SPATIALLY TARGETED INDUSTRIALISATION STRATEGIES – POLICY CONVERGENCE?

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Outline

1. *Introduction*
2. *SEZs*
3. *Single Factory Zones*
4. *Industrial Parks*
5. *Conclusion*

INTRODUCTION

- Industrial decentralisation has been a policy directive before democratic dispensation took effect.
- Spatial and economic effects of that policy are still evident with little industrial economic activities occurring outside the large metropolitan areas of SA.
- Industrial zones in their various iterations are trying to do two things.
  - Trying to boost growth, employment, investment, trade, diversification.
  - Target more geographically-specific objectives: 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.
- 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 to concentrate.
- As South Africa embarks on a programme of spatially-targeted industrialisation, through SEZs and the Revitalisation of Industrial Parks, there needs to be an assessment of where SA's focus lies.
- ***This paper examines SA's spatial industrialisation programmes and whether the policy and implementation frameworks align***

SPECIAL ECONOMIC ZONES

SEZs

1. Range of Objectives
2. Some specialization of zones
   - Free Port
   - Free Trade Zone
   - Industrial Development Zone
   - Sector Development Zone
3. Most specialization takes place at local level
4. Scope of Incentives
   - 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

SEZs

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

SEZs

Name	Unemployment	Income	University
Mthatha SEZ	3.42%	83.76%	88.03%
Maluti-A-Phofung SEZ	13.68%	43.16%	55.56%
Nasrec SEZ	88.46%	96.15%	99.57%
Dube Trade Port	42.74%	88.46%	90.17%
Tubatse SEZ	2.99%	95.73%	23.93%
Musina SEZ	96.58%	3.42%	45.30%
Nkomazi SEZ	48.29%	26.92%	47.44%
Upington SEZ	67.09%	70.94%	73.50%
Platinum Valley SEZ	16.24%	80.77%	20.09%
Atlantis Greentech SEZ	83.76%	97.86%	98.29%
Coega IDZ	25.21%	91.88%	90.60%
East London IDZ	32.05%	84.19%	92.31%
OR Tambo International Airport IDZ	79.49%	94.87%	92.74%
Richards Bay IDZ	41.88%	97.01%	93.59%
Saldanha Bay IDZ	83.33%	83.33%	75.64%

SEZs

Name	Sectoral Focus
Mthatha SEZ	Agro-processing
Maluti-A-Phofung SEZ	Automotive logistics, agro-processing, pharmaceutical
Nasrec SEZ	ICT and electronics
Dube Trade Port	Agro-processing and electronics
Tubatse SEZ	Platinum Group Metals
Musina SEZ	Logistics, petrochemicals and trade hub
Nkomazi SEZ	General Logistics
Upington SEZ	Solar Corridor
Platinum Valley SEZ	PGMs
Atlantis Greentech SEZ	Renewable Energy
Coega IDZ	Automotives
East London IDZ	Automotives
OR Tambo International Airport IDZ	Air transport
Richards Bay IDZ	Benefititiation of natural resources
Saldanha Bay IDZ	Marine Engineering, with a focus on oil and gas

SEZs

Name	Closest Major Centre	Distance	Closest Regional Centre	Distance
Mthatha SEZ	East London	232	East London	232
Maluti-A-Phofung SEZ	Johannesburg	287	Ladysmith	86
Nasrec SEZ	Johannesburg	0	Johannesburg	0
Dube Trade Port	Durban	0	Durban	0
Tubatse SEZ	Polokwane	161	Polokwane	161
Musina SEZ	Polokwane	196	Thohoyandou	134
Nkomazi SEZ	Polokwane	413	Nelspruit	106
Upington SEZ	Bloemfontein	572	Upington	0
Platinum Valley SEZ	Pretoria	158	Rustenburg	54
Atlantis Greentech SEZ	Cape Town	64	Cape Town	64
Coega IDZ	Port Elizabeth	0	Port Elizabeth	0
East London IDZ	East London	0	East London	0
OR Tambo International Airport IDZ	Johannesburg	0	Johannesburg	0
Richards Bay IDZ	Durban	178	Richards Bay	0
Saldanha Bay IDZ	Cape Town	133	Saldanha Bay	0

SEZs

Name	Closest Sea Port	Distance	Closest Land Port	Distance
Mthatha SEZ	East London	232		
Maluti-A-Phofung SEZ	Durban	311		
Nasrec SEZ	Durban	578		
Dube Trade Port	Durban	0		
Tubatse SEZ	Durban	643	Komatipoort	273
Musina SEZ			Beitbridge	26
Nkomazi SEZ			Komatipoort	0
Upington SEZ	Saldanha Bay	799	Ariamsvlei	150
Platinum Valley SEZ	Durban	758	Sikwane	128
Atlantis Greentech SEZ	Cape Town	64		
Coega IDZ	Port Elizabeth	0		
East London IDZ	East London	0		
OR Tambo International Airport IDZ	Durban	578		
Richards Bay IDZ	Richards Bay	0		
Saldanha Bay IDZ	Saldanha Bay	0		

SEZs

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

SEZs

Does the regulation contain enough flexibility to meet the needs of different types of SEZs?

SEZs

1. Corporate Income Tax Conditions
   - 90% income from zone operations
   - Restrictive list of industries
   - Problem for Logistics and Second City zones
2. Alignment with other incentives
   - Incentives still small by global standards
   - Problem, in isolation, for attracting FDI
   - Need to consider incentives to attract, zones to direct
3. Capacity for Second City Development
   - Fundamental weakness of local government
   - Potentially need large incentives to compensate for competitive difference

SINGLE FACTORY ZONES

Context

- SA SEZ Act amended but does not include single factory zones, even though international evidence shows that they contribute significantly to economic and export growth
- Single factory zones characterised as :
  - 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
  - offer investors flexibility with regards to choice of location, taking into account labour, material inputs and infrastructure
  - aligned with the development objective of increasing export manufacturing
  - mainly used in countries aiming to create a concentration of exporters in a specific industry

Main debates

- Divided opinions on introducing single factor zones in SA:
- Supporting views:
  - Eliminates logistical difficulties such as acquiring the appropriate land and building new infrastructure
- Concerned view:
  - complexity involved in managing such schemes
  - deadweight losses created from granting incentives to companies that would otherwise perform the same activities in the absence of participating
  - similar to already existing bonded warehouses, and therefore would not add any value to the economy
  - model is best suited for small island economies where all factories are situated at close proximity to the ports such as Mauritius

Case Studies

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	• Development Commissioners of Special Economic Zones 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)
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 business operations • 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 max. 100% of 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%. 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, VAT exemption; • 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 sale of a portion of a free zone investment	• No license required for import • Exemption from Central Excise Duty in procurement 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; • Exemption allowed to be repatriated freely without any dividend balance requirement • Profits allowed to be repatriated without dividend balancing requirement

Case Studies

Parameter	Costa Rica	Ghana	India
Infrastructure	• Sector specific	Sector specific	Sector specific
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

Programme outcomes

- Data from the Costa Rican Ministry of Trade shows that between 1997- 2005 contribution to GDP from firms within FTZs increased from 0.5% in 1990s to 8% in 2003.
- In 2005, 39 000 direct jobs (44 000 in 2006) were generated by these firm, which also contributed 42% to foreign direct investment
- The most significant contribution from the Ghanaian Free Zone programme has come from single factory SEZs.
- Exported $457 million in 2004, mainly from a few large firms in agro-processing and furniture manufacturing

Summary

- Important to understand the rationale behind considering SFZs in SEZ programmes
- Political will necessary in ensuring that condition of meeting socio-economic goals is clear
- Institutional support required to manage the programme should be established, particularly implementation capacity
- Need to establish a proper monitoring and evaluation mechanism to limit abuse of the system and ensure that the programme is effectively linking policy, strategy and operations
- Key lessons can be drawn from countries that have established successful single factory zones. It would be necessary to amend the legislation to ensure that it allows for single factory zones. India and Costa Rica shows that it is important to establish variables which can be used to determine participation in the programme. These can include:
  - Size of plant; Level of employment; Level of investment; Output; Exposure to trade
- Incentives offered must also support links between the single factory zones to the domestic economy

INDUSTRIAL PARKS

Different 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

Case 1: IPRP

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.

Identified the first ten (10) state owned industrial parks to be revitalised through physical infrastructure and other support requirements. The prioritised Industrial parks are in

- *Seshego (just outside Polokwane, Limpopo),*
- Eastern Cape (in Queenstown and uMthatha),
- *Free State, Botshabelo* (which is approximately 40kms from the provincial capital Bloemfontein),
- Babelegi (in Hammanskraal) in the North West province and
- *Kwa-Zulu Natal (Isethebe, just North of Durban).*

Case 1: IPRP

The programme is categorised into the following phases:

- Phase 1 (2015/16-2016-17): Security infrastructure upgrade, fencing, street lighting, top structures and critical electricity
- 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 programmes.
- Phase 4 (2019/20): Development of sustainable industrial clusters in the Parks (underpinned by CDP).

Case 2: CDP Components

Shared Infrastructure Grant;
Non-taxable matching cash grant of up to 80% of the investment max. R10m per cluster. Qualifying costs include Building, Machinery and equipment, Commercial vehicles and Tools, jigs and dies.

Business Development Services;
Non-taxable cash matching grant of up to 80% of the investment max. grant of R5m per cluster. Qualifying costs: Consulting fees, Benchmarking costs, Conformity assessments and accreditation, Intellectual Property registration, Feasibility studies costs, Technology/ product improvements, Post-prototype development and Bio-prospecting.

Cluster Management Organisation (CMO) Funding
The purpose of the CMO is to manage core operation and delivery by the cluster. Non-taxable matching cash grant of up to 80% of the costs payable at the establishment of CMO max. R5m per cluster. Qualifying costs: Project management fees, Administration fees, Salaries and wages; Rent, Furniture and Office equipment, Operational costs (incl. electricity, water, telephone and stationery), Travel and accommodation including traveling allowances and costs and Event management costs (for networking sessions).

Summary

- CDP/IPRP rightly strongly focused on infrastructure, upgrading, quality assurance and business development;
- Limited focus on Emerging Enterprises, Incubation and SME development – industrial parks could provide platform for incubators, centres of competence and provide links into cluster value chains;
- Constraints such as mistrust between companies; apprehension from companies to work with Government and limited use/uptake of technology will have to be overcome.;
- Sector-focus a key component in determining whether & where industrial clusters locate or develop.
- 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 include:
    - Physical Factors; Economic; Social and Political Factors

CONCLUSION

CONCLUSION

- **Clear divergence i.t.o of policy implementation; new arrangements; unequal arrangements? yet serving same purpose. Critical for spatially-targeted strategies to increase and not displace/relocate productive capacity. Three key lessons:**
- **Implementation partners must <u>identify growth opportunity sectors</u> for potential industries incl. leveraging public procurement. Sectoral focus areas impact on the type of activities, infrastructure and support services;**
- **<u>Package support services</u> in a manner that attracts and assists firms. Three key areas are around Infrastructure, Investment Facilitation (incl. incentives); and Industrial Upgrading & Business Development support (including Incubation);**
- **<u>Institutional arrangements</u> around implementation matter. The SEZ policy (and IPRP) has a multitude of implementation partners including the dti, the DBSA, provincial agencies, municipalities, the private sector and consultants.**
- ***With the dti acting as a national champion for this programme, it will be necessary to ensure local municipal buy-in and resourcing to implement.***

Thank you