



SEZs in SOUTH AFRICA

**The Political Economy of Place-Based
Policies with a Focus on SEZs**

Warsaw

April 23-24, 2015.

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Outline



- IDZ policy 2001
- Succeeded by SEZ policy from 2014.
- SEZs still under formation





IDZs as industrial estates

- ‘purpose built industrial estates, linked to an international port or airport specifically designated for new investment of export oriented industries and related services’



Incentives Offered



- **Tax incentives:** import inputs and equipment duty free and exempted from Value Added Tax (VAT).
- **Provision of world class infrastructure and utilities:** The zones offer investors world class infrastructure and other public utilities (water, electricity, roads, sewerage, and telecommunication).
- **Streamlined administration:** simplified administrative requirements and less government red tape and bureaucracy to investors.
- **Dedicated custom support services:** The zones are intended to provide a one stop centre for customs administration.



Impact – very limited

- Firms reason for location diverse and unrelated to the IDZs programme
- Exports are limited
- Very few permanent jobs and at a very high cost per job. High capital intensity
- limited impact on manufacturing sector diversification.



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The new SEZ Programme

A Variety of Possible Forms

- **"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;
- **"Free Port"** a duty free area adjacent to a port of entry where imported goods may be unloaded for value-adding activities
- **"Free Trade Zone"** means a duty free area offering storage and distribution facilities for value-adding activities for subsequent export;
- **"Sector Development Zone"** means 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.



SEZ Incentives

- 15% Corporate Tax (28% elsewhere)
- Building Allowance
- Employment Incentive
- Customs Controlled Area
- Investment Tax Allowance



Large number and Sector Focus

- 10 SEZs currently under investigation. Likely to be at least one in every province
- each has a focus on a particular industrial activity that its companies must engage in to qualify for the tax benefits. agro-processing in Gauteng and the Eastern Cape, renewable energy in the Western Cape, and platinum hubs in Limpopo and North West.



Concerns

- Administrative complexities
- Narrow sectoral focus
- Erosion of tax base if product is for the domestic market
- Will the incentives be sufficient to attract new “additional” investment?



THANK YOU

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