



SEZs in SOUTH AFRICA

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

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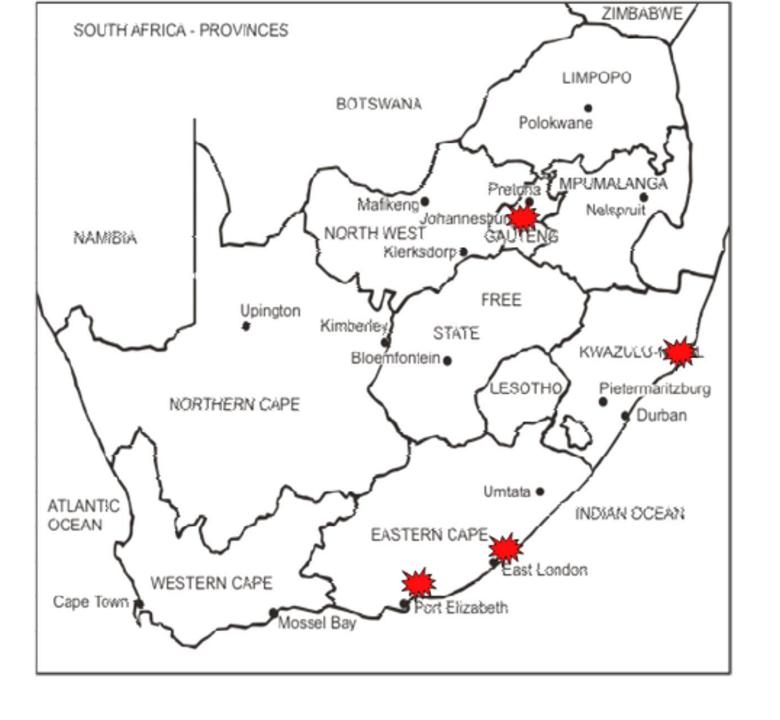


Outline



- 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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