

# Re-Spatializing development: Reflections from South Africa's recent re-engagement with planning for Special Economic Zones

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## **Abstract**

In 2014 the South African government formally sanctioned the establishment of Special Economic Zones (SEZs) in that country. The importance attached to SEZs reflects a clear return to spatially-based economic interventions following the recognition of the persistence of deep-rooted structural and spatial inequalities in the country. This paper discusses South Africa's past and present involvement in processes of spatial economic development and how the SEZ concept has emerged. The potential of SEZs is assessed relative to local experience with the lacklustre performance of what were termed Industrial Development Zones (IDZs) since 2001. While re-engagement with issues of how to address 'uneven geographical development' is clearly significant, it would be difficult to argue that SEZs will achieve guaranteed success.

**Keywords:** Special Economic Zone, Industrial Development Zone, South Africa, spatial planning, regional development

## **Introduction**

In many parts of the world there is a defined move to re-spatialise development planning and associated economic interventions. The passage of the Localism Act in the UK, the work of the Cities Alliance, continued effort put into the European Regional Development Fund, the considerable interest in Chinese spatial interventions and the theoretical outputs on New Regionalism and New Localism serve as testimony to this re-emerging international interest (Markey, 2011; Evans et al., 2013). This focus is driven by the perceived need to promote economic development, particularly in 'lagging regions', post the 2008 global economic crisis, and the fundamental recognition that geographical space is economically 'uneven' (Harvey, 2006) requiring spatially focussed but locally unique interventions. As Pallares-Barbera et al. (2012: S8) argue "spatially uneven development in a globalizing world is an important phenomenon driven by its fast dynamics and its manifestation across a wide range of economic agendas and its regional challenges". In response, as the New Regionalism approach argues, the failure to achieve regional convergence within countries and limitations on the capacity and success of nationally driven development, are encouraging an emphasis on localised solutions and spatial planning interventions uniquely targeted to address local development needs and challenges (Markey, 2011; Rogerson, 2009). It is argued that such interventions "offer opportunities to address the complexities of territorial planning and mobilize the strategic competitive advantages of place-based assets within a globalized economy" (Markey, 2011: 2). One intervention which is being looked at with renewed

interest is that of Special Economic Zones (SEZs), which though having a mixed track record internationally are often regarded as a vehicle to potentially help catalyse development, particularly in lagging regions (Farole, 2011) especially if tailored to meet local needs and utilise local resources and capacity. SEZs have become a key feature on the development agenda in sub-Saharan Africa in recent years, not least because of the support which China is providing to such zones which it is currently establishing in the continent (Brautigam, 2011).

In South Africa, spatial development planning is experiencing something of a revival after over two decades in which its potential was largely downplayed (Robbins, 2008; Oranje, 2010; Rogerson, 2014). As apartheid was based on the principle of spatial separation of people on racial grounds and associated differentiated spatial support, particularly for the various nominated black racial reserves, the post-apartheid government, understandably, was reluctant to continue a policy of spatial and regional development interventions which, *de facto*, may have been seen as supporting ‘separate development’ on racial grounds (Robbins, 2008). Economic intervention was, as a result, largely spatially neutrally after 1994, occasionally seeking to support market based development in the most economically advantaged areas, such as through the National Spatial Development Plan (The Presidency, 2006). The most significant spatial intervention was the support provided for a series of Industrial Development Zones (IDZs), only four of which were operational by 2014 and which, according to recent assessments, including those of the government, have not lived up to expectations. In recent years however, there has been a marked revival of interest in the persistent nature of spatial inequalities in the country (Nel & Rogerson, 2009), as a result of the recognition that, “spatial inequalities have proven to be the most stubborn legacy of Apartheid, both reflecting and reinforcing wider social inequities. When people are kept apart, the scope for social integration is reduced” (Turok, 2010: 267). Key responses in this regard include the identification of the need to address the legacy of apartheid spatial planning and promote rural development in particular, in order to achieve the government’s target of 5 million jobs in terms of the New Growth Path (Department of Economic Development, 2011). In addition the National Development Plan has indicated the need to develop a vision to respond to spatial distortions, and to promote spatial resilience and equality (National Planning Commission, 2011). In direct response a range of spatial economic interventions are currently being experimented with, one of the most prominent are current efforts to introduce Spatial Economic Zones (SEZs) (Nel & Rogerson, 2013).

In May 2014, the South African government passed a Special Economic Zone (SEZ) Act (RSA, 2014) which potentially heralds a new era of spatial planning and intervention in the economy. Given the mixed experience of SEZs globally (Farole, 2011; McCallum, 2011; Anwar, 2014) the apparent faith being accorded to SEZs in South Africa is interesting to observe and important to reflect on with respect to their potential for contributing to the potential future wellbeing of South Africa’s lagging regions. Arguably, in line with the revival of spatial planning, the introduction of SEZs is an attempt to help address the country’s challenge of persistent ‘uneven’ economic development and to revive the established, but lacklustre Industrial Development Zones (IDZs) which have been in existence for over a decade. This article reflects on the nature and persistence of spatial inequality in South Africa, before moving on to look at past and present endeavours to address these challenges, placing particular emphasis on current government approaches, and the thinking behind SEZs. The paper concludes with an assessment of their potential and of international evidence and local considerations which may impact on their future application and success.

### **Spatial Inequality in South Africa**

While differences in the economic performance of different regions and localities in any national space economy are inevitable, in the case of South Africa, a legacy of generations of

conscious marginalization and under-development of those regions historically zoned for the exclusive residence by black people, overlays the inevitable structural disadvantage experienced in such primarily rural areas. Despite the post-1994 government's endeavours to create broad-based development, growth, beyond welfare provision, has clearly not occurred in the impoverished rural areas and former racial reserves – the Homelands. Deep-rooted urban-rural inequalities persist in South Africa. In 2008, even though 42% of the national population lived in rural areas, those areas only generated 16% of the national GVA, compared with the 6 primary metropolitan cores which housed 38% of the population and generated 70% of the GVA (DTI, 2012a).

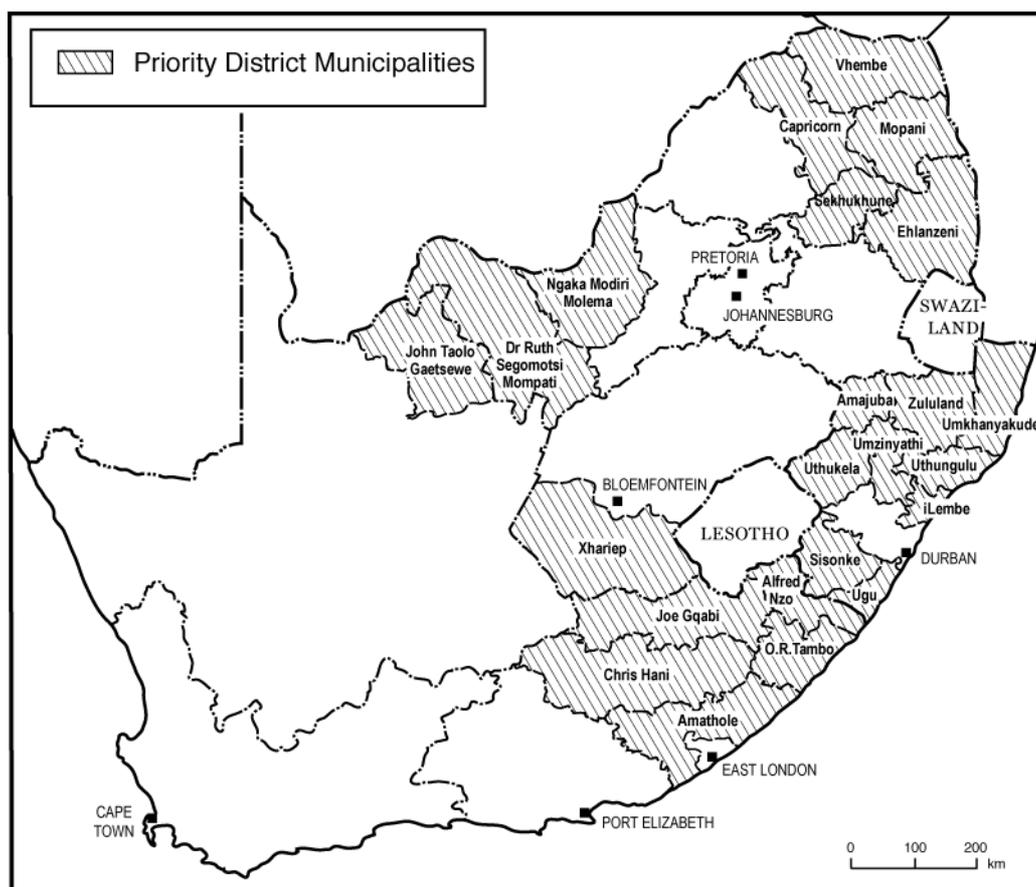


Figure 1: South Africa's Priority District Municipalities.

The persistence of spatial inequality has become politically contentious as indicated in the emphasis placed on promoting rural development in the New Growth Path (NGP) and in the formation of two new government ministries, those of Rural Development and Economic Development which are mandated to address issues of rural underdevelopment and economic inequality (Rogerson, 2014). In pursuance of these plans and through parallel endeavours to invest in infrastructure through the National Infrastructure Plan, a series of 23 priority District Municipalities have been identified as requiring focussed assistance and support (see Figure 1). It is important to observe that these district municipalities contain the majority of the former Homelands and their designation is a reflection of the failure to date of state interventions to address uneven regional development and the political desire to address what is such an evident spatial and economic backlog. While interventions are generally still being formalised, with SEZs being the first intervention of what may be a suite of new strategies, it is important to first reflect on South Africa's history of regional development, and the later experimentation with IDZs before moving on to consider SEZs, which are clearly one of the

most significant of the spatial interventions which the state is now about to roll out in South Africa, some of which, as will be discussed below are likely to be sited in the priority district municipalities.

### **Spatial Economic Planning and Development in South Africa**

Spatial economic planning in South Africa has had a strong presence in the country since World War Two, albeit that its motivations and achievements have often been questionable. Commencing in the 1950s and then expended over subsequent decades, what was then known as the Regional Industrial Development Programme witnessed the establishment of some 80 ‘growth points’ across the country in which investing manufacturing firms benefitted from available infrastructure and a generous range of incentives (Tomlinson & Addelson, 1987). The overlap between the siting of most of the growth points in or near the former Homelands reflected the reality that the policy was based on a racialised conceptualization of space, leading to investment in areas which had little chance of experiencing catalytic growth. The programme was suspended in 1991 and evaluations undertaken at the time indicated that there had been only very few tangible benefits derived from the programme. Amongst the reasons cited were the politically driven nature of the programme, the poor linkage development with the host economy, the failure to create permanent economic nodes and the costly nature of the intervention (Nel, 1999).

In the immediate post-apartheid era, Export Processing Zones (EPZs) were briefly considered as an alternate form of development interventions which was regarded as having the potential to both boost export-led growth and develop the host economy. Concerns, particularly over labour abuses in other countries, meant that there was strong union opposition to the plan, and nothing materialised. In the late 1990s two explicit spatial development interventions were introduced, Spatial Development Initiatives (SDIs) which were based on a “corridor” development approach and Industrial Development Zones (IDZs) which, like EPZs are sited near an international transport node and are specialised zones for export orientated manufacturing (Jourdan, 1998; Rogerson, 1999, 2002). SDIs enjoyed mixed success, with the most well-known, the Maputo Corridor helping to improve transport links to the port city of Maputo in Mozambique (Rogerson, 2001). IDZs in the meantime have not all been developed, the largest, Coega has yet to reach its envisaged potential, while smaller ones, such as East London seem to have attracted in some degree of investment (CDE, 2012). Given that IDZs share many similarities with the SEZ concept, it is pertinent to pay some attention to the possible reasons for their limited success to date, which will be undertaken in a subsequent section.

A more recent, and critical stance to spatial planning came in 2002 when the government released its National Spatial Development Programme which identified the ‘growth potential’ of different parts of the country and argued that core investment should be focussed only in the areas of greatest growth potential. An updated version of the document was released four years later (The Presidency, 2006). Naturally this aroused political concerns about the fate of the less favoured regions and the plan which had come from President Mbeki’s office was effectively shelved (Oranje & Merrifield, 2010).

A key concern for the post-apartheid government is how best to try and attain election promises of both mass job creation and international economic integration. In 1996 the Growth Employment and Reconstruction (GEAR) policy indicated the government’s commitment to the pursuit of economic orthodoxy and export-led growth (Marais, 2001). Despite a long-term commitment to amongst other activities, support for IDZs, cluster development and export focussed growth, the economy has remained relatively sluggish and has not created the envisaged number of employment opportunities. In 2011 the Department of Trade and Industry (DTI, 2011a) expressed concern about the underperformance of the

South African economy relative to the global and emerging economies. In its Medium Term Strategic Plan the DTI (2011b) identified both falling levels of employment and manufacturing value adding as key concerns, particularly given that the manufacturing sector is regarded as one that can absorb low skilled labour. It is within this context that SEZs are being implemented, namely as a potential way to help to create more jobs and improve the value of manufacturing and exports in particular.

The emerging debate about SEZs follows on from the complex history of spatial intervention in the country which has been marked by political interference and mediocre success (Nel & Rogerson, 2009). If SEZs are to be implemented and to succeed it can be argued that South African planners and the business community need to take cognizance of the international experience which SEZs have enjoyed (Farole, 2011, CDE, 2012). The failure rate seems to be high, and there are clear factors which seem to account for their mixed level of success. In addition, the degree to which an SEZ does not remain an isolated enclave, but is incorporated into the host economy is clearly of critical importance.

### **Formalizing SEZs in South Africa**

In pursuance of its goal of establishing SEZs, the Department of Trade and Industry (DTI) produced an SEZ Bill in 2011, which was approved by cabinet in 2012 (RSA, 2011; DTI, 2012b). The DTI defined an SEZ as a “geographical designated area of the country set aside for specifically targeted economic activities which are then supported through special arrangements and support systems which are different from those which apply to the rest of the country” (DTI, 2012b: 1). The DTI argued that they are tools to promote long-term economic and industrial development, to attract in local and foreign investment, to encourage infrastructure creation and to support targeted industries. In addition the DTI claims that they have learnt from international experience and from the modest performance of IDZs in the country which were poorly funded and planned and hence, by implication, DTI now believes they have developed a better product.

Efforts to establish SEZs are closely linked to South Africa’s re-industrialization goal and also link with the current (fifth) Industrial Policy Action Plan (IPAP 5) which seeks to promote the beneficiation of minerals and natural resources (DTI, 2014). It is argued that “such zones would bring mainstream economic activity to poor and isolated parts of South Africa by leveraging the commercial potential of a particular region. This will include industry clustering and targeted development” (Buthlezi, 2013: 17). The association between regional development i.e. spatial interventions and industrialization is clear in government documentation, with the Department of Trade and Industry (2014) stating that “SEZs ... (are) key contributors to economic development. They are growth engines towards government's strategic objectives of industrialisation, regional development and employment creation”.

In May 2014, the South African parliament passed Act No. 16 of 2014 – The Special Economic Zones Act, both formalizing and legalizing the strategy (RSA, 2014). The Act argues for a focus on “new sources of competitiveness that lie in innovation and productivity, with an entrenched base in skills, infrastructure and efficient, responsive state action” (RSA, 2014: 2). Within this context SEZs are seen as key drivers of industrial and economic growth, which through specific support mechanism, special infrastructure and incentives will encourage foreign direct investment, extend export promotion, encourage labour absorbing employment and promote industrial growth. The Act defines SEZs as “an economic development tool to promote national economic growth and exports by using support measures in order to attract targeted foreign and domestic investments and technology” (RSA, 2014: 8). Importantly, while the government has separately identified a series of potential SEZs, the Act also allows government agencies, municipalities and public-private partnerships acting alone or independently to apply to the government to designate an SEZ.

The Act provides for different categories of SEZs to be established, these include: free ports, free trade zones, industrial development zones and sector development zones. Interestingly the Act specifies that that the pre-existing but poorly achieving IDZs will be designated as SEZs (RSA, 2014).

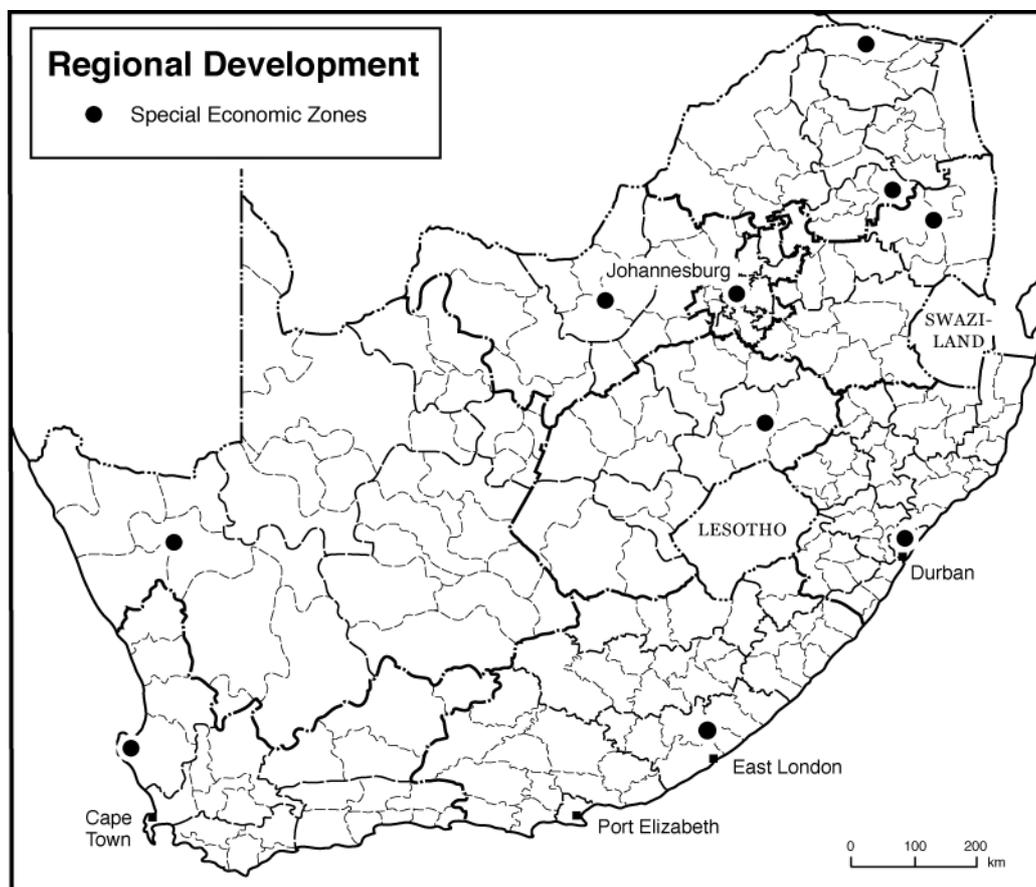


Figure 2: Proposed Special Economic Zones

Prior to the passage of the Act and the actual designation of zones, but in anticipation of its approval the government allocated R 2.3 billion (approx. US \$ 240 million) to support SEZs in the 2012 budget (CDE, 2012). In addition, during 2013 the National Treasury proposed a reduction in the corporate tax for firms setting up in designated SEZs to 15% (Buthelezi, 2013). In 2013 a total of 10 SEZs were designated (Buthelezi, 2013). Unlike the IDZs which were all set up as major port facilities adjacent to international ports, there has clearly been an attempt to scatter the points more evenly across the country in both areas of higher gross value added and in some of the more impoverished parts of the country (Figure 2). A particular sectoral focus for each zone is identified which seeks to build on regional economic strengths and to give focus to proposed development, no doubt in sympathy with the concept of the clustering of like activities. The designated zones are as follows: Tubatse (platinum mining), Musina (petro-chemicals, agro-processing and logistics), Nkomati (agro-processing), Rustenburg (platinum mining), Atlantis (renewable energy), Upington (solar power), Wild Coast (agro-processing), Dube trade port, Durban (agro-processing), Harrismith (agro-processing and logistics) and Nasrec in Johannesburg (industrial).

It is significant to observe the overlap between half of these 10 zones and the priority districts as indicated in Figure 1 (i.e the former Homelands). This indicates the importance attached to developing the impoverished parts of the country, compared with the IDZ focus on points of international connectivity. This reality raises the question of what will need to be

undertaken to ensure the success of such zones in areas which suffer from structural disadvantages such as a low skills base, poor infrastructure, poor economic linkages and potential. In addition, a range of additional challenges can be identified:

- 1) The extent to which the zones be internationally competitive as compared with other zones globally. Arguably, the 15% corporate tax reduction will scarcely allow for competition with better incentivized zones in Asia (Farole, 2011).
- 2) The policy documents do not demonstrate how South African zones will differ from those in other parts of the world in terms of identifying their clear comparative and competitive edge.

### **Assessing the Potential of SEZs in South Africa: Lessons from South Africa's IDZs and Internationally**

The Industrial Development Zones (IDZs), which have been in existence over a decade, starting with Coega near Port Elizabeth in 2001 (Tang, 2008) and which share apparent similarities with the SEZ concept can be used as a point of comparison with the proposed SEZs to help assess the potential for SEZs to succeed. Despite initial enthusiasm regarding the role which IDZs might play in the South African space economy – only three were established, all at major port facilities – Coega (near Port Elizabeth), East London and Richards Bay, while a fourth, Saldanha Bay, also sited at a port was launched in 2013. Despite the relatively long track record of the first two IDZs, it is evident that their performance can be regarded, at best, as modest (Zarenda, 2012; Nel & Rogerson, 2013).

Recent independent and government evaluations of IDZs have indicated the nature and causes of their limited success (McCallum 2011; CDE, 2012). According to a Department of Trade and Industry review by 2007 only 40 investors had set up in the three IDZs operational at that stage, investing some R11.8bn, whilst government investment had come to R5.5bn (CDE, 2012). In addition, whilst the Coega IDZ had received R3bn of investment in infrastructure, there were only 21 investors and only 2800 jobs (although some 27 000 short term/construction jobs had been generated) had been created (CDE, 2012). The East London zone had precipitated the creation of 1400 jobs (in addition to approximately 4000 short term/construction jobs), and the investment of R 1,5bn with 90% of firms being linked to the city's automobile factory, many having relocated there from elsewhere in the country. The Richard's Bay IDZ had only one investor who had created 300 jobs and invested R 650 mn. An overall assessment must be that the performance of South Africa's IDZ programme is modest and falls short of the expectations of all stakeholders (Nel & Rogerson, 2013).

During February 2014 the Minister of Trade and Industry argued that IDZs had underperformed because of their weak governance, poor incentives, poor stakeholder engagement and a spatial bias in terms of their location on the coast (South Africa Info, 2014). Additional reasons cited for the poor performance of IDZs include:

- The absence of special incentives for zone investors, making them unattractive to investors
- The absence of a comprehensive policy framework and strategic planning and guidance
- Weak governance arrangements, and poor coordination of government agencies
- Exclusive government ownership and management – with no private sector involvement which differs from international practice (South Africa Info, 2014).

According to McCallum (2011) while the IDZs do offer tax holidays and VAT exemption, the fact that they are not exempt from social regulation was a concern for potential investors. He argued that 'the strategy has failed to produce notable gains to attract sufficient investors' and that IDZs face an identity crisis being "caught between market-driven and Keynesian

redistributive logistics” (McCallum, 2011: 15). Given the apparent similarities between IDZs and SEZs it is debatable whether a new ‘title’ will ensure success.

### ***IDZs and SEZs Compared***

While the government and analysts have been critical of the success of the IDZ programme, which generated a total of only 42 investments in three zones (southafrica.info, 2014), it is important to establish if the proposed SEZs will differ significantly from the IDZs, especially given that IDZs have now, *de facto*, become a sub-category of SEZs, and, by implication, to try and gauge if they might enjoy better prospects for success.

According to the government an IDZ is “a purpose built industrial estate linked to an international air or sea port, which might contain one or multiple Customs Controlled Areas (CCA) tailored for manufacturing and storage of goods to boost beneficiation, investment, economic growth and, most importantly, the development of skills and employment in these regions” (SARS, 2014). As highlighted above an SEZ is defined in South Africa as a “geographical designated area of the country set aside for specifically targeted economic activities which are then supported through special arrangements and support systems which are different from those which apply to the rest of the country” (DTI, 2012b: 1). Key differences appear to be two. First, that IDZs focus on an international port versus the more open locations of an SEZ, as indicated in the list of currently designated sites. Second, that the IDZs primarily exhibit an industrial focus as compared with the more general focus on SEZs (though this may be slightly at odds with the suggested link between SEZs and DTI latest Industrial Policy Action Plan, see DTI, 2014).

In terms of incentives, IDZ incentives have included exemption from VAT and import duties, access to Customs Controlled Areas, depreciation allowances, and a limited tax holiday (Tang, 2008; SARS, 2014). Proposed SEZ incentives include a 15% corporate tax rate (Buthelezi, 2013), the scope to design support measures as deemed appropriate for any zone (RSA, 2014), a building allowances (still to be specified), an employment incentive (still to be specified), access to Customs Controlled Areas and a tax allowance (still to be specified) (DTI, 2014). Overall, although the SEZ incentives seemingly have yet to be fully spelled out, the lowering of the applicable tax rate, the employment incentive and the scope to design additional support, suggest that SEZ firms will be better assisted and that employment generation is a more explicit focus. While there is, in theory, scope to now establish zones away from the port cities, it is not clear how customs exemptions will be managed in locations distant from a ‘port of entry’. Several issues raised as concerns above, including by the Minister, do not seem to be addressed as yet in the SEZ documentation. Most notably these include how to ensure better governance and stakeholder involvement, how to ensure that national government does not dominate the process, and how to ensure better coordination of activities. In addition it would be difficult to argue that a comprehensive policy framework, of which SEZs are a part, has been formulated.

Positive aspects of the process of designating the first round of SEZs include the scope to operate away from the core or coastal nodes, the identified sectoral foci of many of the proposed SEZs (such as on platinum related activities), which has scope, in theory, to encourage the clustering of economic activity and the apparent focus on both local and foreign investment and employment creation. What is not dealt with is how establishing zones would not lead to the relocation of existing South African firms to benefit from the incentives, such as took place under the previous administration, prior to 1994, leading to a ‘zero-sum game’ (Nel, 1999) and has been noted in the case of the current IDZs. Additional concerns regarding the more isolated sites include: how are the structural disadvantages of operating in remote, under-resourced, low skilled and isolated locations to be overcome such as the Wild Coast. The experience of the earlier SDIs which had similar sectoral foci is reminiscent of this

challenge (Bek et al., 2004). In addition, down-streaming and clustering of activity while a noble ideal, is often difficult to attain as indicated by the limited clustering which has occurred around the Richard's Bay aluminium plants and the stainless steel mill at Middleburg, raising questions about the viability of some of the mineral related nodes (Nel et al., 2007).

### ***International Evidence***

The reality that there are over 3500 economic zones globally (including SEZs) and the fact that they have now been operating for over three decades in China provides a valuable international yardstick against which the potential success of South African zones can be compared and evaluated. This is an important consideration both academically and in policy terms given the reality that there are marked differences in the performance and 'success' of SEZs globally (Jain, 2008), with those in Africa being regarded as underperforming (Jauch, 2002; Farole, 2011).

Positive aspects associated with SEZs include their potential to leverage in FDI, to assist economies to globalize, facilitation of technology imports and job creation and improvements in infrastructure (Aggarawal, 2007; Yeung et al., 2009; Wang, 2010; Brautigam, 2011). Negative aspects include, concerns over what are frequently poor working and labour conditions, limited spill-over effects and linkages outside of the zones, their promotion of uneven development, the cost of the incentives to the host country and unequal level of integration into the global economy which they are based on (Brun et al., 2002; Aggarawal, 2007; Jain, 2008; Palit, 2009; Anwar, 2014).

China's adoption of SEZs is often regarded as one of the key mechanisms which facilitated rapid economic growth and global market entry (Farole, 2011). However, one must not ignore the reality that policy has evolved in the country as has the location of zones, in response to global integration, shifting developmental and policy needs and broader level reform (Yeung et al., 2009; Zarenda, 2012). This clearly indicates the need to have an open and flexible approach in the planning, operation and evolution of SEZs and to relate SEZs directly to broader processes and policies of economic reform and change and not to treat them as stand-alone entities.

### **Conclusion**

This analysis represents a modest contribution to debates around spatially uneven development, a phenomenon which "has always captured the interest of economic geographers" (Pallares-Barbera et al., 2012: S2). Currently, the South African government is clearly concerned about how it can address deep-seated geographical unevenness in the country. In this regard it is both realistic and important to observe the conscious effort on the part of government to come to terms with spatial inequalities and to try and find appropriate spatial interventions which can both address developmental backlogs and promote economic growth (Department of Economic Development, 2011; RSA, 2014). Within this context SEZs have become the most recent spatial tool which the government is placing its faith in. While it is apparent that policy makers have sought to address the short-comings of the IDZs and to put in place an intervention which is more attractive to investors, has an employment creation focus and seeks to focus growth in both growing and lagging regions, it is apparent that success cannot be assured. As the preceding analysis demonstrates, many of the fundamental challenges which IDZs experienced have not yet been addressed through the SEZ policy. In addition, there is little indication that SEZs are part of a clearly defined national economic strategy and process of change and reform as was the case in China (Zarenda, 2012). Unless a comprehensive, multi-faceted spatial strategy is conceptualised which allows for a range of interventions and targeted support it is difficult to envisage that the SEZs will make a more

substantive differences in the most impoverished areas than pre-1994 spatial interventions did.

International evidence reveals that many SEZs underperform and fail to generate the envisaged returns. Indeed, Jauch (2002) commented with respect to SEZs in Africa that they held little prospect of solving the socio-economic problems of the region. While one does not want to prejudge the potential of SEZs in South Africa, if the experience of the notionally better-sited IDZs is to be improved upon, one would hope to see a significant shift from a policy focus to strategic planning since as Farole (2011, 263) cautions “SEZs can be expensive and risky projects, the margin for error is small, and successful zones take time to develop”. Further monitoring of the unfolding SEZ programme in South Africa is an important research challenge for the country’s urban and regional scholars.

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