

Spatial Industrial Policy, Special Economic Zones & Cities in SA

Presentation based on Background Paper authored
by Farole & Sharp

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national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Spatial Structure and Industrial policies are closely linked

The Problems

Spatial disparities

- South Africa has entrenched spatial disparities, both within cities and across regions.

Jobs challenge

- It also has a serious jobs challenge, which will require raising productivity through improved competitiveness.

The Tools

Targeted spatial industrial policies

- Many countries use targeted spatial industrial policy, such as SEZs, to unlock constraints to investment and job creation in and around cities.



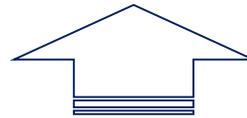
Agglomeration economies around cities

- Cities provide opportunities for job creation and income growth if regions can leverage agglomeration economies.

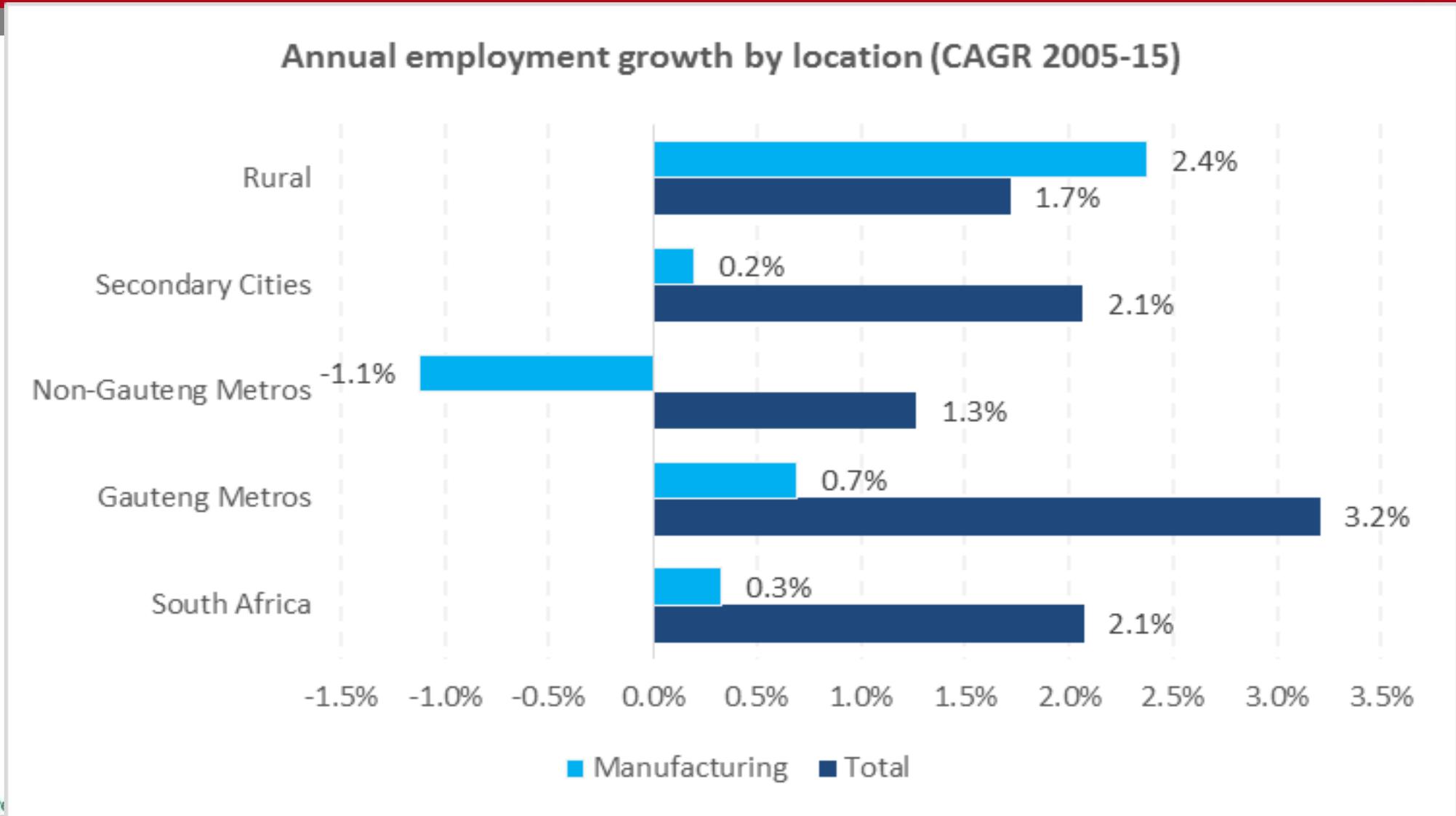


Effective intergovernmental coordination

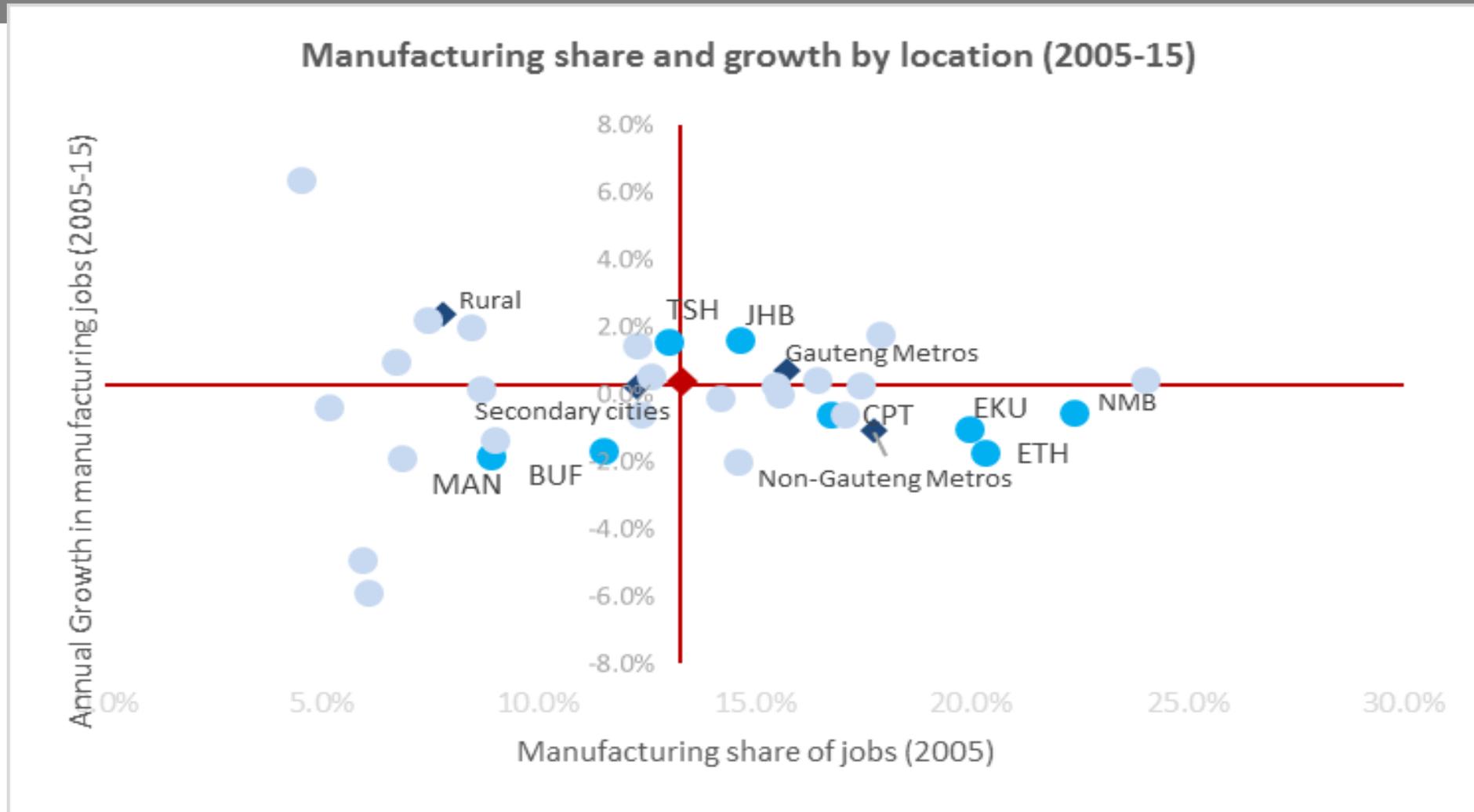
- Maximizing regional growth requires effective coordination among national, provincial, and city-level in developing and implementing regional development programs.



Manufacturing concentrated in cities, but growing faster in rural areas



Weak link between pace of growth and manufacturing location



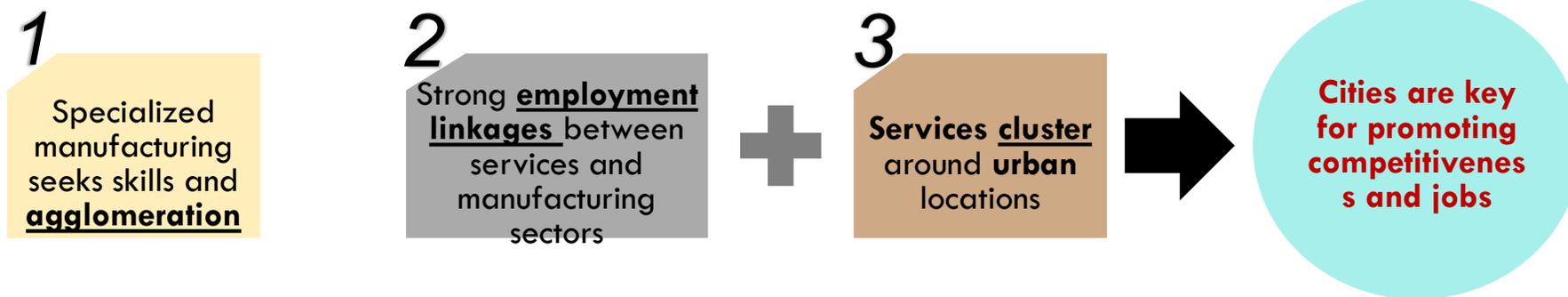
Are sectoral and spatial policies pulling in the same direction?

Strong linkages between goods and services: Cities are key for promoting competitiveness and jobs

Distribution of backward employment linkages by broad sector and selected manufacturing sectors (2013)

	Total	Agriculture	Mining	Manufacturing	Utilities	Construction	Services	Food processing	Wearing apparel	Metal products	Electrical equipment	Transport equipment
Agriculture	8%	75%	1%	8%	1%	1%	1%	41%	2%	1%	1%	1%
Mining	8%	3%	53%	7%	11%	8%	2%	3%	2%	10%	7%	5%
Manufacturing	28%	6%	9%	41%	12%	18%	6%	29%	58%	58%	45%	40%
Utilities	1%	0%	1%	1%	30%	0%	0%	0%	0%	1%	1%	0%
Construction	2%	0%	1%	1%	3%	48%	1%	1%	0%	1%	1%	1%
Services	53%	16%	36%	44%	45%	24%	91%	25%	37%	30%	45%	52%

Data source: Quantec

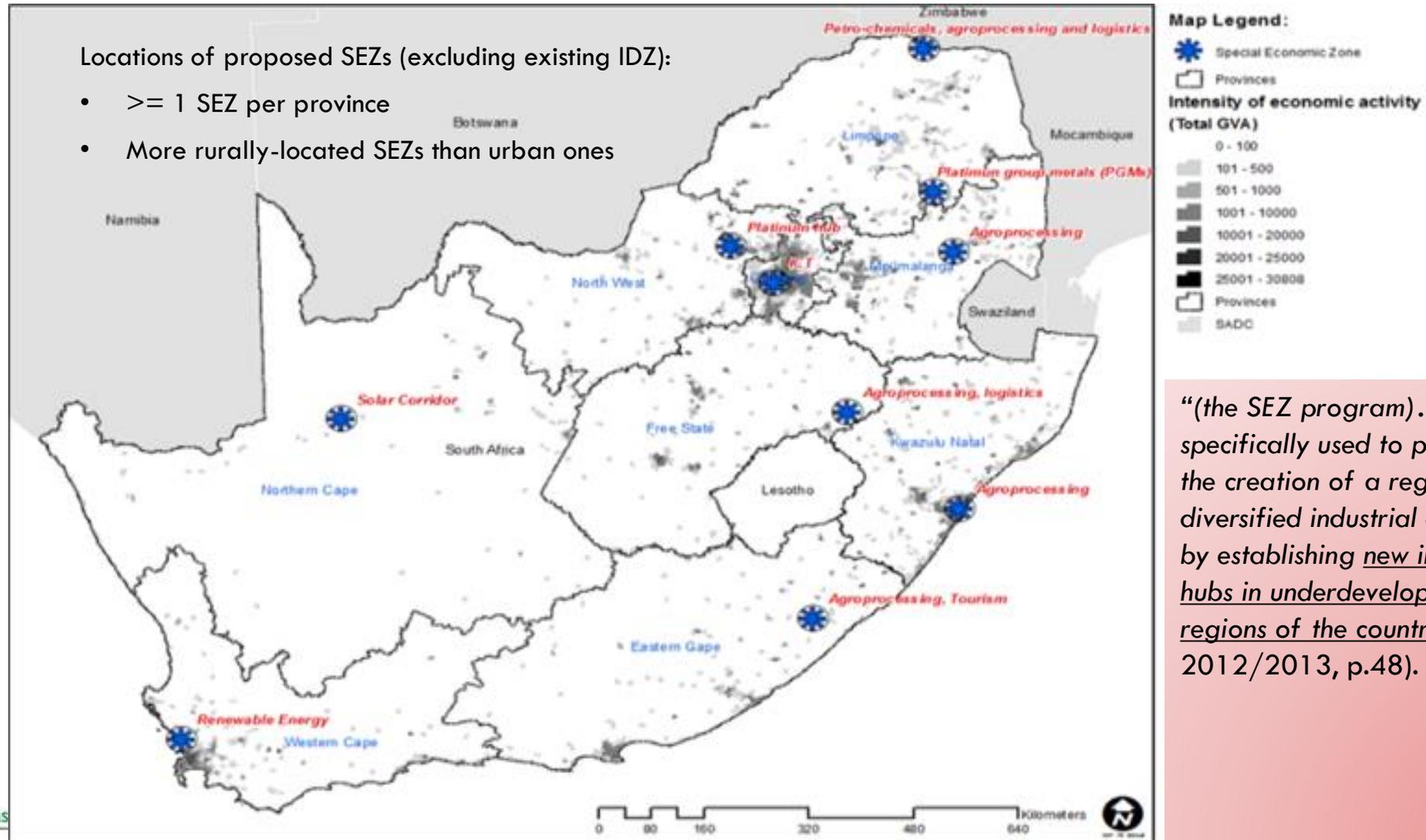


...Between-city **connectivity** is also important in strengthening the sectoral and regional economic linkages

SEZs in South Africa multiple objectives, but deconcentration increasingly emphasized

Locations of proposed SEZs (excluding existing IDZ):

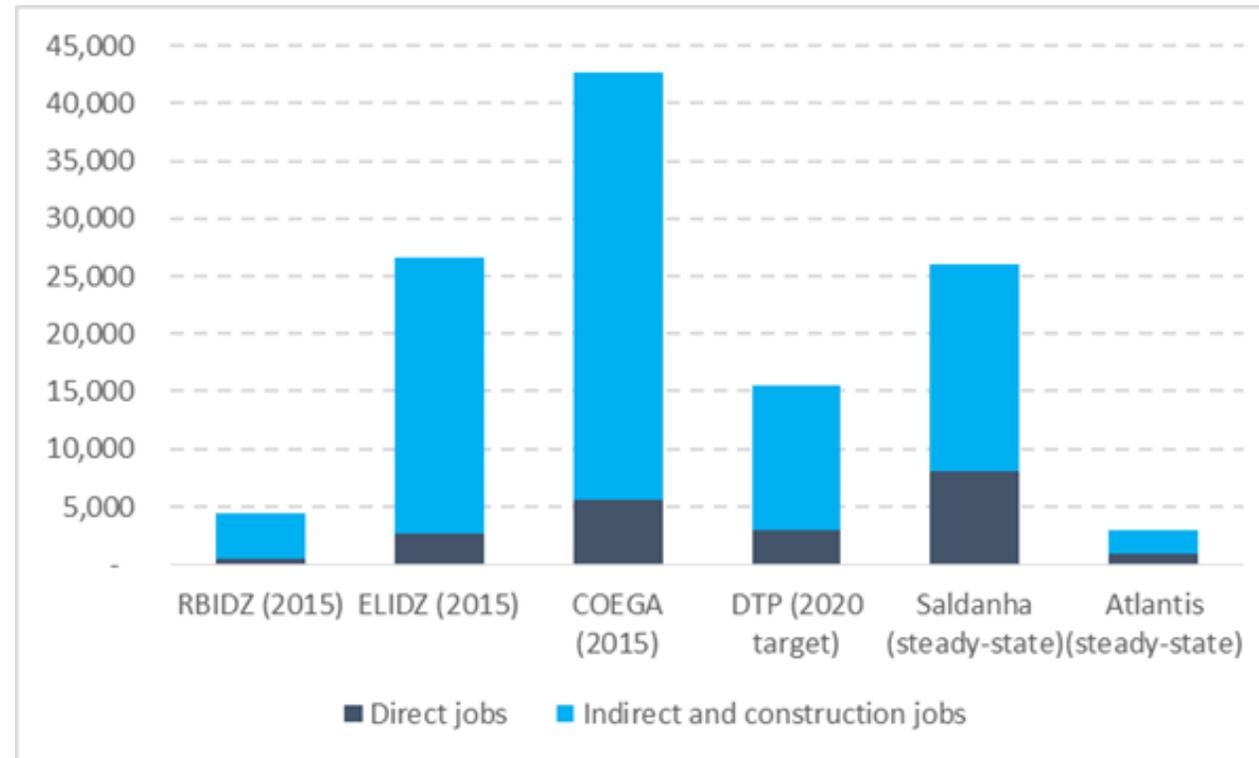
- ≥ 1 SEZ per province
- More rurally-located SEZs than urban ones



“(the SEZ program)... specifically used to promote the creation of a regionally diversified industrial economy by establishing new industrial hubs in underdeveloped regions of the country” (IPAP 2012/2013, p.48).

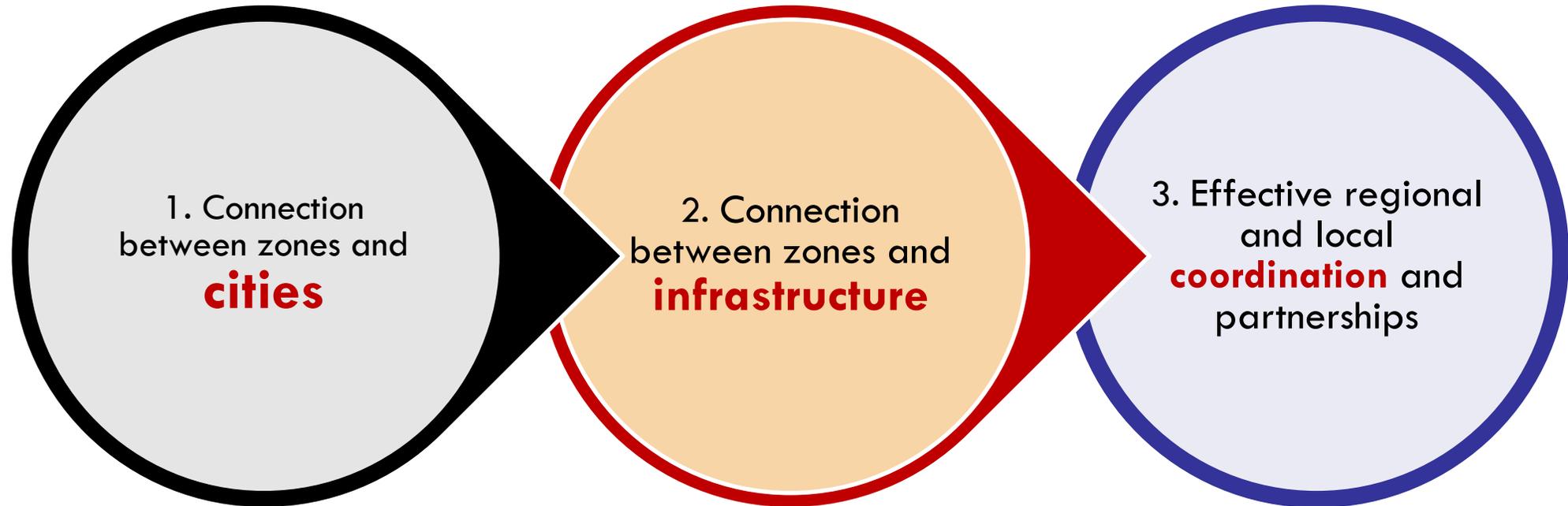
Large-scale job creation will depend on SEZ linkages with cities

Direct and indirect job creation in select IDZ/SEZs (current & projected)



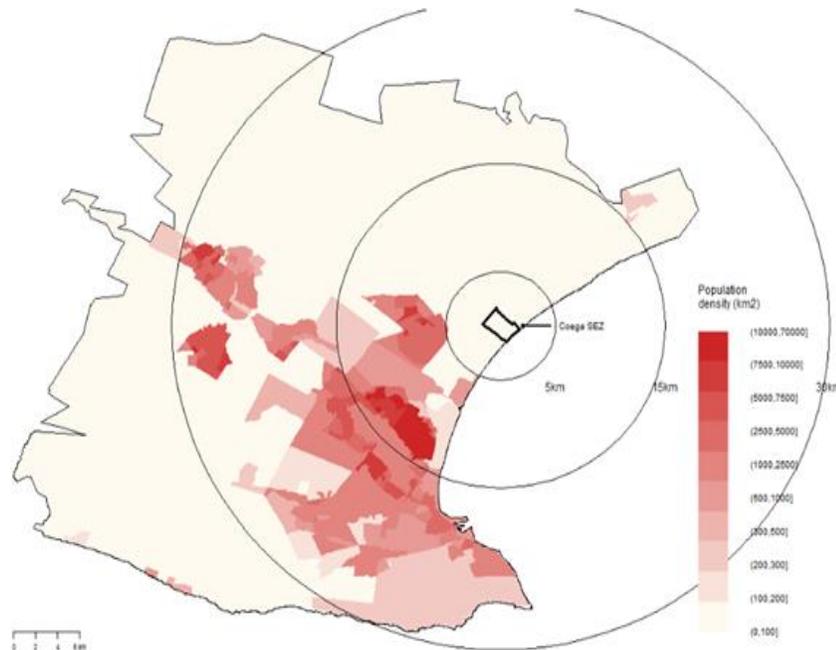
- SEZ's indirect job creation effect is much more significant than direct one
- Magnitude of job creation effect is highest in integrated environments
- SEZs need to be integrated into the growth around urban locations to better capture the spillover potential

Three key factors in Developing integrated zones

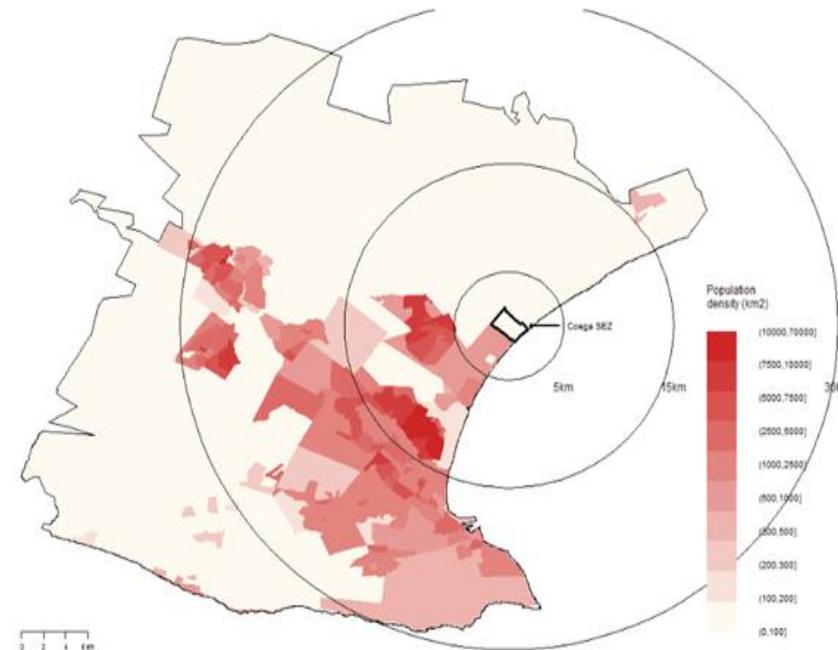


Connection between Zones and Cities

- COEGA, an industrial development zone (IDZ) located 20km outside the center of Port Elizabeth, fits the model of “**edge city**” **development** and attracted significant growth in the vicinity over the 10 years of its operation.



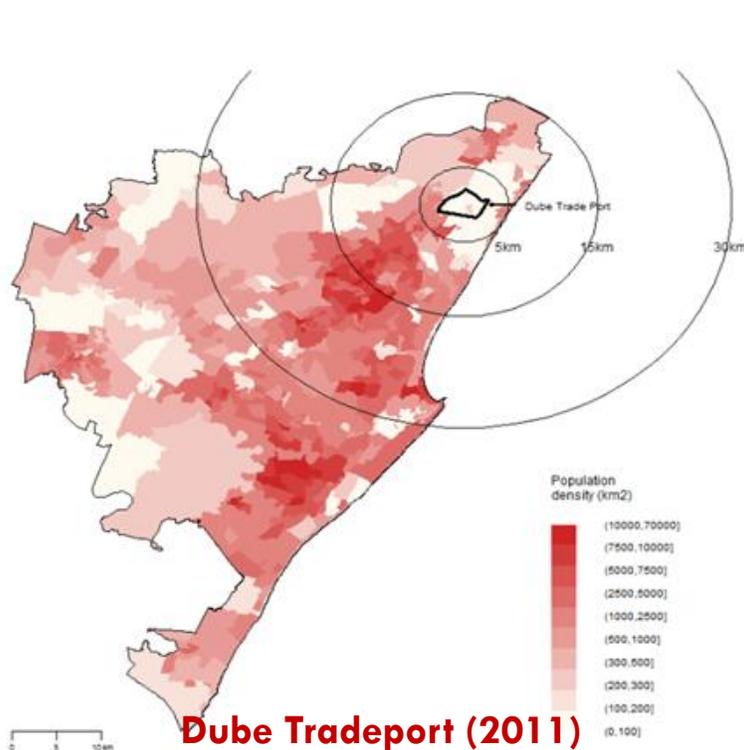
COEGA (2001)



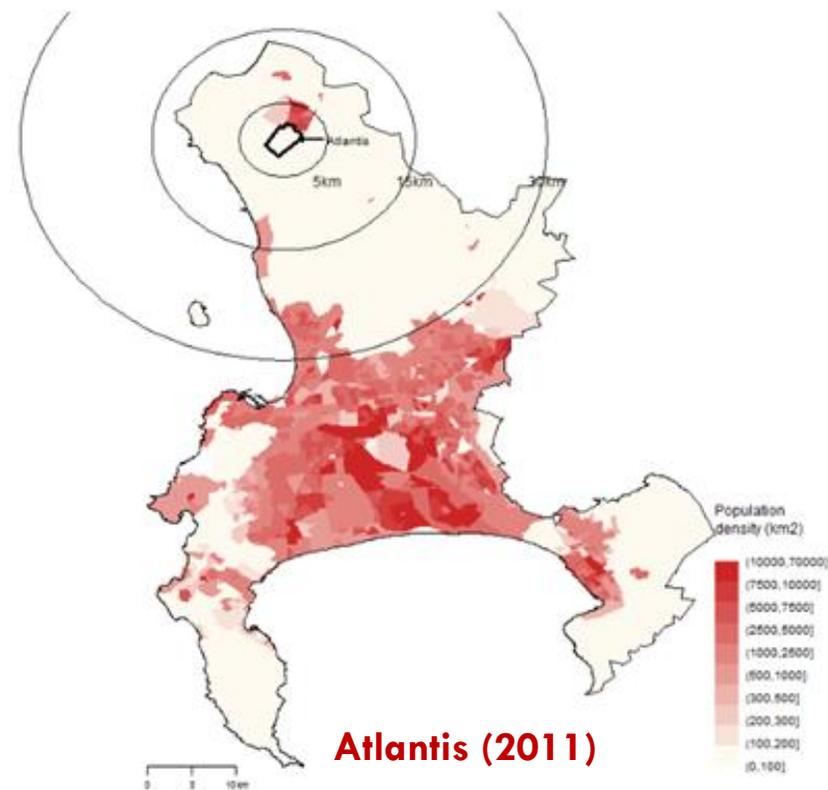
COEGA (2011)

Integrated Infrastructure & Coordination as important as location factors

- Dube Tradeport IDZ and Atlantis SEZ are both newer Zones that are located approximately 40km from its nearby major city, Durban and Cape Town, respectively.



Dube Tradeport IDZ benefits from its proximity to the King Shaka International Airport and the developed **connective infrastructure** and fits as another “edge city” development.



Atlantis SEZ locates in a greenfield/brownfield where **effective partnership** among local and regional governments and the private sector was the key to its development.

Ex-ante and Ex-ante coordination both advisable

Existing Zones

Ex-post
responses

Focus on:

1. coordinated infrastructure investment;
2. Removing operating bottlenecks;
3. Leveraging regional connectivity.

e.g. COEGA, Dube
Tradeport

New Zones

Ex-ante
coordination

Focus on:

- 1. spatial planning approach to link spatial tools to sectoral initiatives;
- 2. close regional/city collaboration to engage key stakeholders.

e.g. Western Cape (Atlantis
and Saldanha); Gauteng
(Ekurhuleni)

Examples of effective ex-ante coordination

WESTERN CAPE (ATLANTIS AND SALDHANA)

- Atlantis: Province, City, and Greencape – formal partnership arrangements embedded in a **national (sectoral) framework**
- Impacts: streamlining access to land, regulatory approvals, BRT access, skills initiatives

GAUTENG (EKURHULENI)

- Close city / province collaboration – closely linked to implementation of provincial economic development strategy
- Spatial planning approach (non-contiguous) linking **spatial tools to sectoral initiatives**

MOBILIZING KEY STAKEHOLDERS AROUND A COMMON PROJECT WITHIN A SPECIFIC TIMEFRAME IS THE KEY TO OVERCOME COORDINATION CHALLENGES.

Complementary policies for SEZs in Urban Areas

Even with access to land and industrial infrastructure, the success of SEZs still requires complementary policies to...

Improve networks of smaller-scale urban industrial estates

- Possibly linked to a 'non-contiguous' SEZ model
- In line with Industrial Parks Revitalisation plans

Promote investment, especially in brownfield locations

- *Expanding the use of urban development zones (UDZ) / enterprise zones*
- UDZ model has had some qualified success in SA cities.
- It could support facilitation to industrial land and upgrading of industrial facilities.

Approaches for SEZs outside major urban areas

Alternative / Complementary approaches to SEZs in targeting underserved (esp rural) areas would require strengthening agriculture value chain through...

Urban-rural linkages:

- More direct emphasis on developing the agricultural economy and raising rural incomes
- Improving linkages to cities through value chains (Indonesia, Sri Lanka)

Corridor development:

- Integrating sectoral and spatial policies along a corridor (India, Malaysia)

Summary

1. Premises

- **Agglomeration** economies via cities offer opportunities to reap productivity gains.
- Sectoral industrial policy and spatial development need to be **aligned**.

2. Roles of SEZs

- SEZs can play a role in **promoting jobs**
- They tend to be most successful in **urban locations** as they rely on supply linkages.

3. Complementary policies to fully utilize SEZs:

- **Integrating and connecting** zones with urban areas
- In rural areas, leveraging agribusiness and processing **value chains**

4. Coordination is the key

- Strengthening **coordination** among key stakeholders – especially, national, provincial and city government – around SEZs is critical.

Effective **partnership** examples exist in SA that could as models.

Key Questions for Discussion

1. Strategic positioning of individual SEZs

- How can SEZs be designed and positioned so that they:
 - (i) Build on/ enhance the competitive and comparative advantages of particular Cities/ regions;
 - (ii) Complement each other and strengthen respective offerings;
 - (iii) Develop local supply chain linkages that enhance job creation & SMME participation, particularly in urban economies?

2. Processes for collaboration & integration

- What are the respective roles of national, provincial and local government in the SEZ process, and how can intergovernmental alignment be ensured? In particular, what processes will enable a stronger local (City) voice in the design and implementation of SEZs?
- What mechanisms are key to strengthening supply linkages between the SEZ and the local (City) economy?

3. SEZ support arrangements

- What package of fiscal and other incentives are required to provide a competitive SEZ offering?
- How can national SEZ incentives be complemented by City and provincial incentives, particularly in respect of City progress on Sub National Doing Business Regulatory Reform programme?

Thank you



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