TIPS WORKING PAPER

SUB-NATIONAL ECONOMIC DEVELOPMENT STRATEGIES FOR SPATIALLY TARGETED INDUSTRIALISATION: POLICY CONVERGENCE OR DIVERGENCE?

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1. Introduction

Across the world, governments have managed to successfully transform their economies towards a path of greater industrial development through massive investment in industrial clusters and parks. In South Africa this is particularly important given the concentration of industrial activity in four urbanised manufacturing regions, namely the Gauteng City Region (which incorporates the metropolitan cities of Johannesburg, Tshwane and Ekurhuleni), the Durban-Pinetown-Pietermaritzburg region of Kwa-Zulu Natal, the South-western Cape region (around Cape Town) and the Port Elizabeth-Uitenhage region in the Eastern Cape. This is largely a result of Apartheid spatial planning which has continued to contribute to outward migration from other cities and rural areas.

Industrial decentralisation has been a policy directive before the democratic dispensation took effect. In support of apartheid, purposeful relocation of industrial activity was targeted at rural (former homeland) areas in an attempt to keep African populations in those areas. The spatial and economic effects of that policy are still evident today with little industrial economic activities occurring outside the large metropolitan areas of South Africa.

Following the identification of weaknesses in the Industrial Development Zone programme, a new Special Economic Zone (SEZ) Act was signed into law by the President in May 2014. The rationale for the amended of the programme was to focus on economic growth and increasing exports by adding new incentives and providing for a more diverse type of SEZs to attract targeted foreign and domestic investment and technology (Chipfupa, 2015).

At their core, industrial zones in their various iterations are trying to do two things. First, they are trying to boost growth, employment, investment, trade, diversification and the other central economic variables that development policy targets. Second, they are trying to do something more geographically-specific: targeting areas that either need development, or that have some fundamental economic potential that remains untapped, like port access or a unique endowment of natural resources. There is an inherent tension between the growth-role and the geography-role of the zones. While both growth and better geographic distribution can be targeted at once, there are trade-offs based on where one wants to concentrate. A zone based in Johannesburg will almost certainly attract more investment than one based in a small city, but will reinforce the country's economic concentration. A zone based in Upington may help create opportunities in an underdeveloped city, but it's possibly too far from the ports to encourage trade. Where the balance lies says a lot about a country's developmental priorities; but it will also change the specific policy tools that are most appropriate for the zone aims in question.

As South Africa embarks on a programme of spatially-targeted industrialisation, including the rollout of Special Economic Zones and the Revitalisation of Industrial Parks, there needs to be an assessment of where our focus lies. This paper attempts to do exactly that, examining what role geography plays in our spatial industrialisation programme, and what innovations could be added to allow us to best reach that goal. It proceeds in four parts. Part 1 examines the current batch of spatial industrial policies being rolled out by the Department of Trade and Industry, focusing on Special Economic Zones and the Industrial Parks Revitalisation Programme. Part 2 assesses these two programmes, attempting to understand where their target lies, and whether they are appropriately set up to meet this target. Part 3 looks beyond fixed-geography in zone policies, to examine the potential on offer through more flexible initiatives like the creation of Single Factory Zones.

2. Special Economic Zones

Special Economic Zones are charged with a couple of "simple" tasks. They need to attract FDI, boost exports, fight unemployment, reverse industrial decline, diversify the economy, cut through red tape, improve technology and productivity, deepen agglomeration and clusters, spread economic growth to marginal areas - and do it all rapidly enough to justify further investment in the zones. Zones that try to achieve all these objectives all at once are bound to fail. In the face of this policy overloading, each zone will have to undertake a careful process of tailoring their zone to their unique geographic and economic environment. A successful SEZ policy will be one in which there is adequate policy space and support to allow each zone the flexibility to succeed in their unique economic geography.

This section assesses the extent to which South Africa's SEZ act allows this flexibility. It proceeds in three steps. First, a brief overview of the SEZ policy is offered. Second, a method is developed to categorise various types of SEZs in South Africa, with each then assessed according to a design metric. Third, the act is examined to explore whether each identified type of zone has enough policy space to successfully tailor their zone to the needs of their location.

2.1. South Africa's SEZ Policy

The modern era of South Africa's economic zones began with the Manufacturing Development Act of 1993, which created the framework for the creation of Industrial Development Zones (IDZs). The IDZs offered a limited package of incentives that included tax relief on customs duties, goods for storage, and certain productive inputs; attempts to simplify customs procedures; and limited incentives on the development of productive sites and Infrastructure - but excluded any of the deeper tax breaks or regulatory changes that were employed internationally (Chinguno, 2011). The four original IDZs - at Coega, Port Elizabeth, O.R. Tambo International airport in Johannesburg, and Richards Bay (with Saldanha Bay only later designated in 2015) - proved a mixed success. Both O.R Tambo and Richards Bay have seen little growth, and between them have attracted only one large investment: Tata Steel's R670 million in Richards Bay.

Coega, on the other hand, has seen rapid growth, attracting 31 investors that together created 62 142 jobs (Coega Development Corporation, 2015). This success, however, is tempered by two factors. First, much of the rapid growth around the zones has been driven by the success of the Motor Industry Development Programme, with the zone's incentives only a secondary factor. This does highlight the way in which zones can be used in a complementary way to broader economic policy, but doesn't make the case for the zones driving investment in isolation. Second, the level of success has come with substantial costs. Government invested R9.3 billion between financial year 2001/02 and 2012/12, and created 5137 direct jobs (and 33,000 indirect jobs), with the cost per direct job standing at R1,8 million over the period, or R13,750 per month (Wood, 2015). While that figure is just a rough indicator, it does raise questions about the extent to which the IDZs created additional value beyond what was invested by the state, or whether the jobs sustained simply represent indirect employment generated by and reliant on government.

The Special Economic Zone Act (no 16 of 2014) aims to respond to the failings of the IDZs. Broadly speaking, the SEZs are a more aggressive approach to zones, offering better incentives and wider geographic reach. Key incentives (the dti, 2015a) under the new policy include:

1. **Preferential corporate tax rate of 15% (versus the national average of 28%):** Applicable only if (1) the company is incorporated and managed in South Africa, (2) the company is located in an SEZ, (3) at least 90% of the company's income is derived from

within the SEZ, (4) the company engages in a specific set of industries (largely focused around manufacturing)

2. **VAT and Customs** Relief: Including import duty rebate and VAT exemption on imports of production-related inputs, to be used with the aim of exporting finished products.

3. **Tax relief for building expenditure:** Special depreciation allowance of 10% per annum for ten years on fixed structures.

4. **Special employment incentives:** Employment tax incentive for employees earning less than R60 000 per annum.

5. **One-Stop Shop Facility:** The creation of one-stop shop facility that will provide easy access to the bureaucratic channels needed to operate in and export from an SEZ

Investment in the SEZ will be assisted by a designated SEZ fund, which can be used for infrastructure development in the zone. In addition to the core zone incentives, broader national incentives will also be markets to firms in the SEZ, with a particular focus on the 12i tax allowance incentive, which support investments in manufacturing and skills development.

The SEZs will be overseen by a 15 person board consisting of representatives from the Department of Trade Industry, Department of Public Enterprises, the National Treasury, the South African Revenue Service, state-owned development bank the Industrial Development Corporation, SOEs Eskom and Transnet, and representatives from organized business, labour, civil society, and the expert community. The advisory board, assisted by a secretariat at the dti, is responsible for considering applications for the designation of a zone, and offering recommendations to the Minister of Trade and Industry, who has the authority to approve or reject the designation. Individual zones are overseen by an operator, appointed through a competitive bidding process, and are to be directly run through a management body set up specifically for the zone. There are ten SEZs in the pipeline (one per province with the exception of Limpopo, which has two), as can be seen in Table 1. Of the ten, only Dube Trade Port has thus far received official designation.

Table 1: SEZs under consideration in South Africa

Name	**Province**	**Region**
Mthatha SEZ	Eastern Cape	Mthatha
Maluti-A-Phofung SEZ	Free State	Harrismith
Nasrec SEZ	Gauteng	Johannesburg
Dube Trade Port	KZN	Durban
Tubatse SEZ	Limpopo	Tubatse
Musina SEZ	Limpopo	Musina
Nkomazi SEZ	Mpumalanga	Nkomazi
Upington SEZ	Northern Cape	Upington

Platinum Valley SEZ	North West	Rustenburg
Atlantis Greentech SEZ	Western Cape	Atlantis

Source: the dti, 2015c

2.2. Targeting SEZs

Special Economic Zones are frequently treated as things in themselves, when in truth they represent a broad range of economic strategies. In China, widely regarded as the home of the resurgence of SEZs, special zones range from those targeting the export market, those aiming to encourage technological and productivity improvement, those aiming to encourage development in underdeveloped or politically marginal areas, and a wide range of others. In each case, the zone is targeted to a specific developmental objective with the policy package contained in the zone specialised to that end.

Policy debates around SEZs need to carefully consider what exactly each zone is trying to do. South Africa's nascent Special Economic Zone framework struggles to provide clear direction on the targeting of zones. This is despite the SEZ act offering a framework to do so, with the act identifying four distinct types of South African SEZ:

1. Free Port: "A duty free area adjacent to a port of entry where imported goods may be unloaded for value-adding activities within the Special Economic Zone for storage, repackaging or processing, subject to customs import procedures."
2. Free Trade Zone: "A duty free area offering storage or distribution facilities for value-adding activities within the Special Economic Zone for subsequent export."
3. Industrial Development Zone: "A purpose built industrial estate that leverages domestic and foreign fixed direct investment in value-added and export-oriented manufacturing industries and services."
4. Sector Development/Specialised Zones: "A zone focused on the development of a specific sector or industry through the facilitation of general or specific industrial infrastructure, incentives, technical and business services primarily for the export market."

The wider debate around SEZs, however, make little reference to this schematic; and in a broader sense there is a lack of clarity on what the distinctions mean and how they will be implemented. Most notably, it is not clear if different zones will feature different policy incentives, given that all four are covered by the same set of regulations. While there is scope for provincial and local governments to provide additional incentives targeting their zone, neither level has the resources to do so in a substantial way.

Leaving the Act's schematic aside for the moment, it is worthwhile to consider international experiences with zones, and the various types on offer. Based on previous studies of various zones (Wood & Siziba, 2015a, 2015b) around the world, a rough metric of potential types of SEZs, based on their aim, is presented in Table 2 below.

Table 2: SEZ types by aim

Core Target	Description	Impact on Growth
Productivity Growth	A generic SEZ offering economic advantages that improve the productivity of those based in the zone and, through this, the general productivity of the economy.	Growth through increased competitiveness
Export Growth	SEZs offering productivity policies and export oriented policies (such as dedicated customs facilities), that helps firms reach new foreign markets	Growth through improved market access and expanded exports
Industrial Diversification	SEZs that target specific types of economic activities, most commonly industrialisation, in an attempt to change the mix of sectors that makeup the economy	Growth through developing sectors with large multipliers
Geographic Diversification	SEZs that aim to develop marginal economic areas, attracting investment to locations that do not naturally attract investment	Growth through greater equality and the revitalisation of second- or minor-cities
Sectoral Targets	SEZs that aim to focus on a specific sector, or to develop off a specific sector (such as through beneficiation of a given product)	Growth through the expansion of a select sector
Firm Targets	Incubator-like SEZs that help specific firm types, usually SMEs, develop and grow.	Growth through improved firm inclusion

Zones can be filtered into these categories by numerous measures. Many will specifically state their aims in the working of the zone, while others will be distinguishable by the conditions they employ for firms investing in the zone, and by the policies and benefits they offer. All of these options are, however, somewhat limiting in the case of South Africa. Some - such as the Platinum Valley SEZ - are clearly focusing on one product, but many others are less clear. One indicator that can be used for all zones is location. Location is an imperfect indicator, since many different type of zones can choose the same location for different reasons. But as a broad indicator it could be useful, as can be seen in Table 3 below:

Table 3: Location indicators for SEZ types

Core Target	Location Indicator
Productivity Growth	Centres of major economic activity
Export Growth	Ports
	Land Border

Industrial Diversification	Various, but usually Centres of major economic activity
Geographic Diversification	Areas with less economic activity
	Areas with high social need (unemployment, poverty, etc.)
Sectoral Targets	Areas with concentrated economic activity
Firm Targets	Various, but usually Centres of major economic activity

Developing from these indicators, South Africa's proposed SEZs are clustered into categories based on four metrics.

1. **Proximity to Economic Activity**: SEZs that are in economically marginal areas are generally placed there either to bring development to the region, or perhaps to focus on specific commodities based in that region; while SEZs in major centres might focus on productivity or diversification. This metric measures distance from a major economic centre, defined here as distance to the metropoles or to major regional centres.

2. **Proximity to Export Infrastructure**: SEZs located on major export routes tend to target either exports directly or indirectly through a focus on productivity. This metric measures distance from one of three major ports - Durban, Coega/PE, and Cape Town - or direct access to the northern land border.

3. **Proximity to Need**: SEZs located in areas of high poverty and low employment opportunities may be targeting economic transformation of the area. This metric looks at the unemployment, income, and education levels for the ward and municipality where the zone is likely to be located, ranked as a percentile of all wards in the country.[2]

4. **Policy Documents**: Finally, the policy documents for the SEZ are examined, to identify any specific focus for the zone.

A focus on economic concentration, which would use the metric of high employment and GDP levels derived from a single sector, would be useful; but is not possible because of data limitations.

Table 4 shows details of the various SEZs ranking based on sectoral focus, proximity to economic centres, proximity to export infrastructure, and proximity to need. With these considerations in place, Table 4creates clusters based on the various factors.

Table 4: Clusters of SEZs by focus

Export	Productivity	Sectoral	Logistics	Mixed
Coega IDZ	Nasrec SEZ	Platinum Valley SEZ	Maluti-A-Phofung SEZ	Mthatha SEZ
East London IDZ		Atlantis Greentech SEZ	Musina SEZ	Dube Trade Port

[2] Need data based on author's calculations from StatsSA, Census 2011.

Richards Bay IDZ		Tubatse SEZ	Nkomazi SEZ	OR Tambo International Airport IDZ
		Upington SEZ	Saldanha Bay IDZ	

Most notable is that very few of the new generation of SEZs seem wholly focused on export or on general productivity improvement. The three **export zones** are transitional IDZs, each also have a sectoral focus, and are close to economic centres. The Coega and East London zones of course focus on automotives, but are classified as export zones here because the incentive structure around the automotive industry is focused on export. The Richards Bay zone is primarily concerned with beneficiation to add value prior to export, but still has exports at its core. The Nasrec SEZ is classified a **productivity zone** because of its location in the country's major economic centre (Johannesburg), and because the sectoral focus of the zone is relatively broad, and focused on sectors that are centred around productivity and are free from location-specific determinants (such as ICT and electronics).

There is a far larger focus on **sectoral zones**, with Tubatse and Platinum Valley focused on benefiting platinum group metals, and Upington and Atlantis focused on renewables and green technology respectively. In all three cases, with the exception of Atlantis, there isn't a strong argument to be made for their location as a potential economic centre, and the location only makes sense because of proximity to natural resources (platinum in the two instances, and sunlight in the case of Upington). Atlantis has a history of industrialisation, but has been largely in decline after the end of large scale industrial support during the Apartheid era. All four of the sectoral focused zones score high on the need metric as well, indicating that leveraging sectoral focus could help bring development to areas that are highly in need.

Perhaps most interesting is the rise of a large number of what could broadly be called **logistics zones,** focused on transport, often for trans-shipment and exports. There are three types within this cluster. First are border zones, with Musina staged at the crossing into Zimbabwe at Beit Bridge and onward into the region, and Nkomazi placed along the Maputo corridor and set as a linkage to Mozambique. Second is a central road transport hub based at Maluti-a-Phofung (Harrismith), which lies at the intersection of land routes to Durban, Johannesburg, and Bloemfontein. Third is a port service hub at Saldanha Bay, which aims to provide repair and servicing support to the marine industry, with a particular focus on the oil and gas sectors.

Finally, there are a few multi-purpose zones which don't seem to fit into the above metric. Notable within these are the two airport focused zones, at O.R Tambo International Airport and beside King Shaka airport at the Dube Tradeport. Both might be categorised as logistics hubs, but differ in policy and implications from the set identified above. The Mthatha SEZ is an interesting standout, in that it is located in an area that doesn't have a clear sectoral, logistic or even need basis. Mthatha may however represent a second-generation SEZ, in which the low-hanging economic opportunities have already been covered by the Eastern Cape's two successful IDZs at East London and Port Elizabeth. As provinces look beyond their initial key locations, there may be more scope to invest in secondary cities like Mthatha, which can help develop otherwise neglected areas, but which may come with steeper economic development challenges.

Table 5: Comparative analyses of different zones

	Current Regime	Needs			
		Export	Productivity	Sectoral	Logistics
Management (Style, Composition, Influence)	Overseen by a 15 person board consisting of representatives from the Department of Trade Industry, Department of Public Enterprises, the National Treasury, the South African Revenue Service, state-owned development bank the Industrial Development Corporation, SOEs Eskom and Transnet, and representatives from organized business, labour, civil society, and the expert community. Individual zones are overseen by an operator, appointed through a competitive bidding process, and are to be directly run through a management body set up specifically for the zone.	Flexibility. Management relationship with export support departments (SARS, Transnet, etc.), multinational lead firms, trade intermediaries, logistics firms, and export promotion agencies. Openness to investment by foreign firms.	Flexibility. Management relationship with technology innovators (university, research firms), local metropoles, and key firms.	Flexibility. Management relationship with lead firms in the sector, local municipalities, and sector-specific agencies and SOEs (Eskom, DOE for renewable energy; DMR, DOT for platinum). Sector-specific KPIs (for example, reduced growth targets during the platinum slump).	Flexibility. Management relationship with road agencies, logistics firms, local municipalities, export infrastructure (ports, border crossing). Reduced expectations on KPIs (relative to productivity/export zones) in the short-term.
Infrastructure (Type, Scale, Provision, Financing)	SEZ Fund to assist development of zones. Infrastructure unique to zones.	Proximity to port or border crossing. Export support (customs, testing facilities, storage).	Proximity to economic activity, particularly suppliers and a skilled workforce. If possible, access to agglomeration or clustering of related enterprises. Low cost transport, IT, and other key services.	Proximity to sector inputs. Sector specific infrastructure.	Proximity to major logistic thoroughfares, ideally with access to multimodal connections (e.g. rail to road). Multi-function storage facilities, with loading/unloading capacity.

Investment Facilitation (packaging of incentives and support)	Preferential corporate tax rate of 15% (versus the national average of 28%); Additional tax and customs incentives; Tax relief for building expenditure Special employment incentives The creation of one-stop shop facility that will provide easy access to the bureaucratic channels needed to operate in and export from an SEZ Municipalities, provincial governments or public entities specific entities	Customs rebates. Export support.	Tax breaks. Employment incentives.	Sector-specific, with adequate flexibility in conditions to target cluster firms for the sector in question.	Tax breaks, including for logistics firm. Building incentives, targeting storage and processing infrastructure.
Sectoral Focus Area (service, manufacturing, skills, exports)	Free Port, Free Trade Zone, Industrial Development Zone, Sector Development/ Specialised Zones	Exports	Manufacturing, particularly high-end manufacturing	Manufacturing, and sector-specific inputs.	Logistics, services
Employment Creation Opportunities (type, quantity)	Variable	Variable	Variable, bias towards high skills	Variable	Variable bias towards low skills

2.3. Policy Space

There are promising signs that South African SEZ's are working hard to position their zones to take advantage of the unique opportunities on offer in the country. Much of this is taking place at the level of zone management, with those directly involved in the running of the zone leading efforts to target its appeal. The risk is that these efforts are constrained by the options made available within the policy. South Africa has a broader problem of devolving responsibility to local levels, without accompanying this with a devolution of real authority, which is often strictly limited by policy - and the same holds true for Special Economic Zones. This is a difficult proposition for SEZs, because they are ultimately a geographically-specific policy that requires those who know the geography to have the power. Indeed, one of the biggest drivers of the success of Chinese SEZs was the devolution of power to local authorities, and the weakening of central power in the zones.

While the broader policy generally seems to avoid the worst problems of centralisation of authority, there are three areas of concern:

1. Conditions on Corporate Income Tax Rate benefits
2. Alignment with Supporting Policies
3. Economic Geography

2.3.1. Corporate Income Tax Rate benefits

First, and most prominent, are the strict limits placed on corporate income tax reductions. The SEZs make provision for granting a reduced corporate tax rate of 15%, versus 28% in the rest of the economy. The reduced rate represents one of the most attract incentives on offer, and is an important leading-incentive before more long-term benefits like clustering and agglomeration effects take hold. It is particularly important for services firms, who have less to gain from other incentives because they are unlikely to trade in goods of their own (VAT and Customs relief benefit), less likely to invest in large and expensive capital infrastructure (building allowance benefit), and have a mixed relationship with mass low-skilled employment (employment tax incentive). Attracting service firms is vital to the success of all zones, since services are a vital part of the manufacturing process, but they are extra important for the logistics cluster, particularly the three road-based logistic zones at Maluti-a-Phofung, Musina and Nkomazi. These zones need to attract storage, transport and logistics companies early on, in order to establish the linkages that could facilitate additional investment in the likes of manufacturing - and the corporate tax benefits are the key tool to do so.

The corporate tax benefit does, however, come with a number of conditions. Some of these are relatively easy to meet: firms must be registered in South Africa and must be located in an SEZ, neither of which pose a problem. But the two other conditions effectively eliminate the corporate tax benefit for many crucial firms.

Firms have to, firstly, derive 90% of their income from activities undertaken in the zone. This condition seems to be targeting SMEs, and aims to prevent already-established firms from profiteering by taking up all the space in the zones; but it is extremely limiting. Firms operating in scale industries, where size is a necessary precondition to compete, are effectively eliminated from eligibility. Expansion by larger firms is an important driver of investment and industrial development in the country, and under current conditions, these firms have much less incentive to consider expansion into SEZs. In South Africa's highly concentrated economic space, the need for scale is massively important in any number of vital industries - from large manufacturing, to transport and shipping, to virtually any service industry. Since many of the firms operating in these scale-economic industries offer important network benefits to the small manufacturing firms the incentive is targeting, the restrictions threaten the core firms they're supposed to benefit.

More worrying however is the second limitation, which restricts the industries that can benefit from tax breaks.[3] The list effectively excludes firms operating in sectors other than manufacturing and agriculture. Again, the impulse behind this is sensible: the zones are meant to be targeting specific industries, to diversify the economy and grow the industrial base, and the list limits the tax benefit to firms that could do that. Blocking banks from establishing headquarters in the zone and benefiting from tax breaks protects the country from exploitation of the SEZ policy. However, there are clear blind-spots. Central to these are those around the logistics functions. Firms that work in transport, storage, and packaging are excluded from access to tax incentives. Again, there is some logic to this, since these firms aren't necessarily going to be located in the SEZs, but may just have transport and storage links to the zones. But it's a serious missed opportunity. Having integrated logistics services built into the zone are a huge incentive, particularly for exporter firms. Transport and logistics costs are a major component of broader firm costs, and the option of a tax incentive could be used to bring in firms that offer zone firms beneficial rates on their logistics.

The restriction is particularly damaging for zones in less developed areas and for the logistics zones. Less developed areas pay an effective 'isolation tax' on their logistics, facing higher costs because they don't benefit from the types of through-freight as centres like Johannesburg. Logistics zones face an even more daunting task: they have to attract logistics firms with relatively little to offer, since the other incentives are arguably much less attractive (with the potential exception of warehousing firms, which could benefit from the building allowance).

Tax breaks are always going to come with strict limitations, and rightfully so. In a very fiscally constrained environment, breaks need to be offered to firms that create the most benefits. In this case, government has set that as meaning small manufacturing firms. But if a diverse collection of SEZs are to be developed, there needs to be more flexibility in these conditions. Zones that are not targeting small manufacturing firms should be given scope to apply for exemptions. Whether that be to try encourage the development of services (transport, warehousing), to attract larger anchor firms, or to attract sector-specific supply firms that could create important network benefits for the rest of the zone. Zones can target their specific sector/region/market/etc. without the tax benefit, but it substantially disempowers the zone operators, and developing specific niches requires equipping operators with as many policy levers as possible.

2.3.2. Alignment with Supporting Policies

The only truly successful Industrial Development Zones - at Coega and Port Elizabeth - succeeded because of their alignment with supporting policies. The presence of a national framework for automotive development, along with a particularly aggressive incentive scheme (the MIDP), allowed for the zones to capture automotive development. In this scenario, however, the zone's primary function was to influence where development happened - not if it happened. The broader automotive policy made the industry grow, while the zone influenced investment location decisions, and helped develop the Eastern Cape's automotive zone, which after a time was self-reinforcing because of its concentration of industry.

[3] Excluded industries can be found in Government Gazette 39930, http://www.gpwonline.co.za/Gazettes/Gazettes/39930_15-4_NatTreasury.pdf

It’s important to realise that almost none of the new zones benefit from similar supportive measures. The zones that gets closest are the Atlantis and Upington SEZs, which are tied to a range of renewable initiatives, notably the Renewable Energy Independent Power Producer Procurement Programme. The other two sector-specific zones focus on platinum metal groups, which certainly hold great potential and are governed by the broader strategy on beneficiation of platinum group metals, but don’t have tie-in to specialised incentive support for the broader industry.

Without doubt there is need to develop supporting interventions and strategies to unlock growth in the zones, and generally to assure widespread development in targeted industries. While this is pressing in specific industries, it is equally so in the need to craft a coordinated approach to dealing with imbalances in economic geography, and integrating logistic nodes (although the latter is more developed, particularly through the Natmap, which takes some account of SEZs).

More pressing, however, is to look towards an inverted approach for the second phase of SEZ development. While policy should assist SEZs, zones may have larger impact if they come after the development of effective support policies. This is particularly true for zones that aim to encourage diversified economic growth. When there are policy-induced moments of high economic growth, zones can prove an effective tool to guide where that growth happens. Sequencing zones with industrial policy initiatives reduces the risk that a zone might not inspire the necessary investment, and allows for a coordinated injection of support to encourage growth in economically marginally areas.

2.3.3. Economic Geography

While the SEZ act does offer some flexibility in crafting zones that suit different ends, there remains a clear policy gap on how zones in major economic centres differ from those in secondary cities and small towns. The gap is indicative of a larger uncertainty about whether the zones are just trying to meet general economic objectives, like fighting unemployment and boosting exports, or whether they are trying to spread growth to parts of the country that lack it. SEZs globally have often been used for the latter function, targeting an imbalanced economic geography. The lack of recognition for the different needs and challenges of zones in metros and those in secondary areas leaves the operators of zones in marginal areas in a difficult position, on two major levels.

First, they lack any additional levers with which to compete with the economic centres. This has generally meant the current zones in more marginal areas have targeted specific geography-specific industries, like platinum, but there are limits to this approach. The desire to develop agriculture in Mthatha, for example, makes sense from a developmental perspective, but it isn’t clear why investors would choose that zone over, for example, the Dube Trade Port, which also has an agricultural component, and can offer the same benefits, with the addition of big city amenities and port access.

Second, there isn’t clear structuring of how we assess SEZ performance to account for the challenges of location. If SEZs in a nascent economic area are judged against the same Key Performance Indicators as an SEZ in Johannesburg, then it will fail to meet those KPIs. The development of secondary cities requires a recognition that policy won’t create the same magnitude of benefits as similar interventions in more dynamic areas, and that the support to those zones will likely need to be in place for a longer period of time before they start seeing returns. A failure to acknowledge these challenges up front could see damaging destabilization of the zones through the loss of operators, or worse, through challenges to their designation.

2.4.Summary

South Africa’s Special Economic Zone policy offers an intriguing set of incentives that certainly hold the potential to attract investment. However, there is continued uncertainty about what these incentives are trying to achieve, and concerns in either direction. If the aim is to attract internationally mobile investment, then the incentives are relatively weak by global standards, and disconnected from more substantial industrial policy programmes (like the MIDP). If they’re targeting regional development, then there is a concerning lack of flexibility in the firms that can benefit from the zone’s core incentives, particularly the corporate tax breaks. Marginal economic areas cannot be as picky as economic centres in which firms they bring in to the zones, and limits on the size and industry of firm that qualify for support can exclude important regional players or large national interests that offer important network benefits.

The corporate tax incentive, through its restrictions, paints the clearest picture of the type of firm the SEZ policy wants to attract to the zone: small, South African, manufacturing firms. Those are absolutely firms that need to be developed, but it’s not clear how their development takes place without aiding them in creating linkages to lead firms, logistics industries, and intermediaries to foreign firms and markets. None of those are covered by the SEZ. At best, this could leave our zones full of the firms we want, but isolated from the economy we want them to engage with. Building more flexibility into the policy, and making a decision on where the focus of the zones lie (growth or geography), will help unlock their nascent potential.

3. Single Factory Zones

3.1. Overview

Although the SEZ Act extends to include a wider variety of zones such Free Ports, Sector Development Zones and many others, it does not include single factory zones, even though international evidence shows that they contribute significantly to economic and export growth.

Experiences from countries such as Mauritius that have implemented single factory zone programmes show that programmes that only focus on using location-based incentives do not necessarily lead to the desired level of export growth. After Mauritius amended its SEZ programme to allow flexibility in terms of location, the country experienced an increase in export contribution from 3% of total exports in 1971 to 67% by 1995 (Singer, 2006).

Single factory zones are a variation of Free Trade Zones and Export Processing Zones whereby individual enterprises are provided with incentives and other benefits without having to locate within a demarcated zone (Woolfrey, 2013). They constitute a single factory, located anywhere in a country which benefits from special duty free privileges and differ from other traditional zone models in that they offer investors flexibility with regards to choice of location, taking into account labour, material inputs and infrastructure (Chipfupa, 2015). This type of zone is aligned with the development objective of increasing export manufacturing.[4] Single factory zones are mainly used in countries aiming to create a concentration of exporters in a specific industry.

Policy makers have divided opinions on the subject of introducing single factory zones in South Africa. Those in support of single factory zones suggest that by implementing them, logistical difficulties such as acquiring the appropriate land and building new infrastructure would be eliminated (Altbeker et al, 2011). Concerns raised against their introduction in South Africa include the complexity involved in managing such schemes as well as deadweight losses created from granting incentives to companies that would otherwise perform the same activities in the absence of participating in such a scheme (Chipfupa, 2015). Others suggest that single factory zones are very similar to already existing bonded warehouses, and therefore would not add any value to the economy. Moreover, some propose that such a model is best suited for small island economies where all factories are situated at close proximity to the ports such as Mauritius (Altbeker et al, 2011).

This section analyses the trends in countries that have successfully implemented single factory zones in terms of management, infrastructure, investment facilitation, regulation approaches, sectoral focus and employment for the purposes of drawing lessons from the international experiences of single factory zones. The ultimate goal is to highlight what single factory zones offer that other zone types do not, and establish how they can be designed and facilitated to maximise benefits for the economy.

Single factory zone programmes have been mainly implemented in Africa, with approximately 22 countries with established models. Table 1 presents a country comparison of single factory zones in Costa Rica, India and Ghana. Although these countries have different circumstances to those of South Africa, they are a good example of countries that have been able to successfully introduce and manage single factory zones and therefore lessons can be drawn from their governing legislation and implementation of their programmes.

[4] Different types of zones are aligned with different development objectives. Traditional EPZs focus on manufacturing; free trade zones support trade; hybrid EPZs focus on export and domestic market; free ports support integrated development; and enterprise zones focus on urban revitalisation.

Table 6: Country Comparison - Single Factory Zones

Parameter	***Costa Rica***	***Ghana***	***India***
Management	• Applications – Costa Rican Foreign Trade Corporation • Approval – Technical Commission • Executive Free Trade Zone Agreement signing – Minister of Foreign Affairs and President of Costa Rica (2weeks) • Customs authority approval – sanitary permits and municipal licences • Operation contract -$5 00 deposit to Costa Rican Foreign Trade corporation	• Application – Enterprise Licence from Ghana Free Zone Board (28 days) • Enterprise License fee of US$2,000 – Manufacturing or S$3,000 - Service or US$5,000 - Commercial in the first instance and a renewal fee of US$1,600 - Manufacturing or US$2,000 - Service or US$4,000 - Commercial paid annually	• Application – Development Commissioners of Special Economic Zones authorised by Ministry of Commerce • Registration and Membership Certificate and Import Export Code – Rs5 000 to the Ministry • Approval – issuance of Private Custom Bonded Warehouse Licence (Deputy Commissioner of Customs)
Infrastructure	• Sector specific	Sector specific	Sector specific
Investment Facilitation & Incentives	Exemptions from payments of all taxes and duties on: • imports of raw materials required for the operation of business; machinery and equipment corresponding to the beneficiary's operation; fuels, oils and lubricants required for the operation of business • Sales and consumers taxes • All taxes on remittances abroad • Municipal taxes and licences for a term of 10 years • A term of 10 years from taxes on capital and net assets and the payment of real estate transfer tax, as of date of approval of operations of the economy	• Foreign investor may hold a maximum of 100% of the shares in any free zone enterprise • Exempt from payment of income tax on profits for the first 10 years from the date of commencement of operation • Income tax rate after 10 years shall not exceed a maximum of 8%. A shareholder is exempted from the payment of withholding taxes on dividends arising out of free zone investments • Full exemption from customs duties on imports and exports, exemption from the VAT • No restrictions on repatriation of dividends or profits, payments for foreign loan servicing, payments of fees related to technology transfer agreements, remittance of proceeds from the sale of a portion of a	• No license required for import • Exemption from Central Excise Duty in procurement of capital goods, raw materials, consumables from the domestic market and their import; • Reimbursement of Central Sales Tax paid on domestic purchases • Supplies from Domestic Tariff Area to Export-Oriented Units (EOU) treated as exports • Reimbursement of duty paid on furnace oil, procurement from domestic oil • Exemption allowed to be repatriated freely without any dividend balance requirement • Profits allowed to be repatriated without any dividend balancing

		free zone investment	requirement
Sectoral Focus Areas	• Innovation and higher-value industries • Textiles • Electronics • Footwear • Machinery • Pharmaceutical • Other manufacturing • Services and commercial	• ICT • Agro processing • Industry and manufacturing • Oil and gas	• Textile • Garments and yarn • Food and agro-processing • Electronics and software • Chemical • Engineering • Minerals • Granite
Employment creation opportunities	• Sector specific, therefore varies from semi-skilled to skilled	• Sector specific, therefore varies from semi-skilled to skilled	• Sector specific, therefore varies from semi-skilled to skilled
Policy framework	• Article 1 of Law No.7210, 1990 (Free Zone Regime	• Ghana Free Zone Act, 1995	• Export-Oriented Unit Scheme, 1981

Source: Compiled by author, 2016 (Adapted from Manufacturing Circle, 2015)

Note: See

3.2. Programme outcomes

Before the introduction of single factory zones, Costa Rica's SEZ policy failed to attract investments despite offering a significantly larger incentive package to that of the South African programme. The success of the Costa Rican programme is strongly linked to the introduction of flexibility in terms of the choice of location of SEZs, through single factory zones. Data from the Costa Rican Ministry of Trade shows that between 1997- 2005 the contribution to GDP from firms within FTZs increased from 0.5% in the 1990s to 8% in 2003. In 2005, 39 000 direct jobs (44 000 in 2006) were generated by these firms, which also contributed 42% to foreign direct investment (Chipfupa, 2015).

In India, single factory zones are known as Export –Oriented Units (EOUs), and are included in the country's SEZ policy, although governed by a different legislation than the main programme. In an attempt to decentralise its export-promotion system, the Indian government introduced the EOU policy platform in 1981 which offered a range of options in locations, taking into consideration factors such as availability of technological skills, source of raw materials, ports of exports and the existence of an industrial base. According to National statistics, a significant share of the country's export earnings and domestic production comes from EOUs. SEZs contributed 4% to India's exports compared to the 8% contribution by EOUs in 2009. In 2003 SEZs employed 2 million people while EOUs employed 6 million.

The most significant contribution from the Ghanaian Free Zone programme has come from single factory SEZs. Export of $457 million was reported from firms in these zones in 2004, mainly from a few large firms which focus on agro-processing and furniture manufacturing (Chipfupa, 2015).

Data from the three case studies show the outcomes of the implementation of single factory zones in the different countries. The common theme from each case is the increasing contribution of single factory zones to the increase in exports and employment. Most importantly, the Indian and Cost Rican case suggest that incentives based on location do not necessarily produce desired outcomes of export growth. For both countries, significant growth in manufacturing exports was experienced after their SEZ programmes were amended to include flexibility in terms of the location of producing factories.

3.3. The South African debate

The debate on SEZs in South Africa is mainly centred on key questions about the performance of the SEZs, why they have been unimpressive and what the country can learn from other international experiences (Altbeker et al, 2011). This has led to the discussion of the possibility of establishing single factory zones as a means to improve the performance outcomes of the programme.

Although views on the possibility of establishing single factory zones are divided, there is consensus in that zone location decision-making remains too often determined by political factors rather than commercial or economic considerations (Farole, 2011). Zones end up being established in 'lagging' areas where little or no work has been done to address issues of availability of adequate skilled labour, infrastructure connectivity and supply access which lack in these areas. This has resulted in the poor performance of zones particularly because FDI favours areas with established access to quality infrastructure and labour markets hence the consideration of single factory zones.

The main concern to the establishment of single factory zones in South Africa is also in identifying the type of companies or firms which can apply and benefit from the programme. Debates centre on the complexity of managing such a programme, and whether it is at all necessary to be incentivising companies that would engage in production with or without the incentive packages (Chipfupa, 2015). Additional concerns are that single factory zones are very similar to already existing bonded warehouses, and therefore would not add any value to the economy. Moreover, some propose that such a model is best suited for small island economies where all factories are situated at close proximity to the ports such as Mauritius (Altbeker et al, 2011).

Based on the above views, it is important for government to understand the rationale behind considering single factory zones in their SEZ programmes. Given that other countries have experienced significant success after amending their programmes to include flexibility in terms of location, political will is necessary in ensuring that the development objective of meeting socio-economic objectives is clear. The institutional support required to manage the programme should be established, particularly implementation capacity. It is important to establish a proper monitoring and evaluation mechanism such that there is no abuse of the system and ensure that the programme is effectively linking policy, strategy and operations.

3.4. Summary

Key lessons can be drawn from countries that have established successful single factory zones. As shown by the country case studies, it is necessary to amend the legislation to ensure that it allows for single factory zones if maximising firm growth is the aim, and this would require significant political will.

The incentives offered must also support links between the single factory zones to the domestic economy and export markets to maximise firm dynamism. The cases of India and Costa Rica show that it is important to establish key minimum criteria which can be used to determine participation in the programme. These can include Size of plan, Level of employment, Level of investment, Output, Exposure to trade. There must also be strong conditionalities for accessing such incentives especially around minimum investments, output, employment and export growth.

Although the preceding section has shifted the focus away from location specific focused areas, there is merit in exploring the economic geography issue more by examining the role of industrial parks, particularly South Africa's Industrial Parks Revitalisation Programme (IPRP). Section 4 of this report explores the IPRP's intent to resuscitate economic activity in remote, rural areas and secondary towns and townships.

4. Industrial Parks

4.1. Overview

Industrial parks are areas designed and zoned for industrial activities, specifically in manufacturing and related industries. These parks are usually close to transport facilities and offer an array of infrastructural typologies to house firms. There is also a plethora of variations on industrial parks, which are in other places known as industrial estates. There is growing emphasis on utilising industrial parks to drive cluster-based approaches to firm growth and dynamism.

Industrial clusters (or industrial agglomeration) refers to the phenomenon of firms in the same (or related) industries locating close to one another. Industrial clusters usually represent cross-sections of entire value chains of a defined industry, from raw materials suppliers to the manufacture of end products, including supporting services (such as finance, logistics and customs) and specialised infrastructure. Clusters have added benefits such as reduced transport costs by being in close proximity to input suppliers or final consumers, (2) agglomeration allows for labour market pooling becomes possible, and they facilitate intellectual (or knowledge and technology) spill-overs.

South Africa's department of Trade and Industry (**the dti**) has launched an Industrial Parks Revitalisation Programme (IPRP) aimed at resuscitating and reviving South Africa's old industrial parks, and equipping them to drive job creation in the manufacturing sector and remove barriers related to market infrastructure for firms. In many instances these industrial parks were in a state of dysfunction due to neglect, rising crime and wholesale vacancies in the parks. Case Study 1 below outlines the key phases and programme overview of the IPRP which spans from 2015 to 2020.

Case Study 1: IPRP

The IPRP represents a structured programme for the revitalisation of industrial parks located in the old industrial areas across the country, particularly around former homelands, smaller (secondary) towns, and rural areas. The programme has identified the first ten (10) state owned industrial parks to be revitalised through a focus on both the physical infrastructure and other support requirements.

With six parks prioritised in Phase 1 of the programme and a budget allocation of just under R190m, these parks are meant to serve as catalysts for broader economic development especially around townships, distressed mining towns and labour-sending areas. The prioritised Industrial parks are located in Seshego (just outside Polokwane, Limpopo), in the Eastern Cape (in Queenstown and Mthatha), in the Free State, Botshabelo (which is approximately 40kms from the provincial capital Bloemfontein), Babelegi (in Hammanskraal) in the North West province and a final park in Kwa-Zulu Natal (Isethebe, just North of Durban). The revitalisation programme is categorised into the following phases:

- Phase 1 (2015/16-2016-17): Security infrastructure upgrade, fencing, street lighting, top structures and critical electricity requirements
- Phase 2 (2017/18): Engineering designs and construction of new and existing roads, bulk water supply and sewage treatment plants or industrial effluent control
- Phase 3 (2018/19): Upgrading electricity infrastructure, and build new top structures in line with the expansion programme of the Parks.
- Phase 4 (2019/20): Development of sustainable industrial clusters in the Parks.

In terms of progress, Phase 1 has advanced steadily with budgets allocated for 8 of the parks, with refurbishments complete on four of the parks, which have been handed over to implementation and/or management agents.

This points to Phase 1 being completed within the 2016/17 financial year, allowing for the commencement of Phase 2 and 3 which are further infrastructure development elements. Critically, Phase 4 is still a few years from implementation, however, the selection of firms (and cluster creation opportunities) should be directing the sort and types of infrastructure required by potential tenants.

Source: the dti, 2016

4.2. What are the different park types?

4.2.1. Shared Infrastructure Parks

The National Industrial policy Framework (NIPF) has a core objective of shifting the focus of economic activity towards historically disadvantaged people and regions and emphasises the importance of addressing spatial patterns through a focus on delivering industrial infrastructure[5] (especially in underdeveloped areas with latent economic potential). However, as economic development requires industrial upgrading and corresponding improvements in infrastructure for

[5] See Tsedu, 2015

firms, the government should play an active role in facilitating such industrial upgrading and infrastructure improvements - a key focus area for the IPRP and other industrial policy initiatives.

Shared infrastructure parks are usually referred to as operating on a “property management function” that is providing a shared basis for infrastructure such as compliance (e.g. fire and occupational health and safety) and other threshold amenities such as water, electricity, security, sanitation and facilities maintenance.

Table 7: Industrial Park Models

TYPE/PARAMETER	Property Management Function (Incubator and Multi-sectoral hub approach)	Cluster Focused (Single-sector enterprise hub & IPRP/CDP Model)
Management	Private property management, property usually leased to private firms	Cluster Management Organisation (NPC comprising cluster members); Public, Multi-stakeholder (DFIs, Municipalities, the dti)
Infrastructure	Limited “learning” infrastructure to develop capabilities, Shared infrastructure for tenants	Sector-specific, member financed (subsidised) Threshold infrastructure, top structures, (publicly) funded
Investment Facilitation & Incentives	No specific incentives (exc. varying rental rates) Incubator Support Programme (ISP)	CDP: Non-taxable matching grants toward Organisational support, shared infrastructure and business development services
Sectoral Focus Areas	Multi-sectoral (Enterprise development)	Multiple, based on manufacturing; value chain and supplier linkages.
Employment creation opportunities	Limited, SME focused; Based on firm growth and dynamism	Based on firm growth and dynamism; Addresses production, productivity and marketing
Policy framework	Unknown	Under development

Source: Compiled by author

4.2.2. Cluster-Based Parks

Phase 4 of the IPRP is centred on the dti’s Cluster Development Programme (CDP) which is intended to facilitate and support industrial clusters. The CDP is seemingly focused on growing existing firms as industry clusters are usually groups of similar and related firms in a defined geographic area that share common markets, technologies, worker skill needs, and which are often linked by some buyer-seller relationships. Case Study 2 provides an overview of the CDP.

Case Study 2: Cluster Development Programme (CDP)

The objective of the CDP is to enhance competitiveness of enterprises within a cluster primarily by addressing production, productivity and marketing. A cluster project would typically Involve 5 or more member companies which are linked together within one or more value chains. The objectives of clustering industrial entities is to:

- build competitiveness of local companies to improve manufacturing share in domestic market and aggregate demand;
- enhance export readiness, competitive intelligence and scaling up critical export mass of local companies;
- promote development of industrial clusters in functional regions within the value chains;
- build the competitiveness of the regions by developing appropriate business infrastructure,
- sector specific employable skills and formative sector education, institutions and other key requirements to support the long-term exploitation of the comparative advantage of the regions;
- facilitate capacity and institutional partnership for the management of clusters to enhance economic development potential;
- build strategic partnerships between government, enterprises, academia as well as research and development institutions and international institutional affiliations to facilitate agglomeration and fusion innovation within and beyond supported clusters;
- create inclusive platform within the clusters for emerging black industrialists to develop and effectively participate in the economy;
- develop technology consortia and sector development advisory capacity; and
- create collaborative platforms for facilitating development needs of industrial sectors through radical sector development approach.

The CDP consists of the following components:

- Shared Infrastructure Grant
- Business Development Services
- Cluster Management Organisation (CMO) Funding

The shared infrastructure grant is a non-taxable matching cash grant of up to 80% of the investment to a maximum of R10 million per cluster. Qualifying costs include Building, Machinery and equipment, Commercial vehicles and Tools, jigs and dies.

The business development services grant is a non-taxable cash matching grant of up to 80% of the investment to a maximum grant of R5 million per cluster. Qualifying costs include Consulting fees, Benchmarking costs, Conformity assessments and accreditation, Intellectual Property registration (local and international), Feasibility studies costs, Technology/ product improvements, Post-prototype development (prototype tested and validated) and Bio-prospecting.

The purpose of the CMO is to manage core operation and delivery by the cluster. The CMO funding is a non-taxable matching cash grant of up to 80% of the costs payable at the establishment of the CMO to a maximum of R5 million per cluster. Qualifying costs include Project management fees, Administration fees, Salaries and wages (to a maximum of 3 staff and capped at the lessor of R2 million or 70% of the total payroll), Rent up to 70% of rental cost (will be capped at R250 000), Furniture and Office equipment, Operational costs (incl. electricity, water, telephone and stationery), Travel and accommodation including traveling allowances and costs (capped at R50 000 per annum) and Event management costs (for networking sessions).

Source: the dti, 2015b

The IPRP is rightly strongly focused on infrastructure upgrades to create viable working conditions, while the CDP has a core focus on supporting upgrading, quality assurance and business development. What emerges however is a limited focus on emerging enterprises, incubation and SME development in industrial parks – they could provide platforms for incubators, centres of competence and provide SME links into cluster value chains.

IPAP 2016/18 highlights key intended outcomes of the CDP as including increased inter- firm collaboration, enhanced productivity and increased capacity and capability amongst cluster firms. The CDP will need to overcome constraints such as mistrust between companies; apprehension from companies to work with Government and limited use of technology. Sector-focus is a key component in determining whether and where industrial clusters can locate or develop. Without an identified sector focus, the CDP risks misallocating resources to the wrong infrastructure, highlighting the importance of collaborating and incorporating private sector involvement and input. It should be noted that there are a number of factors that determine the location of industry – key among them is the question of what is being produced in the area. Other factors[6] include:

- Physical Factors – for example heavy industry needs to be near raw materials such as coal, iron ore and electricity and also need mass transport like railways and water transport;
- Economic Factors - certain industries need to be near their markets, e.g. service industries;
- Social Factors - Each manufacturing activity requires different amounts of labour, both in terms of quantity and skill levels;
- Political Factors - the government may decide where to establish industries (as is the case with the IPRP and other SEZs).

All of the above have to be taken account of when considering or implementing spatially-targeted industrial development programmes, but there are some key success factors that can be drawn on to ensure successful implementation that will support firm and employment growth.

4.3.Summary

A successful industrial development strategy requires effective investment promotion agencies. The key issue with local investment is that it should not be a relocation, but rather an expansion that indicates a conscious attempt to commit capacity to manufacturing for local (and potentially, export) markets. Various Provincial Investment Promotion Agencies (PIPAs) and Development Corporations will be tasked with implementing and supporting the CDP and these industrial parks. PIPA mandates are usually broader than purely investment promotion, with staff at the provincial levels also focus on Trade Promotion – a consequence of a spate of 'institutional mergers' of PIPAs with Development Corporations/Agencies. This has brought limitations in capacity and the capabilities of PIPAs to undertake desired activities in Investment Promotion and After-care services in the provinces – a potential stumbling block for the IPRP.

[6] See Zhou and de Wit, 2009

5. Key Lessons

The lessons learnt from South Africa's IDZs were that they have struggled to meet their intended objectives. In particular, they seem to have had little impact on expanding or diversifying South Africa's manufacturing sector or export performance. Moreover, most of the investments were in capital-intensive sectors and have therefore generated relatively few jobs. The SEZ policy should avoid some of the same pitfalls, principally by aligning with the appropriate policy and implementation frameworks something currently lacking in the industrial parks programme.

What is evident is that there is clear divergence in terms of policy implementation with new legislative arrangements being put in place. Yet all these policies serve the same purpose – economic development and growth. It is therefore critical that spatially-targeted strategies increase productive capacity and capabilities of firms and not displace economic activity from one area to another. This brief has shown that there are multiple aspects that will need to work seamlessly together in order for the successful implementation of spatially targeted industrial development programmes. Three key recommendations follow the review of the programme:

- The dti (and its implementation agencies) must identify growth opportunity sectors for these industrial clusters. Sectoral focus areas have a significant impact on the type of activities, infrastructure and support services that should be prioritised. This will determine what sort of employment creation opportunities can be exploited and what sort of clusters emerge;

- Following on the above is the issue of packaging support services in a manner that attracts and assists firms interested or capable of forming and sustaining industrial clusters. Three key areas are around infrastructure (specifically the type, scale, provision arrangements and financing of such infrastructure); Investment Facilitation (through packaging of incentives); and Business Development and Incubation support (including industrial upgrading). The right combination and packaging can ensure that firms can access comprehensive support in pursuit of growth; and lastly

- Institutional arrangements around implementation matter. The SEZ policy currently has a multitude of implementation partners including the dti, the DBSA, provincial agencies, municipalities and consultants in some cases. This complex arrangement will have direct impacts on the management (and potential success) of the programme. This will require the involvement of well-run development and municipal agencies with the necessary investment facilitation and cluster oriented management and administration capabilities – private sector partnerships may prove to be pivotal for ensuring cluster formation and creating linkages for new firms and entrants. With the dti acting as a national champion for this programme, it will be necessary to ensure local municipal buy-in and resourcing as the industrial parks will be dependent on municipal support.

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Annexures

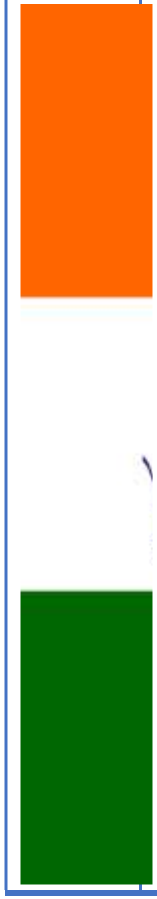
Annexure 1: Socio-economic and Geographic information on proposed SEZs

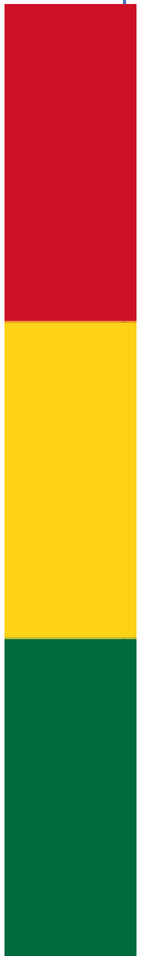
		Socio-Economic Need			Sector
Name	**Municipality**	**Unemployment**	**Income**	**University**	**Sectoral Focus**
Mthatha SEZ	King Sabata Dalindyebo	3,42%	83,76%	88,03%	Agro-processing
Maluti-A-Phofung SEZ	Maluti a Phofung	13,68%	43,16%	55,56%	Automotive logistics, agro-processing, pharmaceutical
Nasrec SEZ	City of Johannesburg	88,46%	96,15%	99,57%	ICT and electronics
Dube Trade Port	eThekwini	42,74%	88,46%	90,17%	Agro-processing and electronics
Tubatse SEZ	Greater Tubatse	2,99%	95,73%	23,93%	Platinum Group Metals
Musina SEZ	Musina	96,58%	3,42%	45,30%	Logistics, petrochemicals and trade hub
Nkomazi SEZ	Nkomazi	48,29%	26,92%	47,44%	General Logistics
Upington SEZ	//Khara Hais	67,09%	70,94%	73,50%	Solar Corridor
Platinum Valley SEZ	Moses Kotane	16,24%	80,77%	20,09%	PGMs
Atlantis Greentech SEZ	City of Cape Town	83,76%	97,86%	98,29%	Renewable Energy
Coega IDZ	Nelson Mandela Bay	25,21%	91,88%	90,60%	Automotives
East London IDZ	Buffalo City	32,05%	84,19%	92,31%	Automotives
OR Tambo International Airport IDZ	Ekurhuleni	79,49%	94,87%	92,74%	Air transport
Richards Bay IDZ	uMhlathuze	41,88%	97,01%	93,59%	Beneficiation of natural resources
Saldanha Bay IDZ	Saldanha Bay	83,33%	83,33%	75,64%	Marine Engineering, with a focus on oil and gas

	Distance from Economic Centres				Distance from Export			
Name	Closest Major Centre	Distance	Closest Regional Centre	Distance	Closest Sea Port	Distance	Closest Land Port	Distance
Mthatha SEZ	East London	232	East London	232	East London	232		
Maluti-A-Phofung SEZ	Johannesburg	287	Ladysmith	86	Durban	311		
Nasrec SEZ	Johannesburg	0	Johannesburg	0	Durban	578		
Dube Trade Port	Durban	0	Durban	0	Durban	0		
Tubatse SEZ	Polokwane	161	Polokwane	161	Durban	643	Komatipoort	273
Musina SEZ	Polokwane	196	Thohoyandou	134			Beitbridge	26
Nkomazi SEZ	Polokwane	413	Nelspruit	106			Komatipoort	0
Upington SEZ	Bloemfontein	572	Upington	0	Saldanha Bay	799	Ariamsvlei	150
Platinum Valley SEZ	Pretoria	158	Rustenburg	54	Durban	758	Sikwane	128
Atlantis Greentech SEZ	Cape Town	64	Cape Town	64	Cape Town	64		
Coega IDZ	Port Elizabeth	0	Port Elizabeth	0	Port Elizabeth	0		
East London IDZ	East London	0	East London	0	East London	0		
OR Tambo International Airport IDZ	Johannesburg	0	Johannesburg	0	Durban	578		
Richards Bay IDZ	Durban	178	Richards Bay	0	Richards Bay	0		
Saldanha Bay IDZ	Cape Town	133	Saldanha Bay	0	Saldanha Bay	0		

Annexure 2: Country Comparison - Single Factory Zones

Country	Year established	Incentives	Criteria for participation	Management	Sectoral Focus
Costa Rica 	1990	Exemptions from: • Payments of all taxes and duties on imports of raw materials required for the operation of business • All taxes and duties affecting imports of machinery and equipment corresponding to the beneficiary's operation • All taxes and duties in imports of fuels, oils and lubricants required for the operation of business • Sales and consumers taxes • All taxes on remittances abroad • All taxes on profits, including dividends paid to shareholders in accordance with the following difference -100% for companies located in zones of higher relative development, for a term of up to 8 years and 50% for the following 4 years; 100% for companies located in zones of lower relative development, for a term of up to 12 years and 50% for the following 6 years • Exemption from all municipal taxes and licences for a term of 10 years • A term of 10 years from taxes on capital and net assets and the payment of real estate transfer tax, as of date of approval of operations of the economy	• New initial investment on fixed assets of at least US$2million • Manufacturing companies - at least 75% of the production must be exported • Services companies – at least 50% of services must be exported	• Applications – Costa Rican Foreign Trade Corporation • Approval – Technical Commission • Executive Free Trade Zone Agreement signing – Minister of Foreign Affairs and President of Costa Rica (2weeks) • Customs authority approval – sanitary permits and municipal licences • Operation contract -$5 00 deposit to Costa Rican Foreign Trade corporation	• Innovation and higher-value industries • Textiles • Electronics • Footwear • Machinery • Pharmaceutical • Other manufacturing • Services and commercial

India 	1981	• No license required for import • Exemption from Central Excise Duty in procurement of capital goods, raw materials, consumables from the domestic market • Exemption from customs duty on import of capital goods, raw materials, consumables • Reimbursement of Central Sales Tax paid on domestic purchases • Supplies from Domestic Tariff Area to Export-Oriented Units (EOU) treated as exports • Reimbursement of duty paid on furnace oil, procurement from domestic oil • Companies to EOUs as per the rate of drawback notified by the Directorate General of Foreign Trade • 100% Foreign Direct Investment permissible • Exchange earners foreign currency (EEFC) Account • Facility to retain 100% foreign exchange proceeds in EEFC Account • Facility to realize and repatriate export proceeds within 12 months • Re-export of imported goods found defective, goods imported from foreign suppliers on loan basis • Exemption allowed to be repatriated freely without any dividend balance requirement • Profits allowed to be repatriated without any dividend balancing requirement	• Minimum investment - Rs.10 million (Indian Rupees) (USD 165,000) in plant and machinery except for agriculture /Aquaculture/IT/Service units, Brass handmade jewellery) • Complete business plan, capital investment plan and physical location plan Information is required, for example, on the capital equipment (foreign and local) to be used, sourcing of local resources and other inputs, the production process, the environmental management plan, power requirements etc. • Export a 100% of their output although 50% of physical exports can be sold in domestic market on payment of concessional customs duty • New EOUs, sale in the domestic tariff area will be allowed not exceeding 50% of its estimated exports for the first year except the pharmaceutical units where this will based on its estimated exports for the first two years • A positive Net Foreign Exchange earner (NFE)	• Application – Development Commissioners of Special Economic Zones authorised by Ministry of Commerce • Registration and Membership Certificate and Import Export Code – Rs5 000 to the Ministry • Approval – issuance of Private Custom Bonded Warehouse Licence (Deputy Commissioner of Customs)	• Textile • Garments and yarn • Food and agro-processing • Electronics and software • Chemical • Engineering • Minerals • Granite

Ghana 	1995	• Foreign investor may hold a maximum of 100% of the shares in any free zone enterprise • Exempt from payment of income tax on profits for the first 10 years from the date of commencement of operation; Income tax rate after 10 years shall not exceed a maximum of 8%. A shareholder is exempted from the payment of withholding taxes on dividends arising out of free zone investments • Full exemption from customs duties on imports and exports, exemption from the VAT • Single factory EPZs may sell up to 30 percent of the annual production of goods and services to the national customs territory. Sale of goods from free zone enterprises to the national customs territory shall be considered as imports and shall be subject to the rules and regulations relating to imports into the national customs territory. • Damaged or rejected goods, or samples may be sold by the single factory zones to the national customs territory; such goods are considered as part of the 30 percent of annual production of the free zones authorized to be sold to the national customs territory. • Sales of goods and services by a domestic enterprise from the national customs territory to single factory zone shall be considered as exports. • A domestic enterprise will be eligible to benefit from the prevailing export incentives available to a national exporter and will not require an export license for sale of any goods and services to single factory zone. • Can purchase goods and services sold by a domestic enterprise with local currency obtained through conversion of foreign currency through the banks and any licensed foreign exchange bureau. • No restrictions on repatriation of dividends or profits, payments for foreign loan servicing, payments of fees related to technology transfer agreements, remittance of proceeds from the sale of a portion of a free zone investment, and operation of a foreign-currency account in a bank in Ghana.	• Investing in any sector as long as it meets the requirements of the Ghana Free Zone Board • Plastic manufacturing, wood processing and all forms of mining are however not allowed under the Free Zones Programme • Main sectors of interest are: • Information and Communication technologies; Business Process Outsourcing; Data Entry and Processing; Call Centres; Software Development; Hardware Assembly • ICT Infrastructure Development • Agro processing: Processing of fruits and vegetables; shea nuts and cashew nuts; palm oil • Industry and manufacturing o Textile and garments o Light industry; Fabrication of hand tools and machinery; Jewellery production; Production of Chocolate • Oil and gas; Oil refinery and distribution; Manufacturing of by-products from oil and gas o Manufacturing of chemical inputs and accessories for the petroleum industry	• Application – Enterprise Licence from Ghana Free Zone Board (28 days) • Enterprise License fee of US$2,000 – Manufacturing or S$3,000 - Service or US$5,000 - Commercial in the first instance and a renewal fee of US$1,600 - Manufacturing or US$2,000 - Service or US$4,000 - Commercial paid annually	• ICT • Agro processing • Industry and manufacturing • Oil and gas

Annexure 3: DTI Incentives

CLUSTER	INCENTIVE SCHEME[7]
Manufacturing Investment	• 12i Tax Incentive • Automotive Incentive Scheme (AIS) • Aquaculture Development Incentive Programme • Enterprise Investment Programme
Competitiveness Investment	• Manufacturing Competitiveness Enhancement Programme (MCEP) • Export Marketing & Investment Assistance (EMIA) • Sector Specific Assistance Scheme (SSAS) • Capital Projects Feasibility Programme (CPFP)
Services Investment	• Film & Television Production • Business Process Services (BPS)
Industrial Innovation Investment Cluster	• Support Programme for Industrial Innovation (SPII) • Technology and Human Resources for Industry Programme (THRIP) • Incubator Support Programme (ISP)
Infrastructure Investment	• Critical Infrastructure Programme (CIP) • Special Economic Zones (SEZ)

[7] For more information of the various incentive programmes see https://www.thedti.gov.za/trade_investment/export_incentives.jsp?subthemeid=26 or http://www.investmentincentives.co.za/