopted in the Coega SEZ is the **public model**. This model indicates that the zone developers and zone administrators are public or public controlled. Furthermore, the zone land and utilities are in public hands. In fact, the current SEZ regime in South Africa has no explicit mechanism for the participation of private developers and investors. This is compounded by the **Special Economic Zones Act** (Act 16 of 2014) establishing an advisory board, rather than SEZ authority as an independent corporate entity.¹³ A reconfiguration of the regime – particularly establishing mechanisms for private sector entities to participate in the SEZ programme as either developers or operators, would not only unlock funding for infrastructural development and upgrading existing infrastructure, but also improve the knowledge and skills repository for enhanced performance.

It is however important to note that the public model in and of itself is not necessarily an impediment to the success of an SEZ. The various development models for SEZs have been adopted across various countries and they have all proved to be feasible alternatives.¹⁴ For instance, one of the world's leading SEZs, the Dubai Multi Commodities Centre (DMCC) which accounts for 15% of all Foreign Direct Investment (FDI) into the emirate¹⁵, is managed and developed by the Dubai Multi Commodities Centre Authority (DMCCA). The DMCC is government-owned through the Investment Corporation of Dubai (ICD) – a Sovereign Wealth Fund which is the principal investment arm of the government of Dubai.

However, whatever model is chosen should take into account the needs and circumstances prevailing in the country. This could include availability of capital for funding and maintaining infrastructure for operators, conducive regulations that do not stifle private sector participation, and availability of the necessary human capital – particularly operational skills. This is particularly important in the context of Coega as the largest SEZ in Southern Africa. Coega's multisectoral focus and size implies an expanded scale of operations that requires a concomitant expansion in the depth and variety of services that must be provided.

In the case of the Coega SEZ, where funding for capital projects and maintaining legacy infrastructure has diminished – coupled with the reduction in government grant funding¹⁶, it is important to reassess the current model. The funding received from the SEZ Fund is meant to cater for all aspects of the SEZ i.e., infrastructure development, performance improvement, business development, feasibility studies, skills development, and business incubation. Not only is relying on funding from the fiscus contrary to international best practices, it is unsustainable given South Africa's prevailing fiscal constraints.

A consideration for a Public Private Partnership (PPP) could be made. South Africa's parliament has made a similar recommendation to the Department of Trade, Industry and Competition (DTIC) as a viable option to address management and financial challenges confronting South Africa's SEZs.¹⁷ A PPP would enable government, through the CDC, to attract the necessary funding for capital projects and improve efficiency and performance of the Coega SEZ. The amendment of Regulations governing PPPs can be construed as an acknowledgement of

¹³ Qumba, M, F. 2023. "Evaluating South Africa's Special Economic Zones", *Journal of African Law*, Vol.67. pp. 275 – 295.

¹⁴ UNCTAD. 2023. Study Tour and Seminar on Special Economic Zones in Mauritius: Report and Recommendations. https://unctad.org/system/files/non-official-document/aldc2023_studytour-10-12Oct2023_report_en.pdf.

¹⁵ Arabian Gulf Business Insight. 2025. Dubai Multi Commodities Centre. <https://www.agbi.com/companies/dubai-multi-commodities-centre/>.

¹⁶ Phiri, M and Manchishi, S. 2020. Special economic zones in South Africa: White elephants and latent drives of growth and employment? A case of Zambia and South Africa (UN University WIDER working paper 160/2020). <https://www.wider.unu.edu/sites/default/files/Publications/Working-paper/PDF/wp2020-160.pdf>.

¹⁷ Parliamentary Monitoring Group. 2024. Special Economic Zones & Industrial Development Parks: DTIC update, with Deputy Minister. <https://pmg.org.za/committee-meeting/39918/>

their potential by government.¹⁸ While this is the case, the DTIC remains silent on private sector participation in SEZs beyond merely being zone users.

Lessons from Aqaba Special Economic Zone: Jordan

Box 1: A case study of the PPP model - the Aqaba SEZ

The Aqaba Special Economic Zone (ASEZ) in Jordan - a freeport that is strategically located at the intersection of the three continents i.e., Africa, Asia and Europe that focuses on domestic, export and internal markets - employs the hybrid model through a Public Private Partnership (PPP). The public sector is responsible for the financing all external infrastructure and the provision of land on a long-term lease basis while the private sector is responsible financing the internal infrastructure along with the management of its constituent zones.¹⁹

The interests of the public sector are represented by the Development Corporation (ADC) which was established in 2004.²⁰ The ADC is a public entity owned by the Jordanian government. The ADC's ownership is shared by the Aqaba Special Economic Zone Authority (a government entity) and the Ministry of Finance – both owning 50% each. The objective of establishing the ADC was, among others, ensuring the maximisation of the private sector participation in the ASEZ.

An example of maximising the private sector's participation is the concession agreement entered into between the ADC and APM Terminals Jordan for the private operation of the Aqaba Container Terminal (ACT). After initially signing a two-year pilot agreement in 2004, the ADC signed a 25-year joint development agreement with APM Terminals in 2006. In this agreement, the ADC contributes 50%-1 share of the financial capital while APM Terminal contributes 50%+1 share of the financial capital in the development of the ACT. APM Terminals is also the operator. The Jordanian government benefits from this agreement through royalties, taxes and dividends. This concession agreement is considered a success story of private sector participation in the ASEZ.

The Jordanian government benefits from this agreement through royalties, taxes and dividends. An estimated 70% of the revenues go towards developers and 30% towards government. This concession agreement is considered a success story of private sector participation in the ASEZ. The PPP has led to the capacity of the Aqaba port increasing threefold and productivity increasing by an estimated 40%.²¹ As testament to the PPP's success, the 25-year long PPP agreement was extended by another 15 years in 2024 – solidifying the PPP until 2046.²²

The ADC also have other PPPs in place at the ASEZ. For instance, PBI Aqaba is contracted to develop the Aqaba International Industrial Estate while the Ayla Oasis is contracted to develop the Ayla Tourism Zone within the SEZ.

Box 1 above provides a case study from which the DTIC can learn on how to unlock private sector expertise and funding through PPPs. In a similar vein, there is private sector involvement in the development and management of SEZs in some African countries. For instance, Mauritius is regarded as having established the most successful

¹⁸ Minister of Finance. 2025. Gazette Notice 5841 of 7-2-25 Amendments to PFMA Treasury Regulation 16. <https://www.treasury.gov.za/legislation/regulations/Amendments%20to%20PFMA%20Treasury%20Regulation%2016%20Notice.pdf>.

¹⁹ Akinci, G and Crittle, J. 2008. Special Economic Zones: Performance, Lessons Learned, and Implication for Zone Development. <https://documents1.worldbank.org/curated/en/343901468330977533/pdf/458690WP0Box331s0April200801PUBLIC1.pdf>.

²⁰ World Bank Group, 2020. Assessment of Special Economic Zones in Pakistan: Improving Performance, World Bank Group. United States of America. Retrieved from <https://coilink.org/20.500.12592/2nww1p> on 16 May 2025. COI: 20.500.12592/2nww1p.

²¹ Souob, H. 2019. Aqaba: A Proven Record of Success in Sustainable Investment Projects. <https://marlog.aast.edu/archive/2019/backend/cms/attachment/download/ps01p03.pdf>.

²² APM Terminals. 2024. APM Terminals extends concession for ACT in Jordan. <https://www.apmterminals.com/en/aqaba/news/latest-news/2024/241002-act-concession-extended>.

SEZs in Africa²³ and boasts Africa's best ranked Free Zone, which is also regularly ranked among the Top 10 globally,²⁴ the Mauritius Freeport Development (MFD). The MFD is also regarded the largest and most comprehensive logistics platform in the Indian Ocean and employs PPPs. While the initial investment was made by the public sector to establish the MFD, third-party developers were brought in a few years later. The Mauritius Freeport Authority (MFA) exited all operational roles in 2001.²⁵

The Mauritius experience is similar to most countries in Africa. The typical model is the adoption of PPPs – with private partners developing on-site infrastructure while governments are responsible for off-site infrastructure. Examples include the Lekki project in Nigeria and the Zambia– China Economic and Trade Cooperation Zone.²⁶ Private companies are generally responsible for the day-to-day management of the SEZs.

While various models for SEZs are adopted across various countries, there is a general appreciation - based on international experience – there are higher chances of success when SEZs are privately developed rather than being publicly developed.²⁷ The public model of SEZs has only attained success in East Asia and in the United Arab Emirates (Dubai to be precise). Not only can private zone development reduce the capital costs for governments, they can also enhance their risk/reward balance for governments. Furthermore, private entities can improve the management of the zones. The size of the SEZ also matters as private developers are likely to support the growth of larger, specialised SEZs through customised facilities as a result of targeted investment promotion and marketing.²⁸

Coega's Economic Contribution

Investment and Job Creation

One of Coega's major contributions to South Africa's economy has been employment creation. By 2019, the SEZ had generated over 120,990 jobs and trained approximately 100,000 individuals. However, a significant proportion of these jobs were temporary construction roles rather than long-term operational positions.²⁹ Between 2018 and 2019 alone, the SEZ created over 8,000 construction jobs and 7,800 operational jobs, while training 7,406 individuals. Although these numbers highlight Coega's role in skills development and job creation, the challenge remains in transitioning from temporary employment opportunities to more sustainable, long-term job prospects.³⁰

²³ Gumede, W. 2023. Leveraging Special Economic Zones for Growth. <https://drive.google.com/file/d/1fCS7YwGsR3Gueh-T5uJvnY0iEtnzjf/view?usp=sharing>.

²⁴ O'Farrell, S. 2022. Global Free Zones of the Year 2022 - The winners. <https://www.fdiintelligence.com/content/ae62ff0-c3e3-592a-9463-a3a025c948eb#:~:text=The%20Dubai-based%20DMCC%20has%20won%20Global%20Free%20Zone,a%20robust%20ecosystem%20for%20the%20trade%20of%20commodities>.

²⁵ Freeport Operators Association Mauritius. n.d. History of Freeport: Facts on Mauritius Freeport. https://www.freeportoperators.com/en/history_of_freeport.html#:~:text=The%20creation%20of%20the%20Mauritius%20Freeport%20in%201992,Government%20also%20invested%20heavily%20in%20core%20logistics%20infrastructure.

²⁶ Brautigam, D and Xiaoyang, T. 2011. "China's Investment in Special Economic Zones in Africa" in (eds) Farole, T and Akinci, G. *Special Economic Zones Progress, Emerging Challenges, and Future Directions*. <https://openknowledge.worldbank.org/server/api/core/bitstreams/90c2d4e4-399e-5e8f-bddf-ca6ab344ea18/content>.

²⁷ The World Bank Group. 2008. *Special Economic Zones: Performance, Lessons Learned, and Implications for Zone Development*.

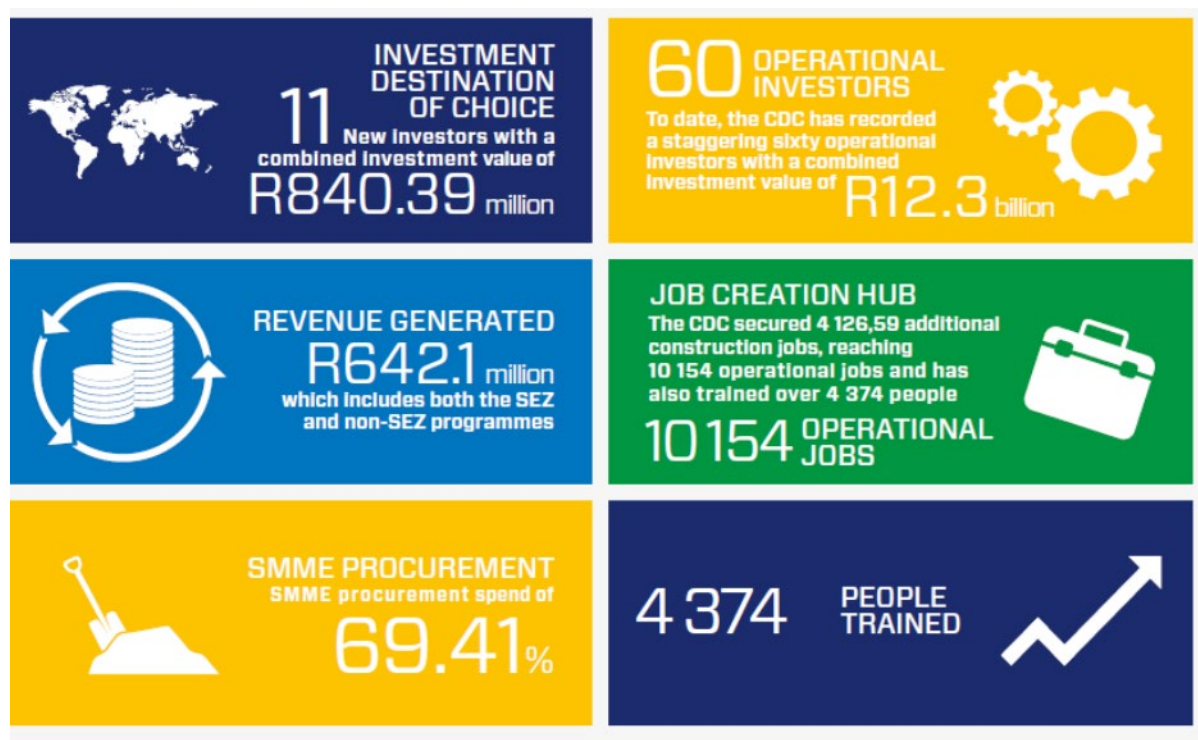
<https://documents1.worldbank.org/curated/en/343901468330977533/pdf/458690WP0Box331s0April200801PUBLIC1.pdf>.

²⁸ UNCTAD. 2020. *World Investment Report 2019*. https://unctad.org/system/files/official-document/WIR2019_CH4.pdf.

²⁹ Ibid.

³⁰ Ibid.

Figure 3: Coega SEZ Top Highlights for 2023/2024 Financial Year



Source: Coega Development Corporation Integrated Annual Report 2023/24.

The Coega SEZ continues to solidify its position as a premier investment destination in South Africa, showcasing remarkable progress in key economic areas during the 2023/24 financial year. The latest figures highlight a surge in investment, job creation, and enterprise development, reinforcing Coega's role as a catalyst for industrial and economic transformation.

Investment Growth

In the past financial year, Coega SEZ welcomed **11 new investors**, collectively committing **R840.39 million** towards industrial and economic development. This demonstrates strong investor confidence in the zone's infrastructure, strategic location, and business-friendly environment. Additionally, **60 operational investors** are now active within the SEZ, with a combined investment value of **R12.3 billion**, further solidifying Coega's reputation as a hub for economic expansion.³¹

The zone's financial performance remains robust, generating an impressive **R642.1 million** in revenue across both SEZ and non-SEZ programmes. This underscores Coega's ability to drive economic value beyond its immediate industrial precinct, benefiting broader regional and national economic activities.

Job Creation and Skills Development

Coega SEZ remains a beacon of opportunity for job seekers, contributing significantly to employment growth. Over the past year, **4,126 additional construction jobs** were created, pushing the total number of operational jobs to

³¹ Coega Development Corporation (CDC). (2024). Integrated Annual Report 2023/2024. blob: <https://www.coega.co.za/75cc5671-32b2-445c-9170-d2a05e0e3554>. (Accessed 25 March 2025).

10,154³². This growth highlights Coega's pivotal role and potential in providing employment opportunities, particularly in sectors such as manufacturing, logistics, and infrastructure development. Moreover, Coega has prioritised skills development, training **4,374 individuals** to enhance workforce capabilities and bridge the skills gap in various industries. These training initiatives not only equip workers with relevant expertise but also contribute to the long-term sustainability of the SEZ by ensuring a skilled and adaptable labour force.

Enterprise Development and Procurement Success

In line with its commitment to supporting small, medium, and micro enterprises (SMMEs), Coega achieved a significant **SMME procurement spend of 69.41%**, ensuring that smaller businesses benefit from the SEZ's economic activities. This highlights Coega's dedication to inclusive economic growth, fostering the development of local enterprises and promoting entrepreneurship.

As the Coega SEZ continues to attract investment, generate revenue, create jobs, and empower local businesses, its impact on South Africa's economic landscape becomes increasingly evident. With a strong foundation and a clear vision for the future, Coega remains at the forefront of industrial development, paving the way for sustained economic transformation and inclusive growth.

Figure 4: Coega's Annual Performance 2023/24 FY

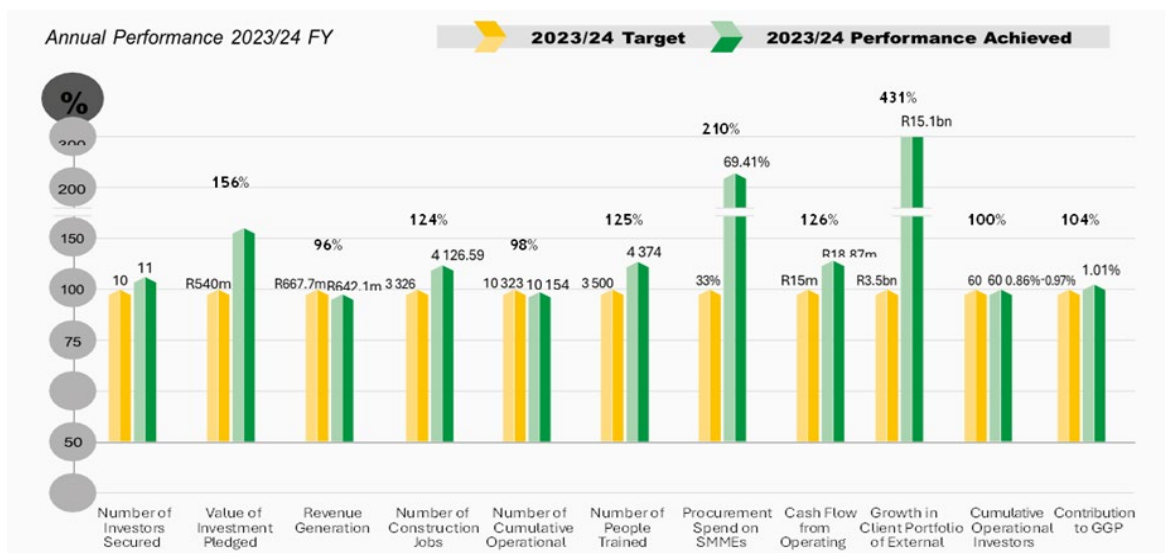
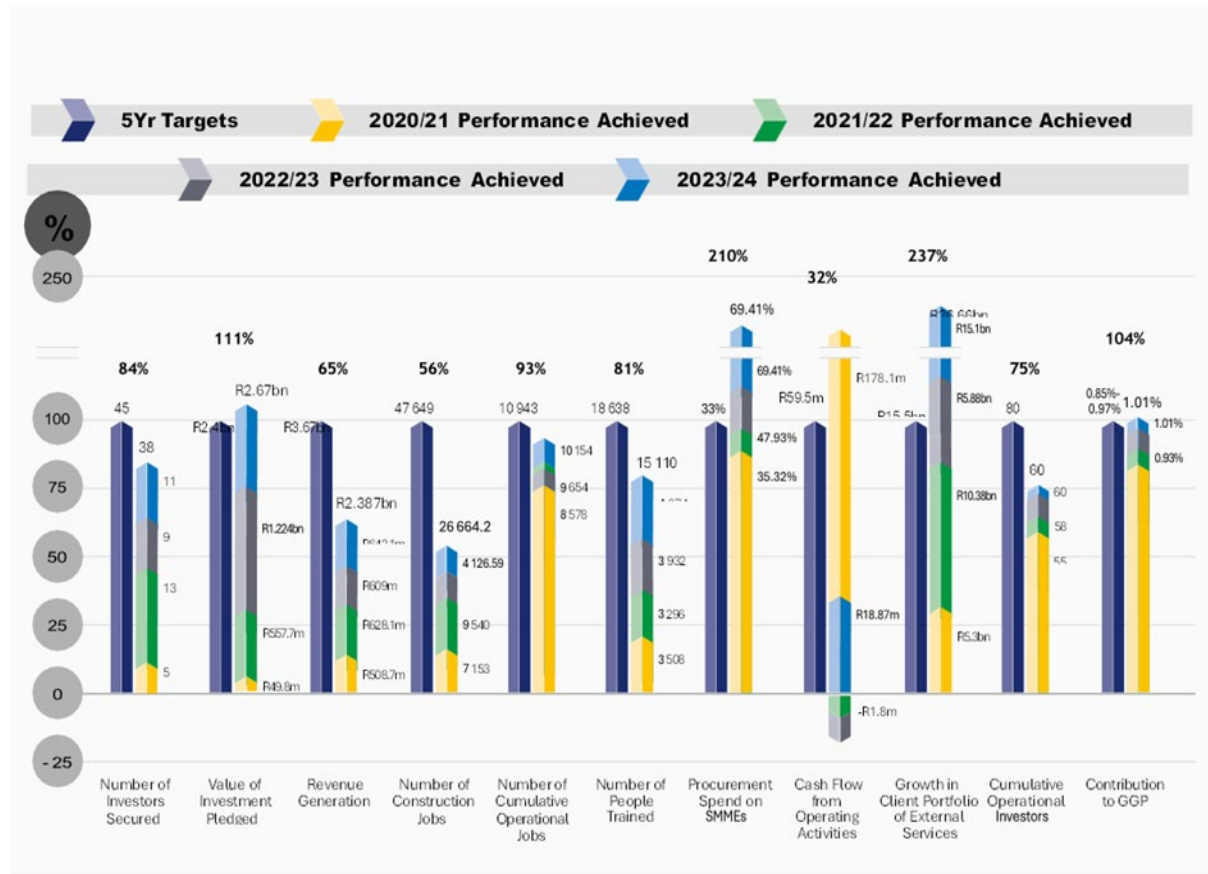


Figure 4 represents the SEZ's achievements against its annual targets for the 2023/2024 financial year. The data highlights that Coega exceeded several key performance indicators, notably securing **R540 million in investment pledges**, surpassing the **R667.7 million target at 156% achievement**. Additionally, **procurement spend on SMMEs reached 69.41%**, more than **double the target of 33% (210% achievement)**, demonstrating Coega's commitment to enterprise development. **Revenue generation (R642.1 million) closely matched the target (96%)**, while **job creation targets were largely met**, with **4,126 construction jobs (124%)** and **10,154 cumulative operational jobs (98%)**. The most remarkable achievement is the **431% growth in the client portfolio of external investors**, reaching **R15.1 billion**, far exceeding the R3.5 billion target. Coega also met or exceeded goals for **cumulative operational investors (100%)** and **contribution to GDP (104%)**, reinforcing its

³² Ibid.

role as a key economic driver. Overall, the SEZ demonstrated outstanding performance, particularly in investment growth, job creation, and SMME support, positioning itself as a leading industrial and economic hub in South Africa.

Figure 5: Performance Achieved Period-to-Date Against 5yr Targets - 2023/24



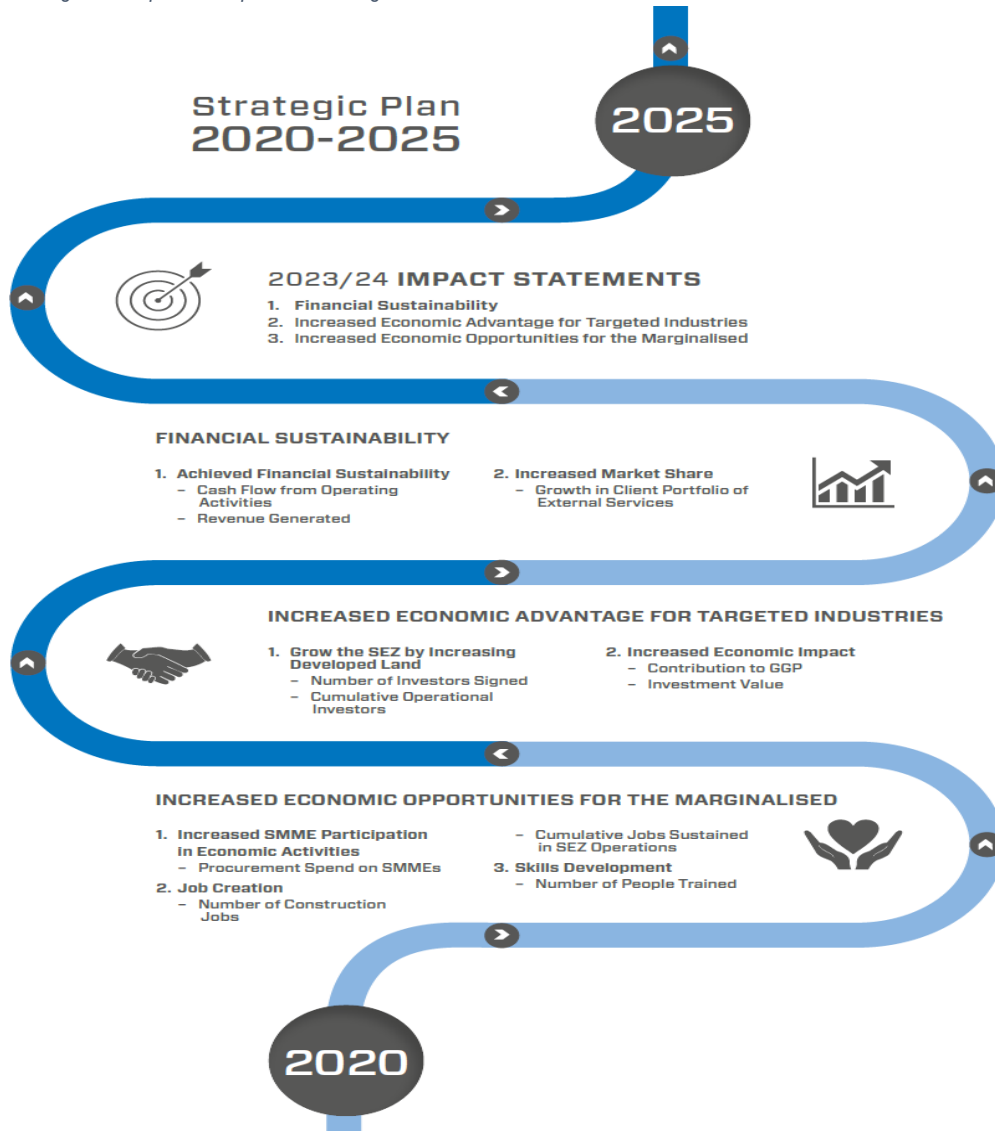
Source: Coega Development Corporation Integrated Annual Report 2023/24.

From 2020/21 to 2023/24, Coega consistently surpassed or closely met annual targets, notably in securing new investors, expanding procurement spend on SMMEs, and sustaining high levels of job creation. The marked increase in external investor portfolio value over successive years also reflects growing confidence in the SEZ's infrastructure, incentives, and governance. Furthermore, the SEZ's efforts to train thousands of individuals directly address the plan's emphasis on human capital development and inclusive growth. By maintaining this momentum, Coega is on track to fulfil its long-term mandate of driving industrialisation, employment, and socio-economic transformation in South Africa.³³

³³ Coega Development Corporation (CDC). (2024). Integrated Annual Report 2023/2024. <https://www.coega.co.za/59e0b40a-d43c-4625-a6f8-7cdb54d16cd6>. (Accessed 25 March 2025).

Figure 6 highlights Coega SEZ’s upward trajectory in key metrics—new investments, revenue generation, and job creation—demonstrating steady progress toward the 2020–2025 strategic plan’s goals (Figure 5 below).

Figure 6. Coega Development Corporation Strategic Plan 2020-2025



Source: Coega Development Corporation Integrated Annual Report 2023/24

Challenges and Future Prospects

Coega SEZ plays a crucial role in regional economic transformation. However, despite its notable achievements, strong government support and significant investments, it faces persistent challenges that threaten its long-term viability and ability to attract further investment. Several studies such as Chongsheng’s study dissects these multi-dimensional hurdles by examining the roles of government, the zone operator – the CDC, and the participating

enterprises,³⁴ while other works such as Gumede’s work reveals that similar systemic issues extend to other South African SEZs.³⁵ Together, these insights show that both internal structural inefficiencies and external socio-political dynamics significantly undermine the zones’ intended outcomes.

Administrative and Governance Challenges

One of the central issues identified is the cumbersome and fragmented administrative system. Coega SEZ is managed by multiple governmental layers—the Eastern Cape Provincial Government and its subordinate agencies, as well as the DTIC and local municipal bodies. This “multi-administrative” framework creates lengthy, inefficient approval processes that can extend project signings and delays in obtaining key incentives.³⁶ For example, a simple infrastructure application might require multiple approvals over several months, sometimes up to a year, causing potential investors to look for more agile alternatives elsewhere.³⁷ Gumede reinforces this point by arguing that a lack of clear inter-departmental coordination and a disconnect between national policy and local implementation are critical factors that exacerbate these delays across South African SEZs.³⁸

Labour Law and Unionisation

Another significant challenge stems from South Africa’s labour regime. The study details that rigid labour laws—designed to protect workers—combined with the formidable influence of labour unions, create an environment in which business flexibility is severely constrained. The legal framework, including acts such as the Labour Relations Act and the Employment Equity Act, tend to favour employees and has contributed to a series of frequent strikes and labour-management disputes. These conditions reduce operational efficiency and deter foreign investors who may perceive the risks associated with unpredictable labour unrest as too high.³⁹ Gumede’s analysis extends this criticism by noting that such stringent labour protections are not tailored to the needs of modern industrial zones and may inadvertently stifle the dynamism that Coega is intended to generate.⁴⁰

Sustainable Job Creation and Labour Quality

Another core issue is the mismatch between the employment needs of the SEZ’s enterprises and the actual labour force available. Although Coega has made strides in creating jobs and providing vocational training, most of the employment generated has been temporary or short-term. This transient nature of employment not only fails to contribute to long-term regional economic stability but also highlights the inadequacy of the existing vocational training programmes. Chongsheng’s study points out that many enterprises have developed parallel training systems better aligned with their specialised needs, suggesting that the Coega’s central training efforts have not achieved the intended quality or sustainability.⁴¹ Gumede similarly critiques the local skills development initiatives,

³⁴ Yang Chongsheng. (2024). ‘SEZ Development in South Africa: A Case Study of Coega’ in Guang Yang, Jing Zhang, Lanyu Liu and Xinghan Xiong (eds) *Countries and Regions: Dynamic Interconnectivity* (Palgrave Macmillan 2024) 303 – 352.

³⁵ William Gumede. (2023). *Leveraging Special Economic Zones for Growth* (December 2023) Inclusive Society Institute.

³⁶ Yang Chongsheng. (2024). ‘SEZ Development in South Africa: A Case Study of Coega’ in Guang Yang, Jing Zhang, Lanyu Liu and Xinghan Xiong (eds) *Countries and Regions: Dynamic Interconnectivity* (Palgrave Macmillan 2024) 303 – 352.

³⁷ Ibid.

³⁸ William Gumede. (2023). *Leveraging Special Economic Zones for Growth* (December 2023) Inclusive Society Institute.

³⁹ Ibid.

⁴⁰ Ibid.

⁴¹ Yang Chongsheng. (2024). ‘SEZ Development in South Africa: A Case Study of Coega’ in Guang Yang, Jing Zhang, Lanyu Liu and Xinghan Xiong (eds) *Countries and Regions: Dynamic Interconnectivity* (Palgrave Macmillan 2024) 303 – 352.

arguing that without a robust, tailored approach to workforce training, Coega South Africa will continue to face challenges in enhancing their competitive edge.⁴²

Infrastructure, Operational, and Financial Limitations

Operational challenges further compound the issues at the Coega SEZ. High utility costs—such as exorbitant charges for water and electricity significantly erode profit margins for businesses operating within the zone. In addition, the zone suffers from deficiencies in supporting services; for instance, basic amenities like reliable telephone and Internet services are lacking, which impacts both the productivity of enterprises and the overall attractiveness of the location for potential investors. On the financial side, despite government funding and a suite of incentives, the Zone's capacity to generate sustainable revenue remains questionable. The slow disbursement of funds and delays in securing tax exemptions contribute to a financial model that risks long-term viability, especially if external investment declines.⁴³ These financial and infrastructural bottlenecks are symptomatic of a broader challenge: an economic policy framework that is not sufficiently adapted to the fast-changing global investment environment.⁴⁴

Policy and Legislative Gaps

The administrative procedures and labour laws governing the Coega SEZ are often mere replications of traditional regulatory frameworks, failing to account for the unique operational needs of zone-based economies. This misalignment means that, while policies may work for broader national development, they do not necessarily foster the rapid and flexible economic growth that Coega requires. Accordingly, there is an urgent need for a legislative overhaul that distinguishes SEZ operations from conventional industrial policies. Unless policy-makers design tailored frameworks—ones that consider the integrated and dynamic nature of the Zone's ecosystem it will continue to underperform relative to potential.

Coega SEZ is a crucial component of South Africa's industrialisation strategy, offering significant potential as an economic hub despite facing multifaceted challenges. Administrative inefficiencies, rigid labour laws, inadequate vocational training, infrastructural deficiencies, and financial limitations form a complex web of issues that hinder its performance—problems that echo broader systemic shortcomings. However, with ongoing efforts to improve infrastructure, streamline regulations, and attract investment, there is a clear pathway to transitioning toward self-sustainability and unlocking the full potential of the zone for sustainable, long-term economic development.

Foreign Direct Investment Challenges

Areas for Improvement

It is acknowledged that Coega has historically attracted both foreign and domestic direct investment in key sectors such as agro-processing, automotive and logistics. Its strategic location in the Eastern Cape—positioned on the East-West trade corridor—continues to offer logistical advantages to serve both global and African markets. The zone benefits from public-sector investments that have helped build its infrastructure, and it has developed specialised support services aimed at export-oriented industries. These strengths align well with the original

⁴² William Gumede. (2023). Leveraging Special Economic Zones for Growth (December 2023) Inclusive Society Institute.

⁴³ Yang Chongsheng. (2024). 'SEZ Development in South Africa: A Case Study of Coega' in Guang Yang, Jing Zhang, Lanyu Liu and Xinghan Xiong (eds) *Countries and Regions: Dynamic Interconnectivity* (Palgrave Macmillan 2024) 303 – 352.

⁴⁴ William Gumede. (2023). Leveraging Special Economic Zones for Growth (December 2023) Inclusive Society Institute.

mandate of the Special Economic Zones Act, designed to drive industrial diversification and export growth. However, despite these strengths, the Coega SEZ currently faces several challenges that hinder its full potential as a world-class FDI destination. In addition to the challenges discussed in section 2.3 above, some of the key challenges are detailed in the section below with a view to offer some recommendations to enhance the Coega SEZ FDI and economic growth:

Infrastructure and Energy Reliability

The success of export-driven industrial activities is increasingly dependent on robust and reliable infrastructure. While Coega has made strides in developing port facilities and transport links, ongoing issues with energy supply and power grid reliability remain a concern. Load-shedding and energy supply disruptions—stemming from broader national challenges with Eskom—compromise production continuity and deter investment. In addition, the Eastern Cape Province is reliant on the import of power from other provinces and hence constrained by the availability and stability of electricity supply.⁴⁵

Frequent power interruptions and Eskom price hikes undermine business operations, while municipalities exacerbate the issue by imposing triple-digit markups to generate revenue. Inefficiencies, inconsistencies, and billing problems further strain industrial operations affecting South African SEZs. As a result, South African SEZs struggle to remain competitive compared to other regions, leading to reduced production volumes, fewer work shifts, potential plant closures, and job losses.⁴⁶

Over and above energy challenges, access to ports is another key factor – especially noting the export-oriented nature of the Coega SEZ. Having world class infrastructure at its disposal is among the key selling points for the Coega SEZ. In addition, Coega is the only SEZ on the African continent to be served by two ports i.e., the Port of Ngqura - designated South African hub for container traffic, and the Port of Gqeberha. This places the Coega SEZ in a favourable position to derive a competitive advantage. This is more so because, in addition to an efficient freight logistics system being crucial for economic growth, it is also important in the context of SEZs as it ensures the competitiveness of export sectors. This is pivotal given Coega’s posture as a traditional export processing zone.

While the two ports being at Coega’s disposal forms part of its key value proposition, the two ports have been marred by inefficiencies. For instance, the Port of Ngqura has fared unfavourably in comparison to other ports domestically and internationally. In the World Bank’s *The Container Port Performance Index 2023*⁴⁷, the Port of Ngqura was ranked the second worst performing port in terms of the amount of time vessels spend at the port while the Port of Gqeberha was ranked 391. Ngqura only outperformed the Port of Cape Town out of 405 ports assessed globally. The State-Owned Entity responsible for ports, Transnet, has challenged these rankings as it claims they were conducted based on inaccurate data. Even though that is the case, the report is indicative of the prevailing challenges at the ports.

The current reforms aimed at improving efficiency of South African ports as part of the **Operation Vulindlela** initiative – mostly through the reconfiguration of the policy framework that governs the ownership, regulation and

⁴⁵ CES. (2023). CDC Gas to Power Infrastructure – Environmental Impact Assessment Report. Prepared for Coega Development Corporation (CDC).

⁴⁶ DTIC. (2018). Industrial Policy Action Plan: Economic sectors, employment and infrastructure development cluster 2018/19 - 2020/21. <https://www.thedtic.gov.za/wp-content/uploads/publication-IPAP.pdf> (Accessed 25 March 2025).

⁴⁷ World Bank. 2024. The Container Port Performance Index 2023 - A Comparable Assessment of Performance Based on Vessel Time in Port. <https://documents1.worldbank.org/curated/en/099060324114539683/pdf/P17583313892300871be641a5ea7b90e0e6.pdf>

operation of South African ports - offers an opportunity to improve the chronic inefficiencies that have characterised South African ports over the past decade. Significant strides have been made in this respect with the reestablishment the National Ports Authority as an independent subsidiary of Transnet, the White Paper on National Rail Policy being approved by Cabinet and the facilitation of third-party access to freight rail network.⁴⁸

Although some progress has been made, multiple experts and government reviews suggest that further reforms in asset management practices could unlock considerable efficiency gains and reduce operating costs. This could involve streamlining processes and introducing advanced technology for real-time monitoring. For example, reports from the Transnet National Ports Authority emphasise the importance of modernising management systems at the port, while studies on the Coega SEZ highlight that more flexible and innovative asset management strategies could yield both cost savings and operational improvements.

Recent analyses indicate that maintaining the privatisation and efficient operation of key infrastructure—like the Port of Ngqura—is crucial for enhancing South Africa’s economic competitiveness. Only a few countries, such as the UK and New Zealand, have implemented a fully privatised port governance system, including the privatisation of port land.

In other cases, privatisation is commonly used as a term for the long-lived transfer of management rights of ports to private entities by selling the (corporatised) public governing port authority to a private company.⁴⁹ This is another option premised on fostering public–private partnerships to optimise the management of port assets. A classic example of this is the success story of the Aqaba SEZ in Jordan as discussed above. The Aqaba Development Corporation (ADC), which is a government-owned entity that owns the ports – among others, has implemented a successful PPP approach. Its key facilities such as the Aqaba Container Terminal, Aqaba Air Cargo Terminal and Aqaba Port Marine Services Company are developed and operated through either the Build-Operate-Transfer (BOT) model or Joint Ventures.⁵⁰

Regulatory Environment, Incentive Framework and Regulatory Sandboxes

The Coega SEZ was established with a robust policy framework aimed at attracting investment and promoting industrialisation. However, to maintain its global competitiveness, there is a recognised need to continually update and refine its incentive structures. This includes considering innovative regulatory approaches, such as implementing a "**sandbox**" model, to test and optimise policies like export subsidies and tax incentives.

The concept of regulatory sandboxes, while at the time not referred to as such, was introduced by the US Consumer Financial Protection Bureau (CFPB) in late 2012 through *Project Catalyst*.⁵¹ The idea was to foster competition and innovation in the financial and services market – especially during the rise of FinTech.⁵² A

⁴⁸ Operation Vulindlela. 2022. Progress Update – 2022| Q1 Report.

<https://www.stateofthenation.gov.za/assets/downloads/OperationVulindlelaProgressUpdateQ12022.pdf>.

⁴⁹ Theo Notteboom, Athanasios Pallis, and Jean-Paul Rodrigue. (2022). Port Economics, Management and Policy (Routledge London 2022) 281.

⁵⁰ Aqaba Development Corporation (ADC). 2025. ADC’s Public Private Partnerships. <https://www.adc.jo/Partnerships.aspx>.

⁵¹ Consumer Financial Protection Bureau (CFPB). 2012. CFPB Launches Project Catalyst to Spur Consumer-Friendly Innovation. [CFPB Launches Project Catalyst to Spur Consumer-Friendly Innovation | Consumer Financial Protection Bureau](#).

⁵² Butor-Keler, A., & Polasik, M.(2020). The role of regulatory sandboxes in the development of innovations on the financial services market: the case of the United Kingdom. *Ekonomia i Prawo. Economics and Law*, 19(4): 621–638. doi:10.12775/EiP.2020.041.

dedicated market environment was created to foster safe and intensive development of innovative products. That dedicated market environment was a regulatory sandbox.

A **regulatory sandbox** is a controlled environment that allows businesses to experiment with new products, services, or policies under regulatory supervision, without immediately adhering to all standard regulations. Regulatory sandboxes can essentially be seen as limited regulatory waivers.⁵³ This approach enables iterative testing and refinement, ensuring that initiatives like export subsidies and tax breaks are effective and align with international benchmarks. For example, the United Arab Emirates has successfully implemented regulatory sandboxes to foster innovation within a supervised framework.⁵⁴

Regulatory sandboxes are a concept that is also present in the South African context. For instance, the Intergovernmental Fintech Working Group (IFWG) has launched a regulatory sandbox to provide a safe space for experimentation in the financial sector. This initiative allows innovators to test new products and services that push the boundaries of existing legislation and regulation responsibly, under the supervision of relevant regulators.⁵⁵ Similarly, the Western Cape government has developed a business case for the development of a sandbox for drones and Unmanned Aerial Vehicles (UAVs) as emerging technologies and advances in innovation.

There are several SEZs in which the regulatory sandboxes approach has been employed. The Dubai International Financial Centre (DIFC) is a classic example of such. The DFIC, unlike the rest of the United Arab Emirates, adopted a common law framework, an independent judicial system and an independent regulator.⁵⁶ The DFIC also regularly employs sandboxes for new technological developments and financial products.

Even though the DFIC serves as a prime example of SEZs serving as sandboxes, it is mostly focused on financial products. More often than not, the regulatory sandboxes are created for the FinTech industry and sectors that anchored in emerging technologies. What this underscores is that regulatory sandboxes are seen pivotal in advancing innovation.

SEZs also plays a pivotal role in promoting innovation and expanding new research fields.⁵⁷ This is, however, more so in high-tech SEZs compared to economic and technological SEZs. With the Coega SEZ focused mainly on South Africa's priority economic sectors that offer opportunities for innovation, the regulatory sandbox approach could be crucial in the Coega SEZ.

Applying a sandbox approach within the Coega SEZ could facilitate the testing of various incentives and policies, ensuring that factor costs—such as electricity, water, and labour—are competitive on a global scale. For instance, these could include relaxed visa regime for skilled workers and managers, waivers for sectoral minimum wages and the introduction of duty-free imports rather than the current rebate regime for instance.⁵⁸ This is especially the

⁵³ Attrey, A., M. Leshner and C. Lomax. 2020. "The role of sandboxes in promoting flexibility and innovation in the digital age", OECD Going Digital Toolkit Notes, No. 2, OECD Publishing, Paris, <https://doi.org/10.1787/cdf5ed45-en>.

⁵⁴ Wealth Tribune. (2024). Regulatory Sandboxes: How Special Economic Zones Are Pioneering Tech-Friendly Policies. <https://wealthtribune.com/regulatory-sandboxes-how-special-economic-zones-are-pioneering-tech-friendly-policies/>. (Accessed 25 March 2025)., See also [Regulatory sandboxes in the UAE | The Official Portal of the UAE Government](#).

⁵⁵ Intergovernmental Fintech Working Group (IFWG). (n.d). Regulatory Sandbox. https://www.ifwg.co.za/Pages/IFWG_Regulatory_Sandbox.aspx. (Accessed 25 March 2025).

⁵⁶ World Finance. 2020. Dubai International Financial Centre has been a catalyst for development in the Gulf region. [Dubai International Financial Centre has been a catalyst for development in the Gulf region | World Finance](#)

⁵⁷ Min Wu, M., Liu, C and Huang, J. 2021. "The special economic zones and innovation: Evidence from China", China Economic Quarterly International, Vol.1(4). pp.319 – 330.

⁵⁸ CDE. 2025. MEDIA RELEASE | Let the private sector run our Special Economic Zones. <https://cde.org.za/media-release-let-the-private-sector-run-our-special-economic->

case for the manufacturing sector given there has been a trend of an increase in wages without a corresponding rise in productivity – one of the contributory factors to the sector’s dismal performance.⁵⁹ As such, sectoral wage subsidies are also a consideration. A starting point would be to reassess the current structure of the Employment Tax Incentive (ETI) introduced in 2014. While the ETI has shown to have a positive impact on job creation, its effects tend to be less significant in its second year.⁶⁰

Even though this is the case, research has generally indicated that firms within SEZs – particularly Export Processing Zones (EPZs) – paid higher salaries than those located outside of EPZs.⁶¹ The development of SEZs also tend to lead to more formalised employment – indicating positive spillover effects of SEZs. The positive impact on wages for employees within SEZs is particularly prevalent among the skilled and educated workforce.⁶²

Private Sector Participation and a Regulatory Sandbox for Coega SEZ

A controlled and fully deregulated regulatory sandbox framework, as outlined in section 3.2 above, should be established to test and refine policy incentives, ensuring Coega remains globally competitive. The exceptional nature of an SEZ lies in the absence of regulations and administrative processes found in the main economy, complemented by incentives. As a consequence, for Coega to realise its full potential, a regulatory sandbox should be established inside the SEZ coupled with a more active role for the private sector in the operations of the zone.

Firstly, Coega should be exempt from the operations of organised labour in the form of collective sectoral bargaining councils. Secondly, the Labour Relations Act of 1998 should not apply within the SEZ especially in relation to the statute’s rigidity around dismissals. Thirdly, the National Minimum wage should not be implemented within Coega, in cases where its applied it must be subsidised by the government to enhance firm competitiveness.

The ETI must be extended to more than 2 years inside the SEZ to augment companies’ efforts to pay wages while remaining competitive in the export market. Safe and healthy working conditions as enshrined in the Basic Conditions of Employment Act should still be applied. The Immigration Act should not be applied insofar as it creates barriers for firms to bring foreign labourer that may have skills currently not designated in the critical skills list. This would be persons that have gained experience working in manufacturing in countries such as Vietnam, Bangladesh and Thailand. These highlighted because they have had high productive levels at lower wages. They would therefore be able to provide the requisite experience while transferring their skills to South Africans.

Furthermore, the current operating model of Coega – different spheres on government being involved in its operation – is not sustainable. The state spends lot of money running what is essentially the real estate aspect of the SEZ. In addition, government running the SEZ creates a conflict of interest as it becomes both a regulator,

[zones/#:~:text=A%20new%20report%20by%20the%20Centre%20for%20Development,instruments%20that%20drive%20new%20investment%20and%20create%20jobs.](#)

⁵⁹ Williams, G., Cunningham, S and De Beer, D. 2014. “Advanced Manufacturing and Jobs in South Africa: An Examination of Perceptions and Trends”, Paper presented at the International Conference on Manufacturing-Led Growth for Employment and Equality, Johannesburg, 20 & 21 May 2014.
https://www.tips.org.za/files/advanced_manufacturing_and_jobs_in_south_africa_140301_williams_cunningham_de_beer_0.pdf.

⁶⁰ Bhorat, H et al.,. The Employment Tax Incentive Scheme in South Africa: An Impact Assessment.
https://africaportal.org/wp-content/uploads/2023/05/The_employment_tax_incentive_scheme-1.pdf.

⁶¹ Cirera, X and Lakshman, R, W, D. 2017. “The impact of export processing zones on employment, wages and labour conditions in developing countries: systematic review”, *Journal of Development Effectiveness*, Vol.9(2). pp. 1 – 17.

⁶² Owusu et al., 2025. “Special Economic Zones (SEZ) Wage Premium Hypothesis: An Unconditional Quantile Regression and Decomposition Approach”, *Journal of Interdisciplinary Economics*. DOI: 10.1177/02601079251314229.

developer and operator. This model should be replaced by one in which government pays the private sector to run and manage the SEZ.

The government could partner with the private sector at the early stages to assist with costs as an SEZ takes a much longer time to start generating profits. There is already a model of private sector involvement in an SEZ, with the Ford Motor Company having contributed to the construction of the Tshwane Special Economic Zone. Relatedly, the boards managing the SEZs should be staffed by persons with a business and entrepreneurial background, which is currently not the case.

Lessons from Vietnam, China and Mauritius

Box 2: Labour and wage dynamics in select countries

Vietnam

Vietnam, the fastest growing developing economy in South Asia⁶³, is an example of positive SEZs. Through its over 300 SEZs, Vietnam has attracted significant FDI and has been firmly integrated into Global Value Chains (GVCs).⁶⁴ Most of these SEZs are Industrial Parks (IP) that focus on manufacturing and processing of goods. The country has become a hub for factory labour because of its skilled and affordable workforce⁶⁵ and is considered a beneficiary of a China+1 Strategy. As a result, the country's industrial sector – which encompasses manufacturing – is the second biggest contributor to the country's Gross Domestic Product (GDP) and the second largest employer.⁶⁶

The effects of the SEZs on wages are visible with wages being generally higher in major industrial zones like Hanoi, Ho Chi Minh City, and Bac Ninh compared to rural areas.⁶⁷ For instance, as of 1 July 2024, the minimum wage in Vietnam is set at VDN 4,960,000 (\$195) per month or VDN 25,306 (\$0.99) per hour in the major industrial zones (Region 1) while set at VDN 3,450,000 (\$136) per month or VDN 17,602 (\$0.69) per hour in least developed areas (Region 4).⁶⁸ In terms of wages in the manufacturing sector, they tend to be higher compared to the national minimum wage. While this is the case, an estimated 20 – 50% of the total remuneration of employees in the manufacturing sector is for overtime.⁶⁹

China

China remains a model of how to use SEZs to integrate a country into the global economy. It was through its EPZs that the country transformed from light manufacturing to high value-added manufacturing. The manufacturing sector accounts for an estimated 26% of the country's value add in its GDP.⁷⁰ As it stands, more than half of those employed in EPZs globally

⁶³ The World Bank Group. 2025. Taking Stock: Electrifying Journeys - E-mobility Transition in Viet Nam.

<https://openknowledge.worldbank.org/server/api/core/bitstreams/9d53a06b-7302-4f9b-b78d-fb3b45d26caf/content>

⁶⁴ Tafese, T., Lay, J and Tran, V. 2025. "From fields to factories: Special economic zones, foreign direct investment, and labour markets in Vietnam", *Journal of Development Economics*, Vol.174.

⁶⁵ Asia Fund Managers. 2024. Vietnam Economy. <https://asiafundmanagers.com/vietnam-economy/#:~:text=Vietnam%E2%80%99s%20economy%20is%20anchored%20by%20three%20primary%20sectors%3A,in%202023%2C%20according%20to%20data%20from%20the%20government.>

⁶⁶ Ibid.

⁶⁷ Vietnam Manpower. 2024. Vietnam Factory Worker Salary: Insights and Global Comparisons.

<https://vietnammanpower.info.vn/news/vietnam-factory-worker-salary-insights-and-global-comparisons/>.

⁶⁸ The-Siv. 2025. Average Salary in Vietnam 2025: Insights, Trends, and Sector Breakdown. <https://the-shiv.com/average-salary-in-vietnam/>.

⁶⁹ Chi, D et al., 2022. Living Wage Report: Minimum Wage Region 2, Vietnam. https://www.globallivingwage.org/wp-content/uploads/2023/12/Minimum-Wage-Region-2-Vietnam_181223.pdf.

⁷⁰ Huld, An and Zhou, Q. 2025. China Manufacturing Tracker 2025. <https://www.china-briefing.com/news/china-manufacturing-industry-tracker-2024-25/>.

are employed in Chinese EPZs.⁷¹ Despite this, the manufacturing sector wages tend to be relatively lower than average city wages in China.⁷²

Table 1: Minimum, Average and Manufacturing Wages - The Chase of China⁷³

Indicator	Data	Period
Minimum Wages	2590 CNY/Month 354.795 USD/Month	2023
Wages	114029 CNY/Year 1301.701 USD/Month	2022
Wages in Manufacturing	97528 CNY/Year 1113.333 USD/Month	2022

Mauritius

Boasting Africa's most successful SEZs, Mauritius has successfully utilised SEZs to advanced its export-led industrialisation strategy. Mauritius established its first SEZ in 1970, and by 1988 SEZs were responsible for 85% of the country's manufacturing employment – which translated into 31% of the country's total employment and 12% of its GDP. Wages within EPZs are generally higher than wages outside the EPZs.⁷⁴ This is in part due to the rise in wages within EPZs in the past few decades – with wages within EPZs more than doubling between 1992 and 2004.⁷⁵ This also outstrips the national minimum wage which currently stands at Rs 17,110 (\$373) in 2025.

The wages in the manufacturing sector (which EPZs extensively contribute) have also increased by 54.4% based on the wage rate index which uses Q4 of 2016 as base.⁷⁶ There has, however, been a notable divergence between a real wages and productivity in Export Oriented Enterprises (EOEs). This divergence has been coupled with a sharp decline in real exports of goods by EOEs – signalling a loss of competitiveness.⁷⁷

Moreover, there have been calls for the DTIC to revise SEZ tax incentives to better attract investments. For instance, concerns have been raised about the limited duration of tax benefits and procurement restrictions within SEZs including Coega, suggesting a need for more flexible and competitive incentive structures.⁷⁸ The current **SEZ policy review** initiated by the DTIC offers an opportunity to reconfigure incentive structures and regulations.

By adopting a regulatory sandbox approach, the Coega SEZ can experiment with and refine its policies in a controlled setting, allowing for the development of an optimal incentive framework that meets the evolving needs of investors and aligns with international standards. This iterative process would allow for the adjustment of strategies based on real-world outcomes, thereby enhancing the SEZ's attractiveness to investors.

⁷¹ Braga, H., Gouvea, R., & Gutierrez, M. (2023). Brazilian Export Processing Zones & Green Powershoring: Challenges & Opportunities. *Modern Economy*, Vol.14. pp. 1366 – 1392. <https://doi.org/10.4236/me.2023.1410070>.

⁷² Huang, Y., Loungani, P and Wang, G. 2014. Minimum Wages and Firm Employment: Evidence from China. <https://www.imf.org/external/pubs/ft/wp/2014/wp14184.pdf>.

⁷³ Take-Profit.Org. 2024. China Wages: Minimum and Average. <https://take-profit.org/en/statistics/wages/china/>.

⁷⁴ Zafar, A. 2011. "Mauritius: An Economic Success Story," in *Yes Africa can: Success Stories from a Dynamic Continent*. World Bank, Washington, D.C.

⁷⁵ Baissac, C. 2011. "Planned Obsolescence? Export Processing Zones and Structural Reform in Mauritius", in (eds) Farole, T and Akinci, G. *Special Economic Zones Progress, Emerging Challenges, and Future Directions*. <https://openknowledge.worldbank.org/server/api/core/bitstreams/90c2d4e4-399e-5e8f-bddf-ca6ab344ea18/content>.

⁷⁶ Trading Economics. 2025. Mauritius Wages In Manufacturing. <https://tradingeconomics.com/mauritius/wages-in-manufacturing#:~:text=Wages%20in%20Manufacturing%20in%20Mauritius%20increased%20to%20154.40,152.10%20points%20in%20the%20third%20quarter%20of%202024>.

⁷⁷ IMF. 2019. Unlocking Structural Transformation in Mauritius: Challenges and Opportunities. <https://www.elibrary.imf.org/downloadpdf/view/journals/002/2019/109/article-A002-en.pdf>.

⁷⁸ Adele Mackenzie. (2019). Call for dti to revise SEZ tax incentives. <https://www.freightnews.co.za/article/call-dti-revise-sez-tax-incentives>. (Accessed 26 March 2025).

This is especially applicable to emerging sectors such as the Cannabis sector. Such a regulatory sandboxes could prove pivotal given the R1 billion investment pledge signed by Medigrow (A network of cannabis growers in South Africa) to develop a cannabis processing hub in the Coega SEZ.⁷⁹ A regulatory sandbox would prove pivotal in this instance given the policy uncertainty in the cannabis sector. This is especially the case given that regulatory experimentation has been the cornerstone of SEZs.

Box 3: Some of the common and successful regulatory incentives in global SEZs

Mauritius

There are several incentives given to SEZs across the globe. As the African model for SEZs, Mauritius offered competitive incentives. When it passed the Export Processing Zone Act in 1971 – the Zones were conceived as not merely physical locations, but a fiscal regime.⁸⁰ Firms which were part of the EPZs – particularly bonded firms - were not confined to any specific location, but could be located anywhere best suited for their needs.⁸¹ The suite of incentives incorporated into the EPZ Act and other legislative instruments – some of which were as a result of later reforms - included the following:

- Protective import duties and quotas for infant industries,
- Suspension of import duties on materials and equipment for industrial use that were not locally available,
- Rebates of import duties on other raw materials and components for specified industries,
- Duty drawback schemes, and
- Favourable long-term loans/preferential financing schemes.
- Profits and dividends may be freely repatriated, capital brought into Mauritius (excluding capital appreciation, which is subject to exchange control and the regular rate of stamp duty) may be freely taken out,⁸²
- Corporate Income Tax (CIT) of 3% for first 8 years of operation, thereafter a 15% CIT rate is applicable,
- Agreements/treaties to avoid double taxation avoidance were also put in place,
- Higher investment tax credit to mobilize resources from small savers,
- Export Credit Guarantee and Export Credit Insurance schemes to protect exporters from excessive risks,
- Freight rebate scheme, Trade Promotion & Marketing Scheme and Preferential Port & Handling Charges.

In addition to this, exporters were later given fiscal incentives on power/electricity, water and building materials – subsequently making rates similar to global competitors.⁸³ These incentives were also augmented by abundance of relatively cheap labour.

China

China's first SEZ, the Shenzhen SEZ, offers a suite of incentives. The following are among the incentives offered:

- Preferential Individual Income Tax (IIT) Subsidy – to attract much-needed foreign skills/talent,
- Corporate Income Tax (CIT) of 15% for firms generating at least 60% of their revenue from encouraged industries – this is applicable to revenue generated from within the zone,
- EOE's exporting 70% or more of their industrial output qualify for a 10% CIT after the expiration of their tax exemption and reduction period.

⁷⁹ Cannabiz Africa. 2024. Give Us the 'Sandbox' Already! Premier's Urgent Plea to Enable Medigrow's Multi-Million Rand Coega Cannabis Investment. <https://www.cannabiz-africa.com/news-4/give-us-the-%E2%80%98sandbox-already!-premier%E2%80%99s-urgent-plea-to-enable-medigrow%E2%80%99s-multi-million-rand-coega-cannabis-investment>.

⁸⁰ Zafar, A. 2011. "Mauritius: An Economic Success Story," in Yes Africa can: Success Stories from a Dynamic Continent. World Bank, Washington, D.C.

⁸¹ Bheenic, R and Schapiro, M, O. 1991. "The Mauritian Export Processing Zone", *Public Administration and Development*, Vol.11. pp. 263 – 267.

⁸² Alter, R. 1991. "Lessons from the Export Processing Zone in Mauritius", *Finance & Development*, December 1991.

⁸³ William Gumede. (2023). Leveraging Special Economic Zones for Growth (December 2023) Inclusive Society Institute.

- Subsidies to firms headquartering in Shenzhen,
- Foreign investment incentives (foreign firms making significant investments in Shenzhen qualify for a 1 – 3% of the invested amount as an incentive),
- R&D Expense Deductions (firms can deduct R&D expenditure before calculating CIT),
- New firms in high-tech sectors are exempt from CIT in their first 2 years – followed by a 3-year 50% reduction,
- Fresh graduate recruitment incentive and graduate youth subsidies for 3 years,
- First time employment subsidy i.e., firms are incentivised once-off for hiring individuals being employed for the first time, and
- Export tax rebate – which can be applied for immediately after the container leaves the port. This has reduced the tax rebate process by an estimated 15 days – boosting cash flow for firms.

UAE/Dubai

As one of the successful SEZs in the UAE, the DMCC offers some of the following incentives⁸⁴:

- A 0% 50-year guarantee on both CIT and Personal Income Tax (PIT),
- Firms are allowed to have a 100% business ownership,
- Firms are allowed to have full ownership of the business premises,
- Import and Export duty exemptions,
- Full Repatriation of Profits and Capital,

The incentives offered at the DMCC are supplemented by world-class infrastructure and simplified business regulations. The DMCC also offers dedicated support to assist in navigating the regulatory landscape and optimising operations.

Industrial Agglomeration and Supply Chain Integration

Although Coega has been successful in attracting investments in individual sectors, its development of fully integrated industrial clusters or complete supply chains has been limited. This gap is highlighted by the experience at Coega, where attempts at vertical integration have at times faltered due to insufficient coordination among government bodies, private investors, and industry players.⁸⁵

In contrast, international examples such as Shenzhen demonstrate that strong government support, proactive public–private partnerships, and a deliberate focus on creating dense, interconnected industry clusters can drive significant agglomeration benefits. For example, research on China’s SEZs and industrial clusters outlines how coordinated efforts led to successful integrated clusters in cities like Shenzhen, making them a model for economic transformation.⁸⁶

Similarly, recent reports from Vietnam indicate that their policymakers are actively learning from **Shenzhen’s integrated cluster model**. Vietnamese government officials have expressed the need to adopt coordinated

⁸⁴ Zawya. 2013. “Dubai Multi Commodities Centre’s Ahmed Bin Sulayem announces plans to build the world’s tallest commercial tower”, Press Release. <https://www.zawya.com/en/press-release/dubai-multi-commodities-centres-ahmed-bin-sulayem-announces-plans-to-build-the-worlds-tallest-commercial-tower-vm0h74tw>.

⁸⁵ Thibault Serlet. (2022). When vertical integration fails: a cautionary tale from the Coega IDZ. (FDI Intelligence, October 2022). <https://www.fdiintelligence.com/content/b303943a-ae38-5bb1-bf31-ddb7e89543d3>. (Accessed 26 March 2025).

⁸⁶ Douglas Zhihua Zeng. 2012. “China’s Special Economic Zones and Industrial Clusters: The Engines for Growth”, Journal of International Commerce Economics and Policy, Vol.3(3).

policies that foster linkages between different industrial players, which further supports the argument for a more collaborative approach to achieve agglomeration benefits.⁸⁷

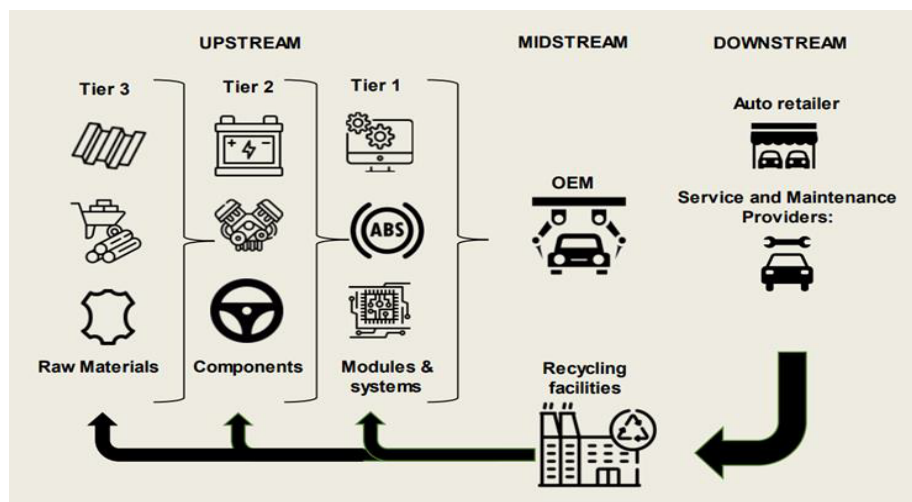
Recent data indicate that Shenzhen is overwhelmingly driven by its private sector—with around 2.623 million private enterprises in 2024. These firms represent nearly 97% of the total business landscape. Moreover, the private economy is a vital force behind the city's growth, contributing roughly 40% of fixed asset investments, 50% of GDP, 60% of foreign trade, 70% of tax revenues, and 80% of its technological advancements.⁸⁸

Getting an integrated cluster model in South Africa’s automotive industry

The automotive supply chain – divided across different segments - comprises a complex network of firms in different sectors and of different sizes. The firms are responsible for the production of a diverse range of goods and the provision of various services. These firms operate across different tiers – from the production of basic inputs to the production of advanced systems.⁸⁹

As depicted in Figure 7 below, tier 3 encompasses firms involved in the provision of raw material or simple parts. The raw materials typically include steel, aluminium, chemicals and rubbers. Tier 3 can supply to tier 2 suppliers or even directly to tier 1 suppliers. On the other hand, tier 2 is component manufacturers – typically of parts and components used by tier 1 suppliers. Tier 1 is firms that work directly with OEMs, provide major parts, multicomponent and advanced systems.⁹⁰ Tier 1 firms are at times, also referred to as Original Equipment Manufacturers (OEMs). This is because these suppliers design, engineer and manufacture the major parts and advanced systems themselves. However, the traditional understanding of OEMs is the vehicle manufacturers.

Figure 4: The Automotive Value Chain⁹¹



⁸⁷ Shenzhen Daily. (2025). Vietnamese deputy Prime Minister visits Shenzhen for insights (Updated 20 March 2025). https://www.sz.gov.cn/en_szgov/news/latest/content/post_12080679.html. (Accessed 26 March 2025).

⁸⁸ Shenzhen Daily. (2025). Vietnamese deputy Prime Minister visits Shenzhen for insights (Updated 20 March 2025). https://www.sz.gov.cn/en_szgov/news/latest/content/post_12080679.html. (Accessed 26 March 2025).

⁸⁹ OECD (2024), “The future of the automotive value chain: Implications for FDI-SME linkages”, OECD SME and Entrepreneurship Papers, No. 64, OECD Publishing, Paris, <https://doi.org/10.1787/cb730d65-en>.

⁹⁰ Stamped Products Incorporated. n.d. The Difference Between Tier 1 and Tier 2 Automotive Manufacturers in the Supply Chain. <https://spi-al.com/the-difference-between-tier-1-and-tier-2-automotive-manufacturers-in-the-supply-chain/>.

⁹¹ OECD (2024), “The future of the automotive value chain: Implications for FDI-SME linkages”, OECD SME and Entrepreneurship Papers, No. 64, OECD Publishing, Paris, <https://doi.org/10.1787/cb730d65-en>.

In the South African context, the automotive value chain is driven mainly by seven light vehicle OEMs – BMW, Ford, Isuzu, Mercedes-Benz, Nissan, Toyota and Volkswagen.⁹² In addition to this, a number of heavy commercial vehicles and bus manufactures assemble their vehicles in South Africa – Semi-Knocked-Down (SKD) assembly operations to be precise. There also are an estimated 500 automotive component suppliers – of which about 180 are tier 1 suppliers.⁹³

Despite this, South Africa is considered as second tier player in the global automotive industry – with four of the seven OEMs being in their second tier of their parent company.⁹⁴ Even though that is the case, there are several factors in South Africa's favour in terms of improving its standing in the global automotive industry. First – as already mentioned, there is an established presence of OEMs in the country. Second, the vehicle production activities present in the country exhibit the country's production capability – both in vehicle production and component product categories.⁹⁵ Third, the country has a good industrial infrastructure – albeit with challenges. Last, there is appetite from OEMs to invest capital in the expansion of existing production activities – as exhibited by Ford in the Tshwane Automotive SEZ (TASEZ).

In fact, the TASEZ is an exemplary case of integrated clustering in the South African case. There are currently three OEMs in the Tshwane area – Ford, Nissan and BMW. With the TASEZ, the idea is to create an auto city that is anchored in integrated clustering. SEZs are a good way of forging industrial clustering – particularly in the case of a shared value chain.

With Ford as the anchor tenant as an OEM, the TASEZ currently host several automotive component manufacturers. Entities that specialise in automotive metal forming to plastic injection moulding and automotive accessories among others. Even though the current cohort of tenants does not cover the entire automotive value chain, the TASEZ currently serves as a strong foundation to foster automotive industrial clustering.

Multiple factors can create a conducive environment for attracting investments from all aspects of the automotive value chain. For integrated automotive industrial clustering to take shape and value chain integration, incentives must be policy-driven i.e., incentive policy must be geared towards attracting investments from specific, niche activities within the industry – or offer differentiated incentives between certain activities within the industry.⁹⁶ This can help in driving value of the local automotive industry as more elusive or absent value adding activities within the SEZ are attracted. One example could be entities that are at the forefront of Research and Development activities in the automotive industry.

This is even more important given that, besides tax incentives, most of the incentives are centred on production volumes rather than value addition in the value chain. Also, the current structure of the DTIC's incentive schemes have been slated for making capital cheaper and inadvertently encouraging the replacement of labour with

⁹² NAAMSA. 2022. SA AUTOMOTIVE INDUSTRY: STRUCTURE.

https://www.naamsa.co.za/papers/Manufacturer_and_Importers_Location.pdf.

⁹³ Invest SA. n.d. Automotive and Components. <https://www.investsa.gov.za/key-sectors/automotive-and-components/>.

⁹⁴ DTIC. 2018. South Africa's Automotive Industry Master Plan to 2035. https://www.thedtic.gov.za/wp-content/uploads/Masterplan-Automotive_Industry.pdf.

⁹⁵ Ibid.

⁹⁶ Naeem, S., Waheed, A., & Khan, M. N. (2020). "Drivers and Barriers for Successful Special Economic Zones (SEZs): Case of SEZs under China Pakistan Economic Corridor", *Sustainability*, Vol.12(11), 4675. <https://doi.org/10.3390/su12114675>.

machinery.⁹⁷ As a result, the average capital intensity of industries rise – limiting opportunities for the unskilled and semi-skilled labour force. The incentive structure requires a rethink.

Second, customised and specialised skills development and training to upskill the local workforce in the vicinity of the zones is an imperative.⁹⁸ This is even more important as deficient employee skills are noted as one of South Africa's automotive industry's weaknesses.⁹⁹ Third, there should development of world class automotive-specific infrastructure, especially in the context of evolving automotive industry requirements. To achieve this, PPPs and joint ventures should be considered in the development and management of the TASEZ. In addition of the likely success that these arrangements are likely to bring based on global experience, they are also likely to foster technology transfers. Fourth, there is a need to fix prevailing weaknesses in the transport and logistics infrastructure – particularly the rail and ports challenges. The block exemptions granted gazetted on 8 May 2025 that allow for collaboration for companies operating in the transportation infrastructure, logistics or related industries¹⁰⁰ - together with the efforts made in improving port operations and strengthening Transnet - signal an intention by government to address these weaknesses.

Prospects and Strategic Opportunities

Looking ahead, there is significant potential for Coega to reposition itself as a premier export-oriented hub if these challenges are addressed. Embracing a comprehensive policy reform package that includes upgraded infrastructure, a flexible regulatory framework, targeted support for labour-intensive sectors, and strengthened private-sector partnerships can catalyse sustainable growth. Moreover, by leveraging the global trend of diversifying production away from China (the China+1 strategy), Coega can market itself as a cost-effective alternative destination for multinational firms seeking reliable export platforms.

Policy Considerations for Coega SEZ

Export-Oriented Growth Strategy

The Coega SEZ should be designated exclusively for export-oriented industries, incentivising global firms to establish operations in South Africa. This approach aligns with successful models such as China's Shenzhen SEZ, where export-driven policies catalysed rapid economic growth and turned the region into a key player in global trade.¹⁰¹ By prioritising sectors with strong export potential, the Coega SEZ could boost local industrialisation and foreign exchange earnings while fostering the development of local supply chains and strengthening linkages with international markets. Moreover, leveraging the African Continental Free Trade Area (AfCFTA) will be crucial, as it enhances regional trade and provides broader market access for African producers, further amplifying the economic benefits of an export-focused strategy.

⁹⁷ Centre for Development and Enterprise. 2012. Special Economic Zones: Lessons for South Africa from international evidence and local experience.

⁹⁸ Ibid.

⁹⁹ DTIC. 2018. South Africa's Automotive Industry Master Plan to 2035. <https://www.thedtic.gov.za/wp-content/uploads/Masterplan-Automotive-Industry.pdf>.

¹⁰⁰ Government Gazette, 08 May 2025 - No. 52624.

https://www.gov.za/sites/default/files/gcis_document/202505/52624gon6182.pdf

¹⁰¹ Jai S. Mah. (2008). Foreign Direct Investment Inflows and Economic Development: The Case of Shenzhen Special Economic Zone in China. *The Journal of World Investment & Trade* 320.

Textbox 2: Shenzhen SEZ Case Study

Shenzhen transformed into a leading economic hub through the strategic attraction of Foreign Direct Investment (FDI). Key points include:

FDI-Driven Growth: Shenzhen SEZ experienced a dramatic increase in FDI—from US\$28 million in 1980 to billions by the mid-2000s—which fuelled exponential economic growth and a marked increase in per capita income.

Regulatory Reforms: Following China’s economic reforms in 1979, the government introduced clear legal frameworks and incentives that enabled foreign investors to enter the market. This included establishing specialized zones with favourable policies and streamlined administrative procedures.

Infrastructure and Export Orientation: The development of high-quality infrastructure supported efficient logistics and connectivity, making Shenzhen an attractive location for export-oriented industries. This focus on exports significantly boosted the region’s role in global trade, increasing the manufactured exports share dramatically over time.

Evolution of Policy: The success of Shenzhen SEZ was not static but evolved with continuous policy adjustments. The adaptive approach allowed the zone to meet changing economic conditions and further enhance its attractiveness to investors.

Overall, Shenzhen’s SEZ policies created an environment conducive to rapid industrialisation and economic development, underscoring the critical role of FDI and proactive government measures.

Targeting Labour-Intensive Sectors and Assessing South Africa’s Comparative Advantage

The success of the Coega SEZ depends on effectively targeting labour-intensive sectors where South Africa holds a comparative advantage. Insights from the **Atlas of Economic Complexity**, developed by Harvard’s Professor Ricardo Hausmann, highlight South Africa’s export strengths in minerals, machinery, and manufacturing.¹⁰² To maximise economic and employment benefits, investment strategies should prioritise sectors with high labour absorption, such as automotive manufacturing, agro-processing, and textiles. These industries not only have strong export potential but also align with South Africa’s existing industrial capabilities, offering a pathway for large-scale job creation and economic diversification.

Comparative advantage is a critical factor in SEZ development, as it allows countries to specialise in sectors where they are most competitive.¹⁰³ The **Revealed Comparative Advantage (RCA) framework** provides valuable insights into South Africa’s global competitiveness, helping policymakers align SEZ policies with the nation’s industrial strengths. By leveraging South Africa’s rich natural resources, skilled workforce, and expanding manufacturing base, Coega SEZ can position itself as a key player in global trade.

Additionally, the AfCFTA presents a strategic opportunity to enhance market access, enabling Coega-based industries to expand their footprint across Africa. To fully realise this potential, collaboration between the public and private sectors is essential ensuring that Coega SEZ fosters innovation, infrastructure investment, and value chain integration, ultimately driving industrial growth and long-term economic sustainability.

¹⁰² Growth Lab. 2024. South Africa. <https://atlas.hks.harvard.edu/countries/710>.

¹⁰³ Isah Ibrahim Danja and Xingping Wang. (2024). Matching comparative advantages to special economic zones for sustainable industrialization. *Heliyon* 10 (14) e3441.

Agglomeration and Supply Chain Integration

Encouraging clustering within SEZs by attracting entire supply chains of global firms enhances efficiency and competitiveness. In China, SEZs have been instrumental in forming industrial clusters that integrate core industries with their supply chains, achieving economies of scale and boosting business efficiency. These zones maintain strong connections with domestic companies via supply chains and are better integrated into international markets, given their strategic placement in regions with a history of foreign trade and access to major transportation hubs.¹⁰⁴

Vietnam has also leveraged supply chain agglomeration within its economic zones to enhance industrial synergies and reduce transaction costs. The country's strategic location along regional shipping routes and its proximity to China enhance its attractiveness for export-focused manufacturing and global supply chains. Key economic zones, robust infrastructure, and government initiatives contribute to Vietnam's growing role in global supply chains. Key economic zones, robust infrastructure, and government initiatives contribute to Vietnam's growing role in global supply chains.¹⁰⁵

To enhance the Coega SEZ's efficiency and competitiveness, it is recommended to further develop and strengthen industrial clusters by attracting entire supply chains of global firms. This approach can reduce transaction costs and enhance industrial synergies, as evidenced by the experiences of SEZs in China and Vietnam. Specifically, Coega should focus on integrating local SMMEs into these supply chains, thereby fostering local economic development and creating employment opportunities. Additionally, continuous evaluation and adaptation of policies to manage costs and risks effectively, as well as ensuring that infrastructure investments align with business interests, will be crucial for the sustainable growth of the SEZ.¹⁰⁶

Lessons from International SEZs

A comparative analysis of Shenzhen (China), Vietnam, and Ethiopia provides insights into best practices and policy instruments that could enhance Coega's success:

Shenzhen, China

Shenzhen's evolution into a global manufacturing and innovation hub is widely attributed to its strategic use of favourable tax incentives, liberalised trade policies, and substantial infrastructure investments. These policy instruments attracted massive inflows of FDI and enabled the rapid establishment of integrated industrial clusters, which significantly reduced transaction costs and fostered industrial synergies. As a result, Shenzhen transformed from a modest fishing village into a high-tech, export-oriented economic powerhouse in just a few decades. This experience underscores how proactive government policies and robust public investments can create an enabling environment for large-scale industrial development and supply chain integration.

Vietnam

Vietnam's Special Economic Zones have emerged as key drivers of the country's industrial growth by leveraging competitive wage structures, streamlined regulations, and strong integration into global value chains. The

¹⁰⁴ Vitaly Zakalskiy. (2024). Special Economic Zones Unveiled: Lessons from China's Success Story (Wheelerblog, 7 August 2024). <https://wheelerblog.london.edu/special-economic-zones-china/>. (Accessed 25 March 2025).

¹⁰⁵ Henrik Johansson. (n.d). Vietnam Supply Chain: Trends, Issues, and Opportunities (Gembah blog). <https://gembah.com/blog/vietnam-supply-chain/>. (Accessed 25 March 2025).

¹⁰⁶ European Cluster Collaboration Platform. (2020). Country factsheet: South Africa. <https://www.clustercollaboration.eu/sites/default/files/2021-12/eccp-factsheet-south-africa.pdf>. (Accessed 25 March 2025).

Vietnamese government's focus on simplifying regulatory processes and offering attractive incentives has enabled multinational companies to establish cost-efficient production bases within these zones. This policy framework not only attracted significant FDI but also helped Vietnam diversify its export portfolio and build competitive supply chain networks. The Vietnamese model highlights the importance of creating a business-friendly environment that reduces bureaucratic hurdles and fosters connectivity between local firms and global markets.

Box 4: Hai Phong Special Economic Zone case study

Hai Phong Special Economic Zone, Vietnam

Locational advantages

To understand the Hai Phong Special economic zone and its attendant success, it is important to have an appreciation of Vietnam as a country. This is because geography sometimes offers locational economic advantages. Vietnam is located at the centre of Southeast Asia and shares borders with the Pacific Ocean, Gulf of Thailand, Laos, Cambodia, and China. The country serves as a connectivity hub for the Asia-Pacific region and western countries of the Indochina Peninsula. Vietnam has 114 seaports, several of which are deepwater ports, along its over 3,200 kilometres of coastline. The country's strategic proximity to China, through both land and sea borders, has positioned Vietnam as a likely alternative manufacturing site, thereby minimizing disruptions or delays to existing supply chains.

The Hai Phong Special Economic Zone itself is located with the Northern Key Economic Region which covers seven provinces. The provinces covered by the Northern Key Economic region are Hanoi, Hai Phong, Quang Ninh, Vinh Phuc, Bac Ninh, Hai Dong and Hung Yen. The NKER is an important economic hub for the northern economy close to the Chinese border making the region the first alternative under the China+1 strategy. In terms of highly attractive sectors, the region is particularly recognized for its manufacturing, high-tech and environmental sectors, and is home to major brands such as Apple, Samsung, Microsoft, Canon, and Goertek Vina Science and Technology.

Human Capital

In 2025, Vietnam's population had reached a 100 million, which represents a significant milestone in attracting investment due to the availability of a well-educated, skilled, innovative, and creative workforce. In addition, Vietnam's has a working age population of over 68 million people.

Economic integration

Vietnam has bolstered its trade and investment position by ensuring that it is deeply embedded in both regional and the global economy. As a result, Hanoi has in the last thirty years signed 15 Free Trade Agreements and 80 Double Taxation Agreements.

Since 2018, Vietnam has signed several new-generation Free Trade Agreements including the Comprehensive and Progressive Trans-Pacific Partnership of 2024, European Union-Vietnam Free Trade Agreement of 2020, United Kingdom-Vietnam Free Trade Agreement of 2020, Regional Comprehensive Economic Partnership of 2022. These and other free trade agreements allow Vietnam to leverage reduced tariffs to attract foreign companies to manufacture in the country and export to partners overseas.

These free trade agreements coupled with special economic zones such as Hai Phong play a key role in attracting a growing number of foreign direct investments (FDI). In these zones, FDI can benefit from several advantages, including tax incentives (preferential rates and exemptions), import duty exemptions, beneficial land rent policies, and accelerated depreciation.

Hai Phong Special Economic Zone

Hai Phong is located about 120 kilometres east of the capital Hanoi. While Hai Phong is not only the biggest coastal city in the northern region of Vietnam it is one of the major economic centres of the nation. It is among five municipalities of Vietnam, along with Hanoi, Ho Chi Minh City, Can Tho, and Da Nang. It has an area of 1,527 square kilometres and a total population of 2.07 million people as of 2024 and is the seventh-most populated city in the country.

The Hai Phong Special Economic Zone is strategically situated on the edge of the Red River Delta and with proximity to the border with China and serves as a major trading hub. The SEZ is connected through five modes of transportation, including railways, roadways, airways, inland waterways and maritime. The Hai Phong SEZ has developed into a centre of large-scale manufacturing, industrial parks, and economic zones across Southeast Asia. The SEZ is located at the port and has become an important industrial hub for Vietnam with immense support from the government.

Due to the presence of the SEZ, Hai Phong has managed to maintain its position among the top two fastest gross regional domestic product (GRDP) growing localities in Vietnam. The average annual growth rate of Hai Phong in the 2020-2024 period was 15.26 percent, which is almost double that of the 2017-2020 period, and 2.9 times higher than the national average.

In 2024, Hai Phong ranked first nationwide in terms of GRDP growth rate, reaching approximately US\$13.58 billion, up 12.38 percent year on year. The SEZ has led to an industry growth of 20.7% in the Hai Phong City economy demonstrating the high levels of investment in the SEZ. As of 2024, Hai Phong was the sixth-largest recipient of FDI in Vietnam with a total registered investment capital of US\$24.15 billion. As of January 2025, the city has 12 industrial parks in operation, in which there were 420 FDI projects by foreign investors coming from 36 countries and territories. Most investors are from Japan, South Korea, China, the EU, the US, and Taiwan.

Some major projects include the LG Display project from South Korea (worth US\$5.84 billion), the Bridgestone tire plant from Japan (worth US\$1.2 billion), and Microsoft and Apple assembly partner – Pegatron electronics manufacturing plant from Taiwan (worth US\$481 million).

The Hai Phong Economic Zone Authority (HEZA) reports that the FDI projects in Hai Phong industrial parks and zones account for more than 60 percent of the city's industrial production and more than 70 percent of its export turnover.

Investments into the SEZ

In 2024, Hai Phong aimed to achieve between US\$2.5 – 3 billion in FDI, stated by the Head of the management board of HEZA. In the first five months of 2024, the total value of newly registered capital from 30 new projects and 19 existing projects, and capital contribution or share purchase by foreign investors reached US\$832.72 million. Most of the new foreign capital is invested in the manufacturing and processing industry.

The Hai Phong Economic Zone Authority authorities encourage foreign investments in the high-tech industry, seaports-logistics, and tourism-commerce as the three pillars of Hai Phong's economy. HEZA also aims to build 15 more new industrial parks with a total area of 6,418 hectares, in preparation for the new wave of foreign investment opportunities.

Government incentives in Hai Phong

Under the current law investors in Hai Phong enjoy the following incentives:

- Incentive tax rate of 10 percent within 15 years (calculated from the first year the enterprise has revenue from new investment projects)

- Tax exemption for 4 years, and reduction of 50 percent for the next 9 years (calculated from the date of taxable income from the new investment projects);
- Personal income tax: reduction of 50 percent for those who directly work in the economic zone; and
- Import-export tax, value-added tax, special consumption tax: tax exemption in non-tariff zones.

Preferential tax rates

- 10% for the lifetime of the entire project.
- 10% for 15 years from the first year of income generation.
- 17 % for the lifetime of the entire project.
- 17 % for 10 years from the first year of income generation.
- Tax holiday rates.
- Tax exemption for 4 years, 50% reduction of payable tax amounts for 9 subsequent years.
- Tax exemption for 4 years, 50% reduction of payable tax amounts for 5 subsequent years.
- Tax exemption for 2 years, 50% reduction of payable tax amount for 4 subsequent years.
- Exemption of import duties or tax on goods imported as fixed assets.
- Exemption of import duties on raw materials, supplies, and parts used for manufacturing purposes.

Hai Phong is a “mixed sector zones,” meaning that firms invested in the zone are engaged in a variety of different manufacturing activities rather than just one very specific activity. However, some manufacturing subsectors— such as electronics, machinery, food, mineral products, and textiles and apparel— are disproportionately represented in SEZ.

Hai Phong as a China+1 location

Because of its rapid development into a major manufacturing hub, Hai Phong is a strategic investment location for foreign investors considering supplementing their manufacturing operations based on the China +1 strategy. Investors are attracted to the ability of choice to set up alternate production facilities in another competitive market for supply chain diversification. In May 2020, Germany’s Tesa, an industrial adhesive tape manufacturer, confirmed to invest US\$55 million into Haiphong following the China plus one model and reiterating Hai Phong as a manufacturing base.

Hai Phong’s advantageous geographical location, sound infrastructure boost as well as numerous incentives to attract FDI from the authorities, the ongoing industrial development, connection to global supply chains make the SEZ one of the most ideal locations for investors who are considering shifting their manufacturing operations and increase trade with the East and Southeast Asian countries.

Ethiopia

In Ethiopia, targeted government support, significant infrastructure investments, and sector-specific incentives have been central to the success of its Special Economic Zones, notably in regions like Hawassa. The Ethiopian model demonstrates how aligning incentives with the needs of particular industries—coupled with improvements in logistics, energy supply, and regulatory support—can stimulate industrialisation and regional economic development. This approach has enabled Ethiopia to overcome critical infrastructural bottlenecks and attract investments that have boosted its manufacturing and export capacities. The Ethiopian experience emphasises the critical role of tailored policy interventions in harnessing local strengths to drive broad-based industrial growth.

Box 5: The Eastern Industrial Zone Ethiopia - A case study of a Chinese ETCZ in Africa

Eastern Industrial Zone Ethiopia

The Eastern Industrial Zone is wholly owned by the private sector and is located about 40 km south of Addis Ababa. It has been built and operated by Chinese companies, is widely viewed as the benchmark for the development of industrial parks in Ethiopia.¹⁰⁷ This industrial park invested by a Chinese private enterprise has opened a new chapter in promoting Ethiopia's industrial development with the Chinese industrial park model. It is estimated that Chinese companies have built 75 zones for economic and trade cooperation in 24 countries along the Belt and Road routes, contributing more than \$2.2 billion of taxes and creating almost 250,000 local jobs. Within Ethiopia, consensus on the EIZ initiative was slow to arrive, particularly the merits or otherwise of allowing a private corporation to drive the process.

Initially it seemed that the Ethiopian government believed that having a private enterprise in charge of the planning, implementation and operation of the zone had advantages that state-led initiatives are unable to realise. Capitalizing on the strengths of private enterprises and their experience and knowledge of the global markets alongside their operating procedures was one way that the Ethiopian government believes Ethiopian actors involved in the zone may benefit and develop. The Ethiopian government's strategy still acknowledges the role of the private sector as an engine in the industrialization process. Within this framework, efforts to enhance responsible capitalism is central. By this, the government makes a clear distinction between "rent-seeking" and "developmental" capitalists, with the latter obviously being favoured.

The EIZ's stated main objective is its embeddedness in Ethiopia's economy and it is not supposed to be simply some enclave assembling products for the external market. It acts as a catalyst for Ethiopia's wider industrialisation, which necessitates a strong connection between the economy of the EIZ and the local economy.

The Eastern Industry Zone currently lies on what was just agricultural land but today produces high quality industrial factories in sectors such as pharmaceuticals, pulp and textiles.

Incentives

- Ten-year income tax exemption for 10-15 years if building an EZ in Addis Ababa.
- Full exemption of customs duty on spare parts is granted to manufacturers who exclusively engage in export-oriented production:
- Partial exporters can receive exemptions only on parts equal to 15% of the total value of the capital goods.
- Manufacturers who export 80% of their products can enjoy additional years of income tax exemption.
- Priority is given to investment in agro-processing, textiles and garments, leather and leather products, sugar, chemicals, metal and pharmaceuticals.

Bidding for investment in the EIZ was open to both local and international contractors however local companies could hardly compete with their more experienced and financially resourceful Chinese counterparts. Industrialisation in the Ethiopian Industrial Zone contributed to an annual GDP growth rate of above 8% between 2010 and 2020. Chinese shoemaker firm, Huajian Group produces for brands like Guess, Calvin Klein, Nina and other branded items, inside the economic zone. Huajian Group has already raked in more than \$35 million in foreign exchange income for Ethiopia.

Ethiopia now exports shoes produced by Huajian to European and American markets, while many of the taxis on the streets of the Ethiopian capital and other cities are assembled by Lifan Motors also based in the EIZ. The EIZ is Ethiopia's first industrial zone and has inspired the government to establish more such parks in the country.

¹⁰⁷Africa Business Pages. 2025. Chinese-built Industrial Park Provides New Momentum to Ethiopia's Growth. [Chinese-built Industrial Park Provides New Momentum to Ethiopia's Growth - Africa Business Pages](#).

The EIZ is, at present, noticeable for a rather scattergun approach with a diversity of industries operating within the zone. There has been some criticism that a more directed and steered industrial policy is needed in late developers, even if this is at the expense of a broad-based strategy.

Of the companies currently setting up operations in the zone, almost all are Chinese, with the exceptions of Unilever and Be Connected, who are renting facilities. According to the zone operators and officials at the Chinese embassy in Ethiopia, until Be Connected made their commitment, only one non-Chinese company (from India) had ever expressed any interest in physical investment in the zone.

The key motive for Chinese investment in the zone is labour exploitation, relatively cheap land and input materials. Against the background of increasing labour costs in China and oversupply in the domestic manufacturing sector, some Chinese producers find Ethiopia attractive. For example, footwear manufacturer Huajian Group, uses the zone to make shoes for the American and European markets.

For Huajian, the major attraction of Ethiopia is its cheap workforce. The average monthly payroll for a worker in Ethiopia is about 300 yuan (\$50), compared with 3,000 yuan at its headquarters in Dongguan, Guangdong province. In addition, because animal husbandry output accounts for 20 percent of Ethiopia's gross domestic product, Huajian is using 30 percent of the local leather yield every year, which saves 30 percent in the cost of raw materials.

Simplified Regulations

Regulations have been simplified, customs times reduced, and business licenses are substantially cheaper and easier to obtain than before. The Ethiopian government is publicly committed to maintaining macroeconomic stability and developing an improved financial sector. The investment code has been amended several times as a means to satisfy the ostensible demands of both domestic and foreign investors.

Governance

The responsibility between the stakeholders have been divided so that the Chinese enterprises, with the support of the Chinese government, are responsible for the development within the zone, while the Ethiopian government is responsible for the development outside the zone to connect the zone to the local context.

Lessons for Coega SEZ

For Coega SEZ, the experiences of Shenzhen, Vietnam, and Ethiopia offer valuable lessons. To replicate Shenzhen's success, Coega should consider implementing dynamic tax incentives and liberalised trade policies while investing heavily in infrastructure to support industrial clusters. From Vietnam's experience, reducing regulatory burdens and fostering stronger integration into global supply chains could significantly enhance Coega's competitiveness and attract multinational firms. Additionally, Ethiopia's approach of providing targeted, sector-specific incentives coupled with robust government support suggests that Coega would benefit from a more focused strategy to develop high-potential industries. By synthesising these best practices within the unique South African context—where addressing infrastructural challenges and energy reliability is critical—Coega can evolve into a highly efficient, export-driven industrial hub that drives sustainable regional economic development.

Leveraging China's China+1 Strategy

The China + 1 strategy has gained traction as Chinese firms seek to diversify their manufacturing bases amid push factors such as rising production costs and supply chain risks and pull factors such as market opportunities in other economies. Under this approach, companies maintain a significant presence in China while expanding production to additional countries to mitigate risks and capitalise on new opportunities.¹⁰⁸ In the context of Coega SEZ, such a strategy could be highly beneficial, as it positions the zone as an attractive alternative destination for firms looking to implement a China + 1 model. This diversification strategy is particularly appealing to sectors such as automotive and metal manufacturing, where integrated production networks are crucial.

Coega SEZ can leverage this trend by promoting its strategic advantages, including world-class infrastructure, streamlined regulatory frameworks, and robust government support. By emphasising its ability to offer a stable, cost-effective environment for production, Coega can attract firms seeking to reduce their overdependence on China. The zone's proximity to deep-water port facilities, such as the Port of Ngqura, further enhances its appeal by ensuring efficient export logistics—a critical factor for companies diversifying their supply chains.

In addition to the China+1, Chinese firms and consortia have also entered into the Public-Private Partnerships (PPPs) space with regards to the development and management of African SEZs. In 2006, China announced its plans to establish at least 50 overseas SEZs – what they referred to as Economic and Trade Cooperation Zones (ETCZs).¹⁰⁹ More than 10% of those were earmarked to be established in Africa. While the programme was suspended in 2014 and individual Chinese enterprises were encouraged to build overseas industrial zones,¹¹⁰ China has continued to provide designs, financing, management and operational support to several African SEZs.¹¹¹

Despite the proliferation of Chinese-supported SEZs in the continent, South Africa is yet to leverage this development significantly. There is, however, still an opportunity to leverage this China policy. First, there is considerable underdevelopment of the industrial base in many African economies – which gives South African SEZs a competitive advantage as South Africa remains the most diversified economy in the continent. Second, basic infrastructure for business outside SEZs can be poor in many African countries. The level of infrastructure in South Africa also forms part of the key value proposition for earmarking South Africa as a destination of choice.

Another significant draw for firms considering the China + 1 strategy is Coega's relative labour cost advantage. Although Chinese manufacturing costs have risen over recent years, South Africa's labour market offers competitive wage levels while maintaining a skilled workforce. This cost differential, combined with the incentive packages and supportive policies available within Coega SEZ, makes the zone a compelling option for companies aiming to optimise production costs without compromising on quality. Such labour market advantages are a key component in convincing firms to shift some production capacity from China to alternative locations like Coega.¹¹²

¹⁰⁸ Peter Enderwick. (2011). A 'China-Plus-One' Strategy: The Best of Both Worlds?. *Human Systems Management* 30 (1):85-96.

¹⁰⁹ Alden, C. and Gu, J. 2021. 'China–Africa Economic Zones as Catalysts for Industrialisation', IDS Policy Briefing 182, Brighton: Institute of Development Studies, DOI: 10.19088/IDS.2021.045.

¹¹⁰ UNCTAD. 2020. World Investment Report 2019. https://unctad.org/system/files/official-document/WIR2019_CH4.pdf.

¹¹¹ UNCTAD. 2021. Handbook on Special Economic Zones in Africa - Towards Economic Diversification across the Continent. https://unctad.org/system/files/official-document/diaeia2021d3_en.pdf.

¹¹² COEGA Development Corporation (CDC). <https://provincialgovernment.co.za/units/view/200/eastern-cape/coega-development-corporation-cdc> (Accessed 26 March 2025).

In summary, by actively promoting its strengths—integrated infrastructure, cost-competitive labour, and an environment conducive to foreign direct investment—Coega SEZ can effectively position itself as a strategic hub for companies adopting the China + 1 strategy. This targeted approach not only helps attract diversified manufacturing investments but also contributes to broader economic growth and industrial development within the Eastern Cape.

South Africa and Chinese Labour Productivity – A comparative analysis

According to the World Bank, labour productivity is an important economic indicator that is closely linked to economic growth, competitiveness, and living standards within an economy. It represents the total volume of output (measured in terms of Gross Domestic Product, GDP) produced per unit of labour (measured in terms of the number of employed persons or hours worked) during a given time reference period. The indicator allows data users to assess GDP-to-labour input levels and growth rates over time, thus providing general information about the efficiency and quality of human capital in the production process for a given economic and social context, including other complementary inputs and innovations used in production.

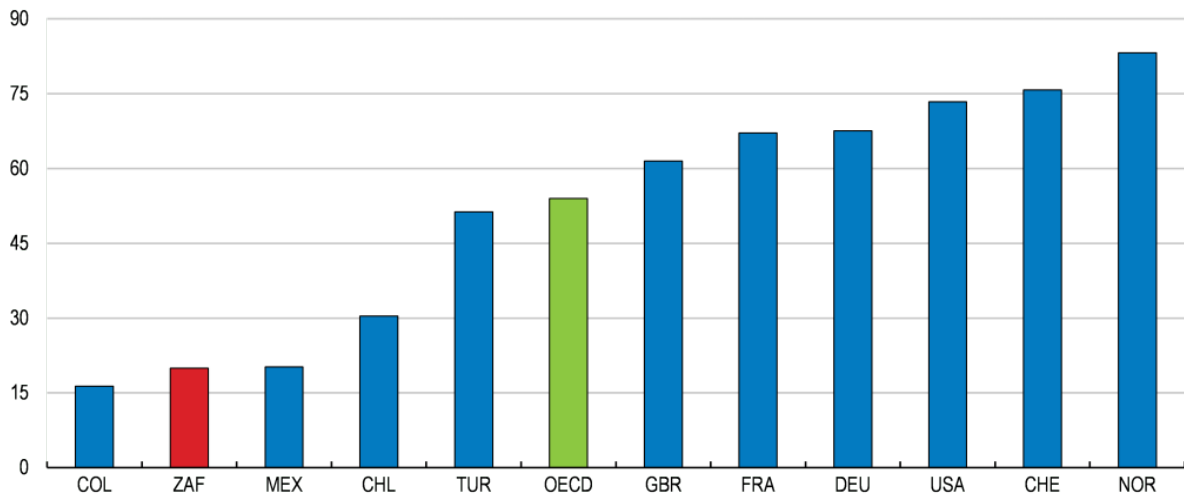
Labour productivity is therefore a key dimension of economic performance and an essential driver of changes in living standards. High labour productivity growth can reflect greater use of capital, and a decrease in the employment of low-productivity workers, or general efficiency gains and innovation. Some of the factors impacting on labour productivity include the presence and use of other inputs such as capital, intermediate inputs, technical, organisational and efficiency change, economies of scale.

Key information about South Africa Labour Productivity Growth

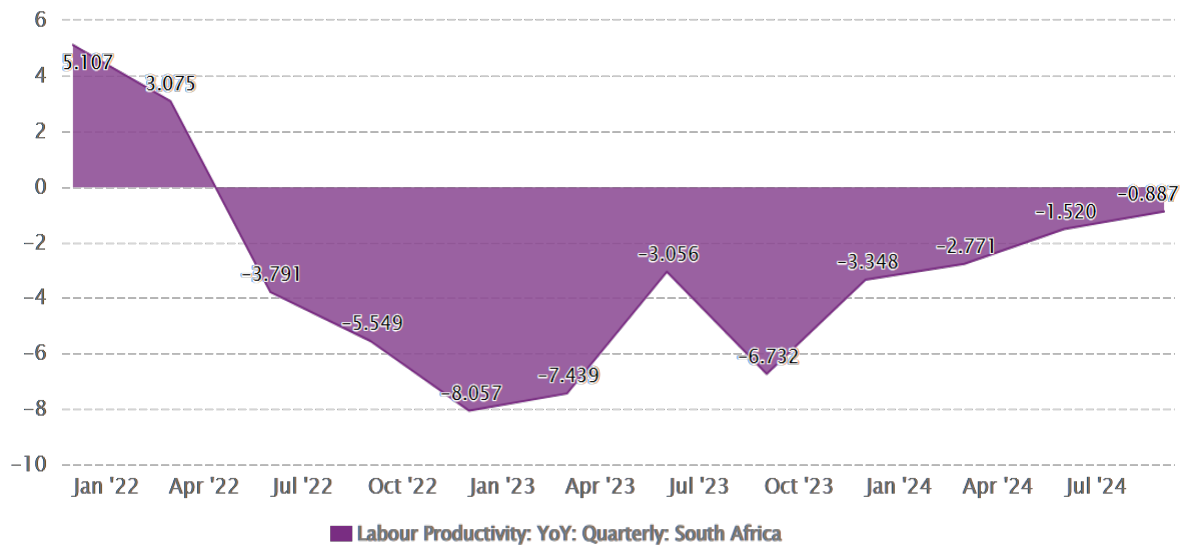
- South Africa Labour Productivity improved by 0.89 % YoY in Sep 2024, compared with a drop of 1.52 % in the previous quarter
- South Africa Labour Productivity Growth data is updated quarterly, available from Mar 2009 to Sep 2024, averaging at -0.03 %
- The data reached an all-time high of 13.02 % in Jun 2021 and a record low of -8.06 % in Dec 2022

South Africa Labour Productivity

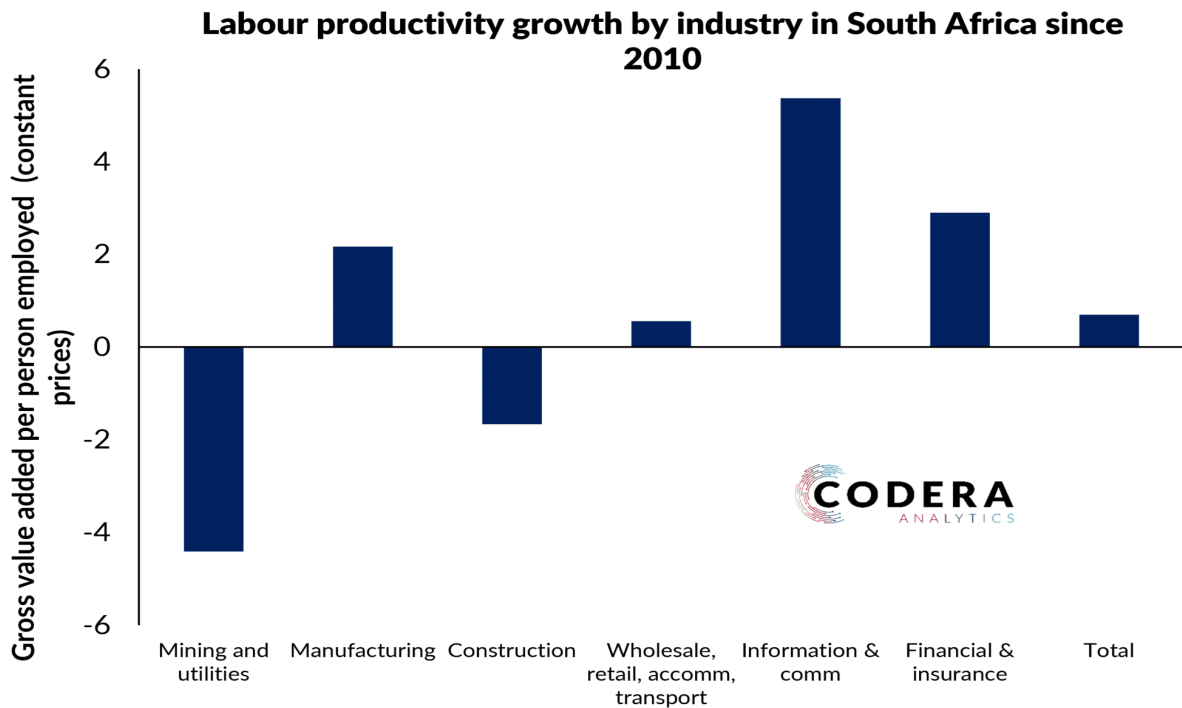
GDP per hour worked in constant USD PPPs, 2024 or latest



Source: OECD productivity database.

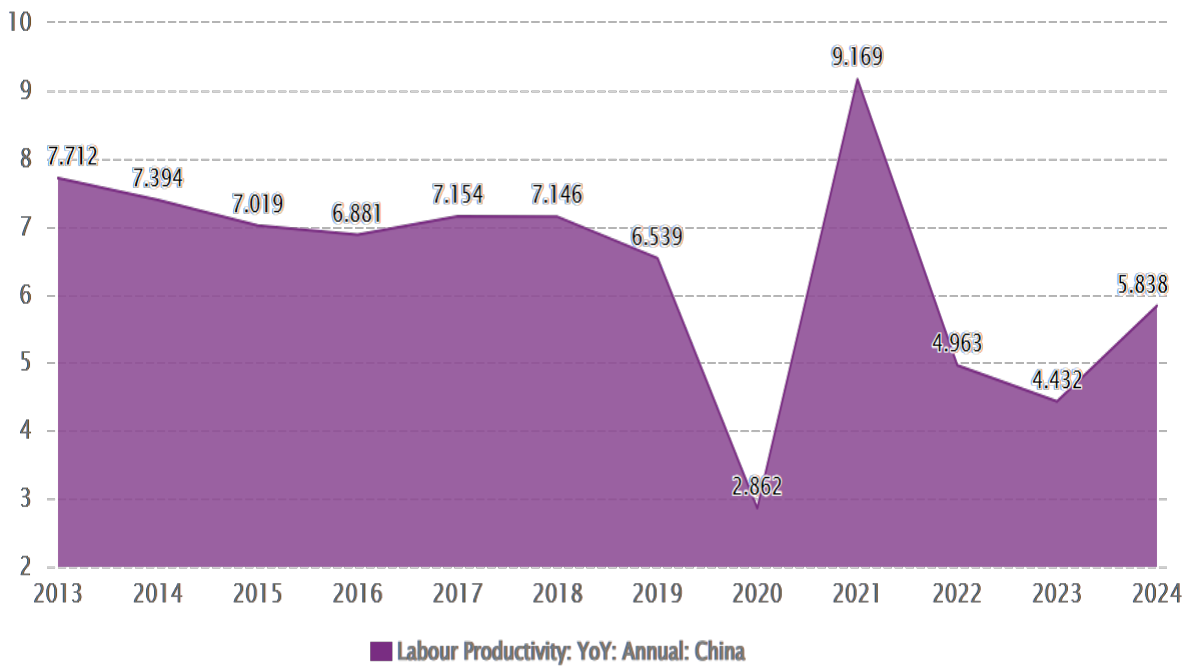


SOURCE: WWW.CEICDATA.COM | CEIC Data



Source: OECD, annual average 2010 to 2022.

South Africa's productivity growth slowed down since the global financial crisis. Estimates from the OECD suggest that labour productivity growth was negative for over a decade in mining and utilities and construction.



Key information about China Labour Productivity Growth

- China Labour Productivity improved by 5.84 % YoY in Dec 2024, compared with a growth of 4.43 % in the previous year
- China Labour Productivity Growth data is updated yearly, available from Dec 1953 to Dec 2024, averaging at 7.34 %
- The data reached an all-time high of 15.12 % in Dec 1970 and a record low of -26.48 % in Dec 1961
- In the latest reports, China Population reached 1,408.28 Person mn in Dec 2024

- Its Unemployment Rate remained the same at 5.10 % in Dec 2024
- Monthly Earnings of China stood at 1,392.46 USD in Dec 2023
- The country's Labour Force Participation Rate increased to 65.83 % in Dec 2024

In the space of just a few decades, China has risen to the rank of a world power, and certainly an Asian regional power. And now China and the US have locked horns in a great-power struggle over trade, foreign investment, intellectual property, technology-transfer policies, industrial policy, cyber security, and their respective roles in East Asian affairs. However, compared to top performing OECD economies, China still presides over a very much a low-productivity economy. However, the Chinese economy has much higher productivity levels than South Africa, with the latter having one of the lowest productivity rates among emerging economies.

Over the past several decades, China has been on a course of economic catch-up towards the “frontier” that is occupied by world economic leaders such as the US and Germany. This notion of a world productivity frontier represents global best practices, using the best available technologies, skills, management techniques, and purchased inputs.

China's labour productivity has converged from 15% of the world frontier to only 30% over the past two decades, according to the IMF in a recent report. This has occurred as many workers have shifted from low-productivity agriculture to higher-productivity industry and services, and also as there has been upgrading within each sector. Since the 1990s, the employment share of agriculture fell steadily from 60% to below 30%, while the share of industry and services rose to 28% and 46%, respectively.

Economic catch-up has been greater for the industrial sector than for services. Industrial productivity has converged from 15% of the frontier at the end of the 1990s to about 35% today. Indeed, China has a rather advanced industrial structure for its income level, driven both by the upgrade from low-tech to high-tech sectors and productivity increases in each industry.

China's productivity growth has declined steadily since the global financial crisis (GFC) exploded in 2008. The Chinese government kept the economy afloat by massive infrastructure spending, some of which were of questionable productive value. Large amounts of finance were channelled through state-owned enterprises (SOEs), which are much less productive than China's private-sector enterprises.

In the years to come, as the economy shifts more from industry to services, overall productivity growth will slow further, as the industrial sector tends to have higher productivity (industrial productivity is about 1.3 times as high as services productivity). And as the Chinese economy moves closer to the world productivity frontier, productivity growth will also slow further as more gains in productivity becomes harder to realise. The IMF estimates that China's economic growth rate could slow from the present 6%-plus rate to 4% by 2030.

China and South Africa's SOEs are also a drag on productivity. Their profitability remains weak and about a third of SOEs are loss-making. In both China and South Africa, productivity would receive a welcome boost if the role of SOEs was curtailed, and the role of the market in the economy was increased.

To improve productivity and economic efficiency, policies to increase lending to the private sector should be complemented with policies that reduce the share of credit to SOEs and remove their pervasive implicit guarantees and other advantages. However, China's relatively lower productivity levels are mitigated by the country's enormous population size.

While productivity is a sign of economic and technological sophistication and standards of living, overall economic size matters. A large economy such as China's has enormous market power. This is not the case for South Africa in addition to structural issues affecting productivity, has a smaller market.

Both South Africa and China will have to mitigate their growing emphasis on the role of the state in the economy, which will hold back productivity growth.

Implementation Strategy

Government Action

Effective implementation of reforms in Coega SEZ requires strong inter-ministerial collaboration. The DTIC should take the lead in regulatory adjustments, working closely with other key ministries—including Finance, Transport, and Energy—to align policies with the SEZ's strategic objectives. This coordinated approach will ensure that reforms are holistic and that the regulatory environment is responsive to the evolving needs of industry. Drawing on lessons from successful SEZs globally, such as Shenzhen in China, such collaboration has proven vital in creating a predictable, business-friendly framework that attracts and sustains foreign direct investment.

Private Sector Involvement and Public-Private Partnerships (PPPs)

To enhance the sustainability and competitiveness of Coega SEZ, it is critical to actively engage private investors and multinational firms in infrastructure projects and overall SEZ management. This engagement can infuse the zone with technical expertise, innovation, and additional capital, accelerating the development of integrated industrial clusters. Furthermore, establishing robust PPPs can facilitate joint ventures in logistics, utilities, and industrial services—ensuring more efficient service delivery and reduced operational costs. Such collaborative models have been key in the rapid industrialisation witnessed in SEZs like those in Vietnam, where joint efforts between public entities and private stakeholders have driven economic growth and infrastructure upgrades.

Conclusion and recommendations

Reforming the Coega SEZ to align with international best practices can significantly enhance its appeal as an investment destination. By prioritising export-oriented growth, labour-absorptive sectors, agglomeration strategies, and regulatory flexibility, South Africa can transform Coega into a globally competitive SEZ. Strategic infrastructure investments and private-sector participation will further drive long-term success. It is recommended that the governance and operating model of Coega be reviewed to allow for more business and private sector-oriented persons to be represented. A regulatory sandbox that has both controlled and fully deregulated characteristics should be established. In addition, the private sector should be given a more active role in designing, developing and operating the strategy at the Coega SEZ. The zone should also be entirely export orientated and aim to attract foreign investment instead of companies that relocate from other parts of the country.

Recommendations

1. **Review all the Special Economic Zones** including Coega with a view to changing the operational model.
2. **Embed the Industrial Export Policy Model** into the Special Economic Zones and ensure that the zones wholly produce for the export market to maximise economic benefits and **prevent unfair competition** with firms operating outside the zones.
3. Introduce a **Public Private Partnership** element into the operation and running of Special Economic Zones by allowing for a more private sector participation.
4. **Centre Coega and other Special Economic Zones within a regional and global value chains** in labour intensive sectors, with the Continental Free Trade Area as a key market.
5. Adopt policies that will **increase South Africa's labour productivity** to enhance competitiveness with countries such as China.
6. Improve **policy coherence and implementation** through increasing **inter-ministerial co-ordination** and working closely with the private sector.
7. Adopt a more **intensive regulatory sandbox framework** to ensure that Coega operates wholly outside all the policy, regulatory and union pressures.
8. Address the **energy, infrastructure and skills challenges** affecting Coega and other SEZs while **drawing useful lessons from the Tshwane Automotive Special Economic Zone**.

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