SEA - Policy Lessons

Secondary economic areas differ greatly - with some offering established industrial bases and functional municipal structures, and others being relatively isolated peri-urban or rural areas with no substantial manufacturing activity to speak of. The central policy lesson of dealing with secondary economic areas is that policy must be adjusted to meet the needs of individual areas. This complex challenge nevertheless needs to be guided by certain cross-cutting policy lessons that apply to multiple areas. A collection of these lessons were identified in the attached case studies, and can be viewed in detail in each case study. Nine of these lessons were identified for inclusion here, not necessarily because they are the most impactful or important, but because they are best suited to more centralised national action, often led by the dti. These lessons are divided into three categories:

1. **Strategy and guiding framework**: Industrial policy needs to be guided by a set of objectives, grounded in an understanding of what is possible for secondary cities. These lessons address what gaps currently exist, and what is possible for industrial policy in secondary cities.
2. **Industrial Policy**: With a focus on industrial parks as a key instrument of industrial policy in secondary cities, this section provides details of some core interventions that have high potential in secondary cities. Lessons in this section focus on policies that can be implemented by the dti and local municipalities.
3. **Other development policy**: Development in secondary cities requires grappling with a range of issues outside traditional industrial policy, which may limit the capacity to grow the manufacturing base of these areas. Lessons in this section focus on policies that can be implemented by a wide coalition of numerous departments and agencies at all levels of government.

Strategy and guiding framework

Lesson 1: Potential remains for manufacturing in secondary economic areas

Developing the industrial base of secondary cities is not a simple task and, given the pressure on manufacturing in South Africa, questions remain on whether the location of industrial activity should be a focus, or whether a place-neutral strategy that focuses on maximizing manufacturing growth should be the focus. Our research finds that there is substantial potential for the development of manufacturing in secondary economic areas, even if this is of a smaller scale to the metros and requires a different policy approach.

This is so for three reasons. First, secondary economic areas feature existing industrial bases that are a legacy of apartheid industrial decentralisation policies, and which form a base of industrial activity that can be used as a starting point for industrial policy, so long as existing structures can be protected and leveraged. Second, secondary economic areas feature important policy advantages - such as cheap land, proximity to strategic resources, and limited social and logistics restraints of crowded cities - which can be leveraged for industrial policy.

Third, secondary economic areas reman centres of significant need, with the legacy of apartheid spatial planning confining large populations of underprivileged black workers to secondary cities and former homeland areas. Even if there is a long-term vision to help these populations to move to more established centres, in the short-term there is a pressing social need that manufacturing can help alleviate the strain of poverty and unemployment.

Lesson 2: Interventions need to be appropriately scaled for secondary economic areas

Industrial policy in secondary economic areas should not, however, be considered as consumate to the scale or type used in more established economic centres. Interventions that aim to rapidly transform secondary economic areas to major manufacturing hubs would need to be extremely large, with aggressive incentives that are not feasible in the current fiscal climate, and are not necessarily the most desirable in the context of budget constraints on industrial policy. Rather, the focus should be on mid-scale interventions, which are those that provide real impact, but are beyond the short-term financial capacity of local municipalities. These interventions should focus primarily on getting basic service delivery working, and on providing support to retain and expand what business currently exists in secondary economic areas.

Lesson 3: Major institutional and policy gaps exist

At present, the institutional arrangements governing industrial policy in secondary economic areas are not equipped to deal with the challenges identified. Industrial policy frequently falls on the shoulders of local government, which does not have the capacity nor the direct mandate to drive industrial development. Serious governance problems at local government level entrench these problems, and stymie long-term industrial policy planning. The dti and other national structures are better equipped to drive growth in these areas, but feature highly-centralised institutional structures, clustered in Pretoria and other metros, which limit the rollout of interventions in secondary areas. Institutional deficiencies stem from a lack of clear policy, with the policy approach to secondary economic areas not being clear, and not provided a guiding vision to the coalition of government agencies that are needed to drive change in secondary areas.

Industrial policy

Lesson 4: Extending and expanding the industrial parks revitalisation programme

The case studies examined in this study reinforced the importance of industrial parks to the economy of secondary economic areas. Similarly, the revitalisation programme was highlighted as a vital intervention, which helps stabilise and improve the offering of industrial parks by strengthening core infrastructure offerings, like security and road quality.

However, field work also highlighted the limits of what industrial parks can do. Industrial parks developed as central to secondary economic areas primarily because of the offer of enormous incentives as part of the apartheid era industrial decentralisation programme. These incentives were the core of why the parks were initially so successful, and much of the current parks environment still relies on maintaining the industrial base created by these incentives. Incentives of similar scale are simply not feasible in the current environment, and while the revitalisation of parks and the continued offer of discounted rental rates are both important interventions, parks policy needs to be expanded to address the limits and realities of their operating environment. The best way to achieve this is to maintain the commitment to the industrial parks revitalisation and, in the long-run, to expand the focus of the programme to new upgrading initiatives.

As a priority issue, an industrial parks policy needs to be packaged into a more comprehensive vision of industrial policy in secondary economic areas. Many of the recommendations contained herein can be viewed as possible options for such a policy. Packaging interventions in this way will require a new institutional architecture around industrial parks, in which the parks leverage their position as state-owned real estate, to offer support to firms seeking incentives or other access to projects. This would need to be carefully managed so as to not create two tiers in state services - in which industrial park firms receive better service than the general business community - but would nevertheless be an important intervention in the context of state incentives that are often feature prohibitively onerous paperwork and conditions.

Support at the level of industrial parks should be complemented with improved centralisation of marketing for the national network of industrial parks. At present, the fragmented ownership structure of industrial parks makes it difficult to understand what is available and what different parks have to offer, while also incentivising competition among state industrial parks. Building a single channel, perhaps facilitated by a central website and phone line, would allow for more efficient marketing to new investors, and would empower the state to align marketing initiatives with social objectives - emphasizing, for example, the lower costs involved in renting property in secondary economic areas.

Lesson 5: Reinforcing business retention and expansion strategies

While attracting new investments is important, the priority in most cases should be to protect and build on what already exists. In all but a few countries, reinvestment by established firms dwarfs new investment, and this seems to be particularly true in secondary economic areas. Retention is, however, the first priority, as many legacy firms in secondary areas are under pressure, and many others have already closed in the post-incentives period. Many secondary cities and municipalities have existing business retention and expansion programmes, but this institutional base isn’t backed up with the resources need to stabilise the business environment in these areas. Municipalities report cases where closing firms were involved in BRE processes, but the municipality lacked the financial capacity and national support to provide assistance to crisis-hit firms, and therefore lost these investments. Creating a more coordinated national structure would help alleviate this problem. This would ideally include a national BRE fund that could be drawn on in times of crisis, but would also be beneficial if it was a more simple system of reporting and assistance, in which the dti acts as a link between municipalities and agencies like the IDC who can provide direct assistance to distressed firms, or those seeking to expand.

Lesson 6: Targeted clustering and symbiosis

Clustering and industrial symbiosis have both been identified as important strategies to empower secondary economic areas and industrial parks. Both concepts leverage off what companies exist in a location, by identifying how firms can link into another firm's production processes, both through the utilisation of byproducts and feeding into the procurement needs of other firms. Both concepts are strong starting points for industrial policy, but need more targeted implementation in the case of secondary cities. Two interventions are required.

First, the level at which cluster support is offered need to be adjusted. The traditional model of two or more large supplier firms creating a cluster is not suited to the limited industrial base of a secondary city. However, the presence of large industrial complexes in some of these areas, often controlled by one or a few large multinationals, need to be targeted. Since most of these companies' procurement processes happen centrally at head office, a more meaningful contribution could be made by identifying support services that can be targeted. This could include simple activities like supplying fencing or furniture, service activities like maintenance or cleaning, or even some level of basic fabrication. These types of activities best match the unique secondary area structure of major industrial activity with a general manufacturing base structured around smaller firms.

Second, this and the broader cluster policy needs to be underpinned by detailed, firm-level data on needs and capabilities. The symbiosis model is in effect required, where a central agency creates a database of what firms have and what they need. Expanding this beyond waste and byproducts, into support activities detailed above, would enable the local municipality to facilitate matching among firms. A central industrial-matching fund or initiative, facilitated by the dti, should target secondary economic areas that play host to very large industrial complexes, and then gradually expand to other areas, while limited distributions to those areas that lack an existing industrial base.

Other development policy

Lesson 7: Expand state services to secondary cities

State services - a broad term used to refer to essential services offered by the likes of the Department of Home Affairs, SARS, industrial financiers like the IDC, standards providers like SABS, and others - are rarely available in secondary economic areas. While certain gaps in the offering of these services have been recently closed, other have been opened - notably by the outsourcing of state services to private contractors, who often have little incentive to offer services to secondary areas unless explicitly compelled to do so by the terms of their procurement. Expanding services to secondary economic areas can be achieved in one of three ways. First would be a physical expansion of offices to these areas, which, while the most expensive option, maybe be required for core development drivers like the dti. Second would be an expanded offering of paperless digital services, which would remove the need for costly physical trips to metros to complete paperwork. Third would be to properly utilise what already exists. Some municipalities examined in this study noted they still have public servants charged with tasks like processing home affairs documents, who are not currently employed to do so because of the outsourcing of these services. Building a system that allows private contractors to accredit existing civil servants to carry out these services would allow an expanded offering with little additional cost, and without the loss of institutional memory of civil servants..

Lesson 8: Managing non-metro minimum wages

Historically, areas outside major cities attract investment through a combination of cheap land and cheap labour. While cheap land is still a prime method in South Africa, labour issues complicate one avenue for secondary economic area development. Policies designed to prevent exploitative wages often have the impact of narrowing the pay differentials between metros and secondary areas. While bargaining councils generally set two minimum wages - one for metros and one for non-metros - the difference between these are often small, and the blunt distinction of metro/non-metro benefits areas in the periphery of metros, but not more far-flung locations. The distinction between minimum wages in different areas is important both to attract firms, and for protecting workers, as an incorrect application of minimum wage differentials could result in workers in one area being underpaid. Both firms and workers would benefit from a more systematic assessment of wage differences, that assures minimum wages are suitable to the cost structure of where work takes place. This could be facilitated by greater nuance in guideline measures such as the CPI and household expenditure survey, which should distinguish between different cost structures in different parts of the country (and at times already does, albeit without an emphasis on these distinctions). Efforts should also be made towards a fair representations on bargaining councils of firms and workers from all regions, including providing a voice (but perhaps not a vote) to firms that are currently non-compliant with labour legislation, as these firms need to be included in order to discover what measures will promote compliance.