

# Spatial Dynamics of SEZs and Secondary Cities

18 January 2018



# What role do spatial dynamics play in South African Industrial Policy?

# 1. Introduction

1. What are we trying to achieve?
  - a) Growth as fast as possible (spatially neutral)
  - b) Growth as fast as possible, in as many places as possible
  - c) Shift in the pattern of geographic distribution of growth
  
2. What would be required to achieve our target?
  - a) Careful consideration of spatial dynamics
  - b) How do different areas differ: provinces, metros, secondary cities, rural areas, former homelands,
  - c) Developing peripheral areas may need greater investment with lower short term return.
  
3. How do policies need to be changed to account for this?
  - a) Imbedding flexibility
  - b) Different incentives for different locations?

# 1. Introduction

- ▶ Work drawn on for this presentation
  - Strategies for SEZs in border towns
  - Review of spatial industrial policies
  - SEZs in Secondary cities
  - Ongoing work: Industrial policy in secondary cities
  
- ▶ Presentation Structure
  1. Introduction
  2. Diversity in geographical location of SEZs
  3. SEZs as Spatial Policy
  4. Way Forward

## 2. Economic Geographic in South Africa

## 2. Diversity in SEZ location

- ▶ **Sample of SEZs**
  
- ▶ **Developmental aspects**
  - Population
  - Economic development
  - Industrial activities
  - Labour market
  
- ▶ **Geography lens**
  - Municipality where SEZ is located
  - Province hosting the SEZ

# Population

SEZ	Municipality	% of total province (2011)	Growth 2001 & 2010	% urban (2011)	Urban growth 2001 & 2011	Province	% of total national (2011)	Growth 2001 & 2011	% urban (2011)	Urban growth 2001 & 2011
COEGA IDZ	Nelson Mandela Bay	18%	15%	98%	16%	Eastern Cape	12,7%	2%	46%	22%
East London IDZ	Buffalo City	12%	8%	83%	21%					
Dube Tradeport	eThekweni	34%	11%	85%	7%	KwaZulu – Natal	19,8%	9%	48%	15%
Richards Bay	uMhlatuze	3%	16%	40%	30%					
OR Tambo	Ekurhuleni	26%	28%	99%	29%	Gauteng	23,7%	39%	97%	40%
Maluthi – A-Phofung	Maluthi-A-Phofung	12%	-6%	39%	36%	Free State	5,3%	1%	84%	13%
Saldanha Bay	Saldanha Bay	2%	2%	96%	42%	Western Cape	11,2%	29%	92%	32%

# Economic development

SEZ	Municipality	Share in province GVA (2015)	Average annual growth in GVA (2010-2015)	Province	Share of SA GDP (2015)	Average annual GDP growth (2010-2015)	Economic drivers:
COEGA IDZ	Nelson Mandela Bay	38%	1%	Eastern Cape	8%	2%	Trades; Government; and Business services
East London IDZ	Buffalo City	20%	1%				
Dube Tradeport	eThekweni	55%	2%	KwaZulu – Natal	16%	3%	Manufacturing; Government; and Business services
Richards Bay IDZ	uMhlatuze	5%	2%				
OR Tambo IDZ	Ekurhuleni	24%	2%	Gauteng	34%	3%	Manufacturing; Government; and Business services
Maluthi–A–Phofung SEZ	Maluthi-A-Phofung	7%	1%	Free State	5%	2%	Trades; Government; and Business services
Saldanha Bay IDZ	Saldanha Bay	2%	2%	Western Cape	14%	3%	Manufacturing; Government; and Business services

# Industrial activities

SEZ	Municipality	Manufacturing share of GVA (2015)	Average annual growth in manufacturing GVA (2010-2015)	Province	Contribution to SA manufacturing (2015)	Average annual growth in manufacturing value added (2010-2015)
COEGA IDZ	Nelson Mandela Bay	22%	1%	Eastern Cape	8%	2%
East London IDZ	Buffalo City	15%	0%			
Dube Tradeport	eThekweni	19%	1%	KwaZulu – Natal	16%	3%
Richards Bay IDZ	uMhlathuze	22%	0%			
OR Tambo IDZ	Ekurhuleni	18%	0%	Gauteng	34%	3%
Maluthi–A–Phofung SEZ	Maluthi-A-Phofung	9%	-2%	Free State	5%	2%
Saldanha Bay IDZ	Saldanha Bay IDZ	23%	-1%	Western Cape	14%	3%

# Labour market (working-age population)

SEZ	Municipality	% employed (2015)	Growth (2010 & 2015)	Province	% of national (2015)	Growth (2010 & 2015)	% employed in manufacturing
COEGA	Nelson Mandela Bay	46%	11%	Eastern Cape	9%	9%	11%
East London	Buffalo City	41%	13%				
Dube Tradeport	eThekweni	47%	11%	KwaZulu - Natal	16%	9%	16%
Richards Bay	uMhlatuze	43%	13%				
OR Tambo	Ekurhuleni	54%	13%	Gauteng	32%	14%	16%
Maluthi-A-Phofung	Maluthi-A-Phofung	32%	11%	Free State	5%	5%	9%
Saldanha Bay	Saldanha Bay IDZ	69%	19%	Western Cape	15%	14%	15%

## 2. Diversity in SEZ location

- ▶ Locations (provinces, metros, secondary cities, urban/rural areas, former homelands, etc.) differ in terms of their developmental aspects.
- ▶ Industrial policy needs to take careful consideration of spatial dynamics.

## 3. SEZs as Spatial Policy

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## SEZ Objectives

1. facilitating the creation of an **industrial complex**, having strategic national economic advantage for targeted investments and industries in the manufacturing sector and tradable services;
2. developing **infrastructure** required to support the development of **targeted industrial activities**;
3. attracting foreign and domestic **direct investment**;
4. providing the **location** for the establishment of targeted investments;
5. enabling the **beneficiation** of mineral and natural resources;
6. taking advantage of existing industrial and **technological capacity**, promoting integration with **local industry** and **increasing value-added production**;
7. promoting **regional development**;
8. creating **decent work** and other economic and social benefits in the region in which it is located, including the broadening of economic participation by promoting **small, micro and medium enterprises** and co-operatives, and promoting **skills and technology transfer**;
9. and the generation of **new and innovative** economic activities.

# 3. SEZs as Spatial Policy

Name	Province	Region
Mthatha SEZ	Eastern Cape	Mthatha
Maluti-A-Phofung SEZ	Free State	Harrismith
Nasrec SEZ	Gauteng	Johannesburg
Dube Trade Port	KwaZulu Natal	Durban
Tubatse SEZ	Limpopo	Tubatse
Musina SEZ	Limpopo	Musina
Nkomazi SEZ	Mpumalanga	Nkomazi
Upington SEZ	Northern Cape	Upington
Platinum Valley SEZ	North West	Rustenberg
Atlantis Greentech SEZ	Western Cape	Atlantis

# 3. SEZs as Spatial Policy

- ▶ One policy for very different locations
  - Of the ten new zones, seven will be located in areas outside metropolitan areas.
  - The combined population of all seven is barely a sixth of the population located in the three metros that have SEZs
  - Johannesburg employs roughly 230,000 more people in manufacturing alone than the entire working population of Maluti-a-Phofung
- ▶ Does the SEZ policy include adequate flexibility to enable appropriate local SEZ strategies?
- ▶ A schema to classify SEZs strategies
  - SEZ strategy documents (sectoral focus, etc)
  - Social metrics (unemployment, income, education, etc)
  - Proximity to economic centre (closest major centre, closest regional centre)
  - Proximity to export (closest sea port, closest land port)

# 3. SEZs as Spatial Policy

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

# 3. SEZs as Spatial Policy

Export	Productivity	Sectoral	Logistics	Uncertain
Coega IDZ	Nasrec SEZ	Platinum Valley SEZ	Maluti-A-Phofung SEZ	Mthatha SEZ
East London IDZ		Atlantis Greentech SEZ	Nkomazi SEZ	Dube Trade Port
Richards Bay IDZ		Tubatse SEZ	Musina SEZ <i>(mixed)</i>	OR Tambo International Airport IDZ
		Upington SEZ	Saldanha Bay IDZ <i>(mixed)</i>	

## Key Trends

1. Shift away from traditional zone approaches (export, productivity)
2. Sectoral focus on platinum and renewables
3. Rapid growth of logistics zones
4. Use of geographic advantages for zones in secondary cities

# 3. SEZs as Spatial Policy

## Current incentives

- ▶ **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).
- ▶ **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.
- ▶ **Tax relief for building expenditure:** Special depreciation allowance of 10% per annum for ten years on fixed structures.
- ▶ **Special employment incentives:** Employment tax incentive for employees earning less than R60 000 per annum.
- ▶ **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.

# 3. SEZs as Spatial Policy

## 1) Qualifying Criteria for Corporate Income Credits

- ▶ Two functions of SEZ policies
  - **Productive:** Smooth investment that would have happened anyway
  - **Geographic:** Bring in investment that otherwise might have gone elsewhere
  
- ▶ Uncertainty over role of Corporate Income Credits
  - Traditionally play the geographic function
  - But weak by global standards
  - Directing investment nationally vs internationally
  
- ▶ Two serious restrictions
  - 1) Set list of **industries** that can benefit
  - 2) Firms must derive **90%** of their income from activities undertaken in the zone
  
- ▶ Possible solutions
  - Revision to qualifying criteria
  - Cumulation of zone earnings

# 3. SEZs as Spatial Policy

## 2) Sectoral alignment with Supporting Policies

- ▶ Of the four original IDZs, two were successful
  - Coega: 31 investors, creating 62,142 jobs.
  - Richard Bay and O.R.Tambo: one investment between them
- ▶ The primary difference is the existence of large national incentives (MIDP/APDP)
- ▶ National incentives **attract** investment, SEZs **direct** investment
- ▶ Current policy alignment
  - Atlantis, Upington – REIPPP
  - Platinum Valley, Tubatse – Platinum beneficiation
  - Musina – Steel
  - Saldanha Bay – Blue Economy Phakisa

# 3. SEZs as Spatial Policy

## 3) Relocation and New Investment Creation

- ▶ Do we want SEZs to shift spatial distribution of growth?
- ▶ If that is the aim, then current policy does not provide the tools to achieve it
  - No differentiated policy options to account for economic costs of investing in secondary cities.
  - Sectoral-focus doesn't necessarily need SEZs (although they help)
- ▶ Logistics zones an interesting case study
  - Logistics zones succeed by facilitating movement of goods
  - Few options in current policy
- ▶ Need a broader strategy for **industrial policy in secondary cities**

What are we trying to achieve?

1. Growth as fast as possible (spatially neutral)
2. Growth as fast as possible, in as many places as possible
3. Shift in the pattern of geographic distribution of growth

## 4. Way Forward

# 4. Way Forward

- ▶ SEZs need to operate within a broader vision for spatial industrial policy
  - Metros are well suited to industrial policy/development
  - Rural areas are a very challenging proposition
  - Secondary cities are perhaps the best opportunity for the development of new industrial areas
  
- ▶ Ongoing project on Industrial Policy in Secondary Cities
  - Review of current approaches
  - Alignment of these policies with needs of secondary cities
  - Ways to integrate secondary cities into core industrial policy
  - Case studies
  - Industrial parks

What are the key issues that needs to be addressed?

# Trade & Industrial Policy Strategies

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